NOKIA CORP
Form 20-F
March 12, 2010

Table of Contents

As filed with the Securities and Exchange Commission on March 12, 2010.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

Commission file number 1-13202

Nokia Corporation
(Exact name of Registrant as specified in its charter)

Republic of Finland
(Jurisdiction of incorporation)

Keilalahdentie 4, P.O. Box 226, FI-00045 NOKIA GROUP, Espoo, Finland
(Address of principal executive offices)

Kaarina Ståhlberg, Vice President, Assistant General Counsel
Telephone: +358 (0)7 1800-8000, Facsimile: +358 (0) 7 1803-8503
Keilalahdentie 4, P.O. Box 226, FI-00045 NOKIA GROUP, Espoo, Finland
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934 (the Exchange Act):

Title of each class	Name of each exchange on which registered
American Depositary Shares	New York Stock Exchange
Shares	New York Stock Exchange[(1)]

(1) Not for trading, but only in connection with the registration of American Depositary Shares representing these shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered pursuant to Section 12(g) of the Exchange Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Exchange Act: **5.375% Notes due 2019 and 6.625% Notes due 2039**

Indicate the number of outstanding shares of each of the registrant s classes of capital or common stock as of the close of the period covered by the annual report.

Shares: **3 744 956 052.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.
Yes o No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S.GAAP o

International Financial Reporting Standards as issued by the International Accounting Standards Board x

Other o

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.
Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

TABLE OF CONTENTS

Table of Contents

INTRODUCTION AND USE OF CERTAIN TERMS

Nokia Corporation is a public limited liability company incorporated under the laws of the Republic of Finland. In this document, any reference to we, us, the Group or Nokia means Nokia Corporation and its subsidiaries on a consolidated basis, except where we make clear that the term means Nokia Corporation or a particular subsidiary or business segment only, and except that references to our shares, matters relating to our shares or matters of corporate governance refer to the shares and corporate governance of Nokia Corporation. Nokia Corporation has published its consolidated financial statements in euro for periods beginning on or after January 1, 1999. In this annual report on Form 20-F, references to EUR, euro or are to the common currency of the European Economic and Monetary Union or EMU, and references to dollars, US dollars, USD or $ are to the currency of the United States. Solely for the convenience of the reader, this annual report contains conversions of selected euro amounts into US dollars at specified rates, or, if not so specified, at the rate of 1.4332 US dollars per euro, which was the noon buying rate in New York City for cable transfers in euro as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2009. No representation is made that the amounts have been, could have been or could be converted into US dollars at the rates indicated or at any other rates.

Our principal executive office is currently located at Keilalahdentie 4, P.O. Box 226, FI-00045 Nokia Group, Espoo, Finland and our telephone number is +358 (0) 7 1800-8000.

Nokia Corporation furnishes Citibank, N.A., as Depositary, with consolidated financial statements and a related audit opinion of our independent auditors annually. These financial statements are prepared on the basis of International Financial Reporting Standards as issued by the International Accounting Standards Board and in conformity with International Financial Reporting Standards as adopted by the European Union (IFRS). In accordance with the rules and regulations of the US Securities and Exchange Commission, or SEC, we do not provide a reconciliation of net income and shareholders equity in our consolidated financial statements to accounting principles generally accepted in the United States, or US GAAP. We also furnish the Depositary with quarterly reports containing unaudited financial information prepared on the basis of IFRS, as well as all notices of shareholders meetings and other reports and communications that are made available generally to our shareholders. The Depositary makes these notices, reports and communications available for inspection by record holders of American Depositary Receipts, or ADRs, evidencing American Depositary Shares, or ADSs (one ADS represents one share), and distributes to all record holders of ADRs notices of shareholders meetings received by the Depositary.

In addition to the materials delivered to holders of ADRs by the Depositary, holders can access our consolidated financial statements, and other information included in our annual reports and proxy materials, at *www.nokia.com*. This annual report on Form 20-F is also available at *www.nokia.com* as well as on Citibank s website at *http://citibank.ar.wilink.com* (enter Nokia in the Company Name Search). Holders may also request a hard copy of this annual report by calling the toll-free number 1-877-NOKIA-ADR (1-877-665-4223), or by directing a written request to Citibank, N.A., Shareholder Services, PO Box 43124, Providence, RI 02940-5140, or by calling Nokia Investor Relations US Main Office at 1-914-368-0555. With each annual distribution of our proxy materials, we offer our record holders of ADRs the option of receiving all of these documents electronically in the future.

FORWARD-LOOKING STATEMENTS

It should be noted that certain statements herein which are not historical facts are forward-looking statements, including, without limitation, those regarding:

- the timing of the deliveries of our products and services and their combinations;
- our ability to develop, implement and commercialize new technologies, products and services and their combinations;
- expectations regarding market developments and structural changes;
- expectations and targets regarding our and the industry volumes, market share, prices, net sales and margins of products and services and their combinations;
- expectations and targets regarding our operational priorities and results of operations;
- the outcome of pending and threatened litigation;
- expectations regarding the successful completion of acquisitions or restructurings on a timely basis and our ability to achieve the financial and operational targets set in connection with any such acquisition or restructuring; and
- statements preceded by believe, expect, anticipate, foresee, target, estimate, designed, plans, w expressions.

These statements are based on management s best assumptions and beliefs in light of the information currently available to it. Because they 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:

1. the competitiveness and quality of our portfolio of products and services and their combinations;
2. our ability to timely and successfully develop or otherwise acquire the appropriate technologies and commercialize them as new advanced products and services and their combinations, including our ability to attract application developers and content providers to develop applications and provide content for use in our devices;
3. our ability to effectively, timely and profitably adapt our business and operations to the requirements of the converged mobile device market and the services market;
4. the intensity of competition in the various markets where we do business and our ability to maintain or improve our market position or respond successfully to changes in the competitive environment;
5. the occurrence of any actual or even alleged defects or other quality, safety or security issues in our products and services and their combinations;
6.

the development of the mobile and fixed communications industry and general economic conditions globally and regionally;

7. our ability to successfully manage costs;

8. exchange rate fluctuations, including, in particular, fluctuations between the euro, which is our reporting currency, and the US dollar, the Japanese yen and the Chinese yuan, as well as certain other currencies;

9. the success, financial condition and performance of our suppliers, collaboration partners and customers;

10. our ability to source sufficient amounts of fully functional components, sub-assemblies, software, applications and content without interruption and at acceptable prices and quality;

11. our success in collaboration arrangements with third parties relating to the development of new technologies, products and services, including applications and content;

12. our ability to manage efficiently our manufacturing and logistics, as well as to ensure the quality, safety, security and timely delivery of our products and services and their combinations;

13. our ability to manage our inventory and timely adapt our supply to meet changing demands for our products;

14. our ability to protect the technologies, which we or others develop or that we license, from claims that we have infringed third parties intellectual property rights, as well as our unrestricted use on commercially acceptable terms of certain technologies in our products and services and their combinations;

15. our ability to protect numerous Nokia, NAVTEQ and Nokia Siemens Networks patented, standardized or proprietary technologies from third-party infringement or actions to invalidate the intellectual property rights of these technologies;

16. the impact of changes in government policies, trade policies, laws or regulations and economic or political turmoil in countries where our assets are located and we do business;

17. any disruption to information technology systems and networks that our operations rely on;

18. our ability to retain, motivate, develop and recruit appropriately skilled employees;

19. unfavorable outcome of litigations;

20. allegations of possible health risks from electromagnetic fields generated by base stations and mobile devices and lawsuits related to them, regardless of merit;

21. our ability to achieve targeted costs reductions and increase profitability in Nokia Siemens Networks and to effectively and timely execute related restructuring measures;

22. developments under large, multi-year contracts or in relation to major customers in the networks infrastructure and related services business;

23. the management of our customer financing exposure, particularly in the networks infrastructure and related services business;

24. whether ongoing or any additional governmental investigations into alleged violations of law by some former employees of Siemens AG (Siemens) may involve and affect the carrier-related assets and employees transferred by Siemens to Nokia Siemens Networks;

25. any impairment of Nokia Siemens Networks customer relationships resulting from ongoing or any additional governmental investigations involving the Siemens carrier-related operations transferred to Nokia Siemens Networks;

as well as the risk factors specified in this annual report under Item 3D. Risk Factors.

Other unknown or unpredictable factors or underlying assumptions subsequently proving to be incorrect could cause actual results to differ materially from those in the forward-looking statements. Nokia does not undertake any obligation to publicly update or revise forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.

Table of Contents

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3A. Selected Financial Data

The financial data set forth below at December 31, 2008 and 2009 and for each of the years in the three-year period ended December 31, 2009 have been derived from our audited consolidated financial statements included in Item 18 of this annual report. Financial data at December 31, 2005, 2006, and 2007 and for each of the years in the two-year period ended December 31, 2006 have been derived from our previously published audited consolidated financial statements not included in this document.

The financial data at December 31, 2008 and 2009 and for each of the years in the three-year period ended December 31, 2009 should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements.

The audited consolidated financial statements from which the selected consolidated financial data set forth below have been derived were prepared in accordance with IFRS.

	Year Ended December 31,					
	2005[1] **(EUR)**	**2006**[1] **(EUR)**	**2007**[1] **(EUR)**	**2008**[1] **(EUR)**	**2009**[1] **(EUR)**	**2009**[1] **(USD)**
	(in millions, except per share data)					
Profit and Loss Account Data						
Net sales	34 191	41 121	51 058	50 710	40 984	58 738
Operating profit	4 639	5 488	7 985	4 966	1 197	1 716
Profit before tax	4 971	5 723	8 268	4 970	962	1 379
Profit attributable to equity holders of the parent	3 616	4 306	7 205	3 988	891	1 277
Earnings per share (for profit attributable to equity holders of the parent)						
Basic earnings per share	0.83	1.06	1.85	1.07	0.24	0.34
Diluted earnings per share	0.83	1.05	1.83	1.05	0.24	0.34
Cash dividends per share	0.37	0.43	0.53	0.40	0.40(2)	0.57(2)
Average number of shares (millions of shares)						

Basic	4 366	4 063	3 885	3 744	3 705	3 705
Diluted	4 371	4 087	3 932	3 780	3 721	3 721

Table of Contents

	Year Ended December 31,					
	2005[1] (EUR)	2006[1] (EUR)	2007[1] (EUR)	2008[1] (EUR)	2009[1] (EUR)	2009[1] (USD)
	(in millions, except per share data)					
Balance Sheet Data						
Fixed assets and other non-current assets	3 501	4 031	8 305	15 112	12 125	17 378
Cash and other liquid assets[3]	9 910	8 537	11 753	6 820	8 873	12 717
Other current assets	9 041	10 049	17 541	17 650	14 740	21 125
Total assets	22 452	22 617	37 599	39 582	35 738	51 220
Capital and reserves attributable to equity holders of the parent	12 309	11 968	14 773	14 208	13 088	18 758
Minority interests	205	92	2 565	2 302	1 661	2 381
Long-term interest-bearing liabilities	21	69	203	861	4 432	6 352
Other long-term liabilities	247	327	1 082	1 856	1 369	1 962
Borrowings due within one year	279	180	887	3 591	771	1 105
Other current liabilities	9 391	9 981	18 089	16 764	14 417	20 662
Total shareholders equity and liabilities	22 452	22 617	37 599	39 582	35 738	51 220
Net interest-bearing debt[4]	(9 610)	(8 288)	(10 663)	(2 368)	(3 670)	(5 260)
Share capital	266	246	246	246	246	353

(1) As from April 1, 2007, our consolidated financial data includes that of Nokia Siemens Networks on a fully consolidated basis. Nokia Siemens Networks, a company jointly owned by Nokia and Siemens, is comprised of our former Networks business group and Siemens carrier-related operations for fixed and mobile networks. Accordingly, our consolidated financial data for the years ended December 31, 2005 and 2006 is not directly comparable to any subsequent years and our consolidated financial data for the year ended December 31, 2007 is not directly comparable to any prior or subsequent years. Our consolidated financial data for the periods prior to April 1, 2007 included our former Networks business group only.

(2) The cash dividend for 2009 is what the Board of Directors will propose for shareholders approval at the Annual General Meeting convening on May 6, 2010.

(3) For the year ended December 31, 2009, cash and other liquid assets consist of the following captions from our consolidated balance sheets: (1) bank and cash, (2) available-for-sale investments, cash equivalents, (3) available-for-sale investments, liquid assets and (4) investments at fair value through profit and loss, liquid assets. For the previous years, cash and other liquid assets consist of the following captions from our consolidated balance sheets: (1) bank and cash, (2) available-for-sale investments, cash equivalents, and (3) available-for-sale investments, liquid assets.

(4) Net interest-bearing debt consists of borrowings due within one year and long-term interest-bearing liabilities, less cash and other liquid assets.

Distribution of Earnings

We distribute retained earnings, if any, within the limits set by the Finnish Companies Act. We make and calculate the distribution, if any, either in the form of cash dividends, share buy-backs, or in some other form or a combination of these. There is no specific formula by which the amount of a distribution is determined, although some limits set by law are discussed below. The timing and amount of future distributions of retained earnings, if any, will depend on our future results and financial condition.

Table of Contents

Under the Finnish Companies Act, we may distribute retained earnings on our shares only upon a shareholders resolution and subject to limited exceptions in the amount proposed by our Board of Directors. The amount of any distribution is limited to the amount of distributable earnings of the parent company pursuant to the last accounts approved by our shareholders, taking into account the material changes in the financial situation of the company after the end of the last financial period and a statutory requirement that the distribution of earnings must not result in insolvency of the company. Subject to exceptions relating to the right of minority shareholders to request for a certain minimum distribution, the distribution may not exceed the amount proposed by the Board of Directors.

Share Buy-backs

Under the Finnish Companies Act, Nokia Corporation may repurchase its own shares pursuant to either a shareholders resolution or an authorization to the Board of Directors approved by the company s shareholders. The authorization may amount to a maximum of 10% of all the shares of the company and its maximum duration is 18 months. Our Board of Directors has been regularly authorized by our shareholders at the Annual General Meetings to repurchase Nokia s own shares, and during the past three years the authorization covered 380 million shares in 2007, 370 million shares in 2008 and 360 million shares in 2009. The amount authorized each year has been at or slightly under the maximum limit provided by the Finnish Companies Act. Nokia has not repurchased any of its own shares since September 2008.

The Board will propose that the Annual General Meeting convening on May 6, 2010 authorize the Board to resolve to repurchase a maximum of 360 million Nokia shares. The proposed maximum number of shares that may be repurchased is the same as the Board s current share repurchase authorization and it represents less than 10% of all the shares of the company. The shares may be repurchased in order to develop the capital structure of the Company, finance or carry out acquisitions or other arrangements, settle the company s equity-based incentive plans, be transferred for other purposes, or be cancelled. The shares may be repurchased either through a tender offer made to all shareholders on equal terms, or through public trading from the stock market. The authorization would be effective until June 30, 2011 and terminate the current authorization granted by the Annual General Meeting on April 23, 2009.

The table below sets forth actual share buy-backs by the Group in respect of each fiscal year indicated.

	Number of shares	EUR millions (in total)
2005	315 010 000	4 265
2006	212 340 000	3 412
2007	180 590 000	3 884
2008	157 390 000	3 123
2009		

Cash Dividends

On January 28, 2010, we announced that the Board of Directors will propose for shareholders approval at the Annual General Meeting convening on May 6, 2010 a dividend of EUR 0.40 per share in respect of 2009.

Table of Contents

The table below sets forth the amounts of total cash dividends per share and per ADS paid in respect of each fiscal year indicated. For the purposes of showing the US dollar amounts per ADS for 2005 through 2009, the dividend per share amounts have been translated into US dollars at the noon buying rate in New York City for cable transfers in euro as certified for customs purposes by the Federal Reserve Bank of New York (the noon buying rate) on the respective dividend payment dates.

	EUR per share	USD per ADS	EUR millions (in total)
2005	0.37	0.46	1 641
2006	0.43	0.58	1 761
2007	0.53	0.83	2 111
2008	0.40	0.54	1 520
2009	0.40(1)	(2)	1 498(1)

(1) The proposal of the Board of Directors for shareholders approval at the Annual General Meeting convening on May 6, 2010.

(2) The final US dollar amount will be determined on the basis of the decision of the Annual General Meeting and the dividend payment date.

We make our cash dividend payments in euro. As a result, exchange rate fluctuations will affect the US dollar amount received by holders of ADSs on conversion of these dividends. Moreover, fluctuations in the exchange rates between the euro and the US dollar will affect the dollar equivalent of the euro price of the shares on NASDAQ OMX Helsinki and, as a result, are likely to affect the market price of the ADSs in the United States. See also Item 3D. Risk Factors Our net sales, costs and results of operations, as well as the US dollar value of our dividends and market price of our ADSs, are affected by exchange rate fluctuations, particularly between the euro, which is our reporting currency, and the US dollar, the Japanese yen and the Chinese yuan, as well as certain other currencies.

Exchange Rate Data

The following table sets forth information concerning the noon buying rate for the years 2005 through 2009 and for each of the months in the six-month period ended February 28, 2010, expressed in US dollars per euro. The average rate for a year means the average of the exchange rates on the last day of each month during a year. The average rate for a month means the average of the daily exchange rates during that month.

	Exchange Rates			
For the year ended December 31:	**Rate at period end**	**Average rate**	**Highest rate**	**Lowest rate**
	(USD per EUR)			
2005	1.1842	1.2400	1.3476	1.1667
2006	1.3197	1.2661	1.3327	1.1860

2007	1.4603	1.3797	1.4862	1.2904
2008	1.3919	1.4695	1.6010	1.2446
2009	1.4332	1.3935	1.5100	1.2547

For the month ended:

September 30, 2009	1.4630	1.4575	1.4795	1.4235
October 31, 2009	1.4755	1.4821	1.5029	1.4532
November 30, 2009	1.4994	1.4908	1.5085	1.4658
December 31, 2009	1.4332	1.4579	1.5100	1.4243
January 31, 2010	1.3870	1.4266	1.4536	1.3870
February 28, 2010	1.3660	1.3680	1.3955	1.3476

On March 5, 2010, the noon buying rate was USD 1.3608 per EUR 1.00.

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of Proceeds

Not applicable.

3D. Risk Factors

Set forth below is a description of risk factors that could affect Nokia. There may be, however, additional risks unknown to Nokia and other risks currently believed to be immaterial that could turn out to be material. These risks, either individually or together, could adversely affect our business, sales, results of operations, financial condition and share price from time to time.

We need to have a competitive portfolio of high quality products and services and their combinations that are preferred, purchased and used by our current and potential customers and consumers. If we fail to achieve or maintain a competitive portfolio, our business, sales and results of operations may be materially adversely affected.

We serve a diverse range of mobile device and network infrastructure customers across a variety of markets with different characteristics and at different stages of development. In order to meet our customers and consumers evolving needs, we need to have a competitive portfolio of products and services and their combinations that are preferred, purchased and used by our current and potential customers and consumers.

For our mobile devices, a competitive portfolio means a focused, optimally-sized offering of commercially appealing high quality mobile devices with aesthetically-pleasing and well-designed hardware and software, an intuitive user interface and a combination of value-adding functionalities such as Internet access, various means of messaging, media, music, entertainment, navigation, location-based and other services that are easy to discover and use. In addition, we believe that in order to be competitive, the product portfolio needs to target all major consumer segments and price points, be designed, as appropriate, for the local requirements and preferences of different markets and meet our own and our customers and consumers quality, safety and security standards. We are focused on developing and offering unique and compelling combinations of mobile devices and services, including applications and content developed by us and third parties, together with the appropriate technological infrastructure, to create a rich user experience for people using our devices. Further, our mobile devices, especially our converged mobile devices, must have the flexibility to allow people to easily access and use their preferred services, including applications and content. We believe that a competitive device portfolio also needs to include leading flagship products, be innovative and ahead of the expectations of customers and consumers and positively differentiated from those of our competitors. Further, the devices must be competitive not only from the customers and consumers viewpoint, but they also need to be preferred by application developers and content providers who are invited to develop applications and content for our mobile devices. For our network infrastructure and related services business, a competitive portfolio means a high-quality offering of products, services and solutions based on robust technology and designed to meet the requirements of our customers and local markets, supported by a competitive cost structure and cost-effectiveness to our customers. If we fail to achieve or maintain a competitive portfolio and balance successfully our global portfolio with the local requirements of our customers and consumers in the different markets we serve in a cost-effective manner, our business, sales and results of operations may be materially adversely affected.

In order to create a competitive portfolio we need to identify and understand the key market trends and user segments and address our customers and consumers evolving needs in the different markets and consumer segments proactively and on a timely basis. To achieve that, we must constantly obtain and evaluate a complex array of customer feedback, information on consumer

Table of Contents

usage patterns and other personal and consumer data in an efficient manner. The competitiveness of our device portfolio depends on our ability to introduce on a continuous and timely basis, ahead of our competitors, new innovative and appealing products and services and their combinations, as well as related business models, and to create new or address yet unidentified needs among our current and potential customers and consumers. If we fail to analyze correctly or respond timely and appropriately to key market trends, customer feedback, information on consumer usage patterns and other personal and consumer data or to introduce new innovative and commercially appealing products and services and their combinations and to adapt our business accordingly, our ability to retain our current, as well as attract new, customers and consumers may be impaired and our business, sales and results of operations may be materially adversely affected.

The competitiveness of our mobile device portfolio is also dependent on our ability to timely and successfully develop or otherwise acquire the appropriate technologies and commercialize such technologies as new advanced products and services and their combinations that our current and potential customers and consumers prefer over those of our competitors. For example, increasingly the choice of software platform that powers mobile devices, as well as related software developer tools, are important factors in our ability to provide unique and compelling mobile devices and services and their combinations, to create a rich user experience, and to attract third parties to create applications and provide content for our mobile devices. We currently deploy four software platforms for our mobile devices designed to balance usability, features and cost in a flexible manner across our wide range of market segments, price points and user groups. We recognize that the deployment of multiple software platforms can create fragmentation in the market for mobile services, which we endeavor to offset with our cross-platform software development tools that run and facilitate application and content development across different software platforms. The technologies, including but not limited to software platforms, which we choose to focus on may not achieve or retain broad or timely market acceptance or be preferred by application developers, content providers and, ultimately, our customers and consumers. This may result from numerous factors, including the availability of more attractive alternatives; perceived or actual issues related to reliability, stability and ease of use of our chosen technologies; a lack of sufficient compatibility with other existing technologies, products and services; barriers for consumers to transfer previously acquired content and applications to our devices; or regulators decisions. By choosing to focus on certain technologies, we may forego alternatives achieving greater acceptance in our overall market or in certain parts of it. We may also face difficulties accessing certain technologies preferred by our current and potential customers and consumers, or being able to offer those at acceptable prices. Further, if the technologies we invest in do not achieve the success we anticipate, this may result in impairment charges related to those technology assets. Additionally, even if we do select and have access to the technologies that customers and consumers ultimately want, we or the application developers, content providers or other third parties that work with us may not be able to bring our products and services, including applications and content, and their combinations to the market at the right time.

Certain mobile network operators require mobile devices to be customized to their specifications with preferred features, functionalities or design and co-branding with the mobile network operator s brand. Currently, this is particularly the case in North America and in certain individual markets in the Asia-Pacific region where sales to mobile network operators represent the major percentage of our sales. Moreover, the increased concentration among the mobile network operators, particularly in North America, has resulted in fewer customers whose purchase preferences may differ from our current product and services portfolio, and in increased reliance on fewer larger customers. In certain geographic markets the network operators require mobile devices to be based on local technology standards in mobile communications, such as the TD-SCDMA standard in China. As a result, we produce mobile devices for certain operators or geographic markets in smaller lot sizes, which may negatively impact our economies of scale, profitability and after-sales service capabilities. In addition, customization for network operators could possibly erode the Nokia brand.

The competitiveness of our products and services and their combinations is also influenced by the value of the Nokia brand and our ability to communicate effectively about our mobile devices, particularly our converged mobile devices, to the target audience through consistent and focused marketing messages. Increasingly, we need to position the Nokia brand as representing the same high quality and desirability in our converged mobile devices as in our traditional mobile devices. Further, a number of factors, including actual or even alleged quality issues or defects in our products and services and their combination, may have a negative effect on our reputation and erode the value of the Nokia brand. Insufficient investments in marketing and brand building could also erode the value of the Nokia brand. Any impairment of our reputation or erosion of the value of the Nokia brand or failure to optimize the Nokia brand in the marketing of our mobile devices could have a material adverse effect on our capacity to retain our current customers and consumers and attract new customers and consumers and on our business, sales and results of operations.

Our sales and profitability have been, and continue to be, driven to a significant extent by our success in the traditional mobile device market. Increasingly, however, our sales and profitability depend on our success in the market for converged mobile devices. Our failure to effectively, timely and profitably adapt our business and operations to the developing requirements of the converged mobile device market could have a material adverse effect on our business, results of operations, particularly our profitability, and our financial condition.

Our sales and profitability have been, and continue to be, driven to a significant extent by our success in the traditional mobile device market. We believe that our scale and resulting low cost structure, world-class sourcing, manufacturing, logistics and distribution network, supported by one of the strongest intellectual property portfolios and the Nokia brand, provide us with a competitive advantage in the development, production, marketing and sale of traditional mobile devices. Such devices range from basic mobile phones focused on voice capability to mobile devices with a number of additional functionalities such as Internet connectivity. During the past several years, the traditional mobile device market has been characterized by declining average selling prices and increasing pressure on profitability, as well as intense competition and less product differentiation.

The mobile communications industry continues to undergo significant changes in response to the increasing maturity of the traditional mobile device market. Traditional mobile voice communications, the Internet, various means of messaging, media, music, entertainment, navigation, location-based and other services, personal computing and other consumer electronics are converging in many areas into one broader industry. Increasingly, people are using mobile devices to access digital content and web services and share their experiences. Converged mobile devices are based on programmable software platforms, can run applications such as email, web browsing, navigation and enterprise software, and can also have built-in music players, video recorders, mobile TV and other multimedia features. Increasingly, such devices are becoming more affordable for a wider population. The software that powers converged mobile devices has also become increasingly sophisticated, providing greater opportunities for the development of services, including applications and content, that enrich the experiences people have with their mobile device. A consumer s choice of device is increasingly influenced by the quality and compatibility of the software and/or services and the resulting user experience, in addition to the quality of the hardware. During the past several years, the converged mobile device market has been characterized by growing volumes, high average selling prices and attractive profitability, as well as intense competition particularly from new entrants, and heightened media and consumer attention.

We have made significant investments during the past several years to address the developing requirements of the converged mobile device market, particularly in the areas of mobile Internet access, various means of messaging, media, music, entertainment, navigation, location-based and other services, and we are working to deliver those services in an easily accessible manner to our customers and consumers. Going forward, we believe that in order to succeed in the converged mobile device market we need to combine the hardware, software and services elements in our mobile devices in a manner that creates a rich user experience, allows compatibility with other

relevant technologies and positively and timely differentiates us from our competitors. Our past performance in the traditional mobile device market does not guarantee our success in the converged mobile device market. In particular, our competitive advantages in the traditional mobile device market are alone not sufficient for success in the converged mobile device market. Additionally, we believe that our success in the converged mobile device market will be driven by, among other factors, our ability to achieve in a timely manner the following priorities:

- improve our converged mobile device user experience, which will depend on how well we integrate the hardware, software and services elements in a seamless, reliable and stable manner; how intuitive the user interface is for consumers, including how easy it is for them to discover and use our applications and content; and how well we develop and manage the appropriate technological infrastructure to support a rich user experience;

- develop and scale up our services offering by expanding geographically, in particular in partnership with more operators;

- become an attractive long-term partner for application developers, content providers and industry-leading technology providers seeking access to mobile consumers, which will depend on whether we can provide the necessary technologies, including software platforms and software developer tools, that they prefer and that are compatible with other relevant technologies;

- create profitable business models where our converged mobile devices, particularly the services sold with them, are preferred by consumers to less expensive or free alternatives, either sold by us independently or in cooperation with operators;

- position the Nokia brand as representing the same high quality and desirability in converged mobile devices as in traditional mobile devices; and

- optimize our competitive strengths in the traditional mobile device market in the development of our converged mobile device business.

To address these priorities we have made, and are continuing to make, significant changes to the way we do business. We may, however, have less experience, technological and innovative skill in this market segment compared with our established traditional mobile device market segment, or we may fail to reach adequate scale and profitability or fail to generate additional revenue through business models customary in the businesses converging with the mobile communications business such as online advertising. Our success in the converged mobile device market also depends on the acceptance by the market, including our mobile network operator customers, of our expanding services and on the network operators strategies regarding their own offering of services. If we are not successful in achieving our converged mobile device priorities and their desired outcomes in a timely manner, our business will become increasingly focused and dependent on the traditional mobile device market. If that occurs, and if the current trends in that market continue, this could have a material adverse effect on our business, results of operations, particularly our profitability, and financial condition.

Our converged mobile device business has required and continues to require significant investment to innovate and grow successfully. Such investments may include research and development, licensing arrangements, acquiring businesses and technologies, recruiting specialized expertise and partnering with third parties. Those investments may not, however, result in technologies, products and services and their combinations that achieve or retain broad or timely market acceptance or are preferred by application developers, content providers and, ultimately, our customers and consumers. We have also made, and may make in the future, such investments through strategic acquisitions to acquire key technologies, content and expertise to enhance the competitiveness of our converged mobile devices. We may, however, fail to successfully complete business acquisitions or integrate the acquired businesses or retain and motivate their key employees; identifiable intangible asset amortization and the acquisition of businesses that may carry higher earnings multiples than Nokia may have a dilutive effect on our profits; the future valuations of acquired businesses may decrease from the purchase price we paid and result in impairment charges related to goodwill or other acquired assets; and if all or a portion of the purchase price is paid in cash, this may have an adverse effect on our cash position. Moreover, due to our financial targets and need to manage costs and prioritize our investments, future investments in our converged mobile devices may be delayed or insufficient to reach or maintain the necessary scale and market position to compete effectively and profitably in the longer term.

Competition in the various markets where we do business traditional mobile devices, converged mobile devices, digital map data and related location-based content, and mobile and fixed network infrastructure and related services is intense. Our failure to maintain or improve our market position or respond successfully to changes in the competitive environment in those markets may have a material adverse effect on our business, sales and results of operations.

We experience intense competition in every aspect of our business and across all markets of our products and services and their combinations. The mobile communications industry continues to undergo significant changes due to numerous factors, including the increasing maturity of the traditional mobile device market and the ongoing digital convergence and the resulting growth of the converged mobile device and related services market. Overall, participants in the mobile device market compete with each other on the basis of their product and services portfolio, including design, functionalities, breadth of services, user experience, software, quality, compatibility, technical performance and price; operational and manufacturing efficiency; supply chain efficiency, including sourcing, logistics and distribution; marketing; customer support; and brand. However, mobile device markets are increasingly segmented and diversified, and we face competition from a growing number of participants in different user segments, price points and geographical markets as well as layers of the product using different competitive means in each of them. This may make it more difficult and less cost efficient for us to compete successfully across the whole mobile device market against more specialized competitors and to leverage our scale and other competitive advantages to the fullest extent. The increased segmentation and diversification of the mobile device market may also have a negative impact on our ability to accurately estimate and forecast the global and regional industry volumes and value of the mobile device market and, consequently, the actual industry volumes and value of the mobile device market may from time to time be higher or lower than estimated or forecasted by us.

Traditional Mobile Devices: Competition continues to be intense in the traditional mobile device market from both traditional mobile device manufactures, as well as other participants such as mobile network operators offering devices under their own brand. In this market, participants compete primarily on the basis of the lowest total cost of ownership for basic voice and messaging mobile phones, as well as the ability to offer mobile phones that balance cost of ownership with style and added locally relevant functionality, such as Internet connectivity, applications and content. Some of our competitors, particularly new entrants, have used, and we expect will continue to use, more aggressive pricing and marketing strategies, different design approaches and alternative technologies which consumers may prefer over our offering of mobile phones.

Additionally, some competitors have chosen to focus on building mobile phones based on commercially available components, software and content, in some cases available at very low or no cost, which may enable them, at times, to introduce their products and services faster and at significantly lower cost to them and the consumer than we may be able to do. More recently, we are facing competition from vendors of both legitimate, as well as unlicensed and counterfeit, products with manufacturing facilities primarily centered around certain locations in Asia and other emerging markets. The entry barriers for these new market entrants are relatively low as they are able to take advantage of licensed and unlicensed commercially available free or low cost components, software and content. Some of our competitors may also benefit from governmental support in their home countries and other measures that may have protectionist objectives. These factors could reduce the

price competitiveness of our traditional mobile devices and have a material adverse effect on our sales.

Converged Mobile Devices: The competitive environment, including the competitive means, in the converged mobile device market differs from the traditional mobile device market. Competition in the converged device market is focused on the ability to bring a range of services, including applications and content, and advanced smartphone technologies together to address the market for feature-rich mobile devices offering Internet access, various means of messaging, media, music, entertainment, navigation, location-based and other services. The ability to create a rich user experience for consumers and to attract third parties to develop and provide a wide variety of applications and content are important competitive factors in the converged mobile device market. As a result, we face competition not only from traditional mobile device manufacturers that make converged mobile devices, but also from companies in related industries, such as Internet-based product and service providers, network operators, business device and solution providers and consumer electronics manufacturers, some of whom now manufacture their own mobile devices rather than just certain layers of the devices. Some of those competitors may have more experience, skills, speed of execution and scale in certain segments of the converged mobile device market, such as Internet services; be viewed as more attractive partners for application developers and content providers resulting in more potentially appealing services for consumers; have a stronger market presence and brand recognition for their converged mobile devices; or generally be able to adjust their business models and operations in a more effective and timely manner to the developing requirements of the converged mobile device market. Further, as the industry now includes increasing numbers of participants that provide specific hardware and software layers within our converged mobile devices and services and their combinations, we also face competition at the level of those layers rather than solely at the level of complete products and services and their combinations. In some of those layers, we may have more limited experience and scale than our competitors.

Some competitors may also provide competing software, such as software platforms, and services for free or at substantially lower prices to other competitors of ours, thereby facilitating their entry into the converged mobile device market with potentially lower cost devices. This may negatively impact demand for our converged mobile devices if we are not able to provide similar offerings. We believe our scale and other competitive advantages in the traditional mobile device market are alone not sufficient to compete successfully in the converged mobile device market. If we cannot respond successfully to the competitive requirements in the converged mobile device market, our business and results of operations, particularly our profitability, may be materially adversely affected.

Digital Map Data and Related Location-based Content: In order to be competitive, NAVTEQ s digital map data and related location-based content needs to be positively differentiated from that of its competitors through the quality, accuracy, freshness, relevance and richness of content, and the availability of services to enable the use of, and payment for, such content. With respect to digital map data and related location-based content, several global and local companies, as well as governmental and quasi-governmental agencies, are making more map data with improving coverage and content, and high quality, available free of charge or at lower prices. Aerial, satellite and other location-based imagery is also becoming increasingly available. Those developments may encourage new market entrants, cause business customers to incorporate map data from sources other than NAVTEQ or reduce the demand for fee-based products and services which incorporate NAVTEQ s map database. If we cannot positively differentiate our digital map data and related location-based content from our competitors similar offerings or if we fail in finding competitive business models for our business customers, our business and results of operations, particularly our profitability, may be materially adversely affected.

Mobile and Fixed Network Infrastructure and Related Services: The competitive environment in the mobile and fixed network infrastructure and related services market continues to be intense and is characterized by equipment price erosion, a maturing of industry technology and intense price competition. Moreover, mobile network operators possible saving targets are reducing the amount of

16

available business resulting in increased competition and pressure on pricing and profitability. Nokia Siemens Networks competes with companies that have larger scale and higher margins affording them more flexibility on pricing, while some competitors may have stronger customer finance possibilities due to internal policies or governmental support, for example in the form of trade guarantees, allowing them to offer products and services at very low prices. The recently announced plan by Nokia Siemens Networks to improve its financial performance and increase its profitability, which includes a reorganization of its business units, may consume significant time, attention and resources of Nokia Siemens Networks management and result in its customers being more intensively targeted by competitors during the plan implementation period. If we cannot respond successfully to the competitive requirements in the fixed network infrastructure and related services market, our business and results of operations, particularly our profitability, may be materially adversely affected.

Any actual or even alleged defects or other quality, safety and security issues in our products and services and their combinations, including but not limited to the hardware, software and content used in our products, or any loss, improper disclosure or leakage of any personal or consumer data collected by us, made available to us or stored in or through our products and services, could materially adversely affect our sales, results of operations, reputation and the value of the Nokia brand.

Our products and services and their combinations are highly complex, and defects in their design, manufacture and associated hardware and software have occurred and may occur in the future. Due to the very high production volumes of many of our mobile devices, even a single defect in their design, manufacture or associated hardware, software and content may have a material adverse effect on our business. Our converged mobile devices incorporate numerous functionalities, feature computer-like and consumer electronics-like hardware and are powered by sophisticated software. This complexity and the need for the seamless integration of the hardware, software and services elements and compatibility with other relevant technologies to create a rich user experience may also increase the risk of quality issues in our converged mobile devices. Further, our mobile device portfolio is subject to continuous renewal which, particularly during periods of significant portfolio renewals, may increase the risk of quality issues related to our new devices. In the network infrastructure business, the undisturbed functioning of large mobile and fixed telecommunications networks may depend, among other things, on the proper functioning of our products and services. We make provisions to cover our estimated warranty costs for our products and services. We believe that our provisions are appropriate, although the ultimate outcome may differ from the provided level which could have a positive or negative impact on our results of operations and financial condition.

Defects and other quality issues may result from, among other things, failures in our own product and service creation and manufacturing processes, failures of our suppliers to comply with our supplier requirements or failures in products and services created jointly with collaboration partners or other third parties where the development and manufacturing process is not fully in our control. Prior to shipment, quality issues may cause failures in ramping up the production of our products and shipping them to the customers in a timely manner as well as related additional costs or even cancellation of orders by customers. After shipment, products may fail to meet marketing expectations set for them, may malfunction or may contain security vulnerabilities, and thus cause additional repair, product replacement, recall or warranty costs to us and harm our reputation. In case of issues affecting a product s safety, regulatory compliance or security, we may be subject to damages due to product liability, or defective products or components may need to be replaced or recalled. With respect to our services, quality issues may relate to the challenges in having the services fully operational at the time they are made available to our customers and consumers and maintaining them on an ongoing basis. The use of NAVTEQ s map data in our customers products and services, including Ovi Maps and our mobile devices, involves a possibility of product liability claims and associated adverse publicity. Claims could be made by business customers if errors or defects result in a failure of their products or services, or by end-users of those products or services as a

result of actual or perceived errors or defects in the map database. In addition, the business customers may require us to correct defective data, which can be costly, or pay penalties if quality requirements or service level agreements are not satisfied.

Our mobile devices and related accessories are also subject to counterfeiting activities in certain markets. Counterfeit products may erode our brand due to poor quality. Such activities may affect us disproportionately due to our leading market position in mobile devices. Furthermore, our products and services are increasingly used together with hardware, software or service components that have been developed by third parties, whether or not we have authorized their use with our products and services. However, such components, such as batteries or software applications and content, may not be compatible with our products and services and may not meet our and our customers and consumers quality, safety, security or other standards. Additionally, certain components or layers that may be used with our products may enable our products and services to be used for objectionable purposes, such as to transfer content that might be illegal, hateful or derogatory. The use of our products and services and their combinations with incompatible or otherwise substandard hardware, software or software components, or for purposes that are inappropriate, is largely outside of our control and could harm the Nokia brand.

Although we endeavor to develop products and services that meet the appropriate security standards, such as data protection, we or our products and services and their combinations may be subject to hacking, viruses, worms and other malicious software, unauthorized modifications or illegal activities that may cause potential security risks and other harm to us, our customers or consumers and other end-users of our products and services. This may affect us disproportionately due to our leading market position in mobile devices, many of which feature industry leading third-party software, solutions and services, as hackers tend to focus their efforts on the most popular products and services. Due to the very high volumes of many of our mobile devices, such events or mere allegations of such events may have a material adverse effect on our business.

In connection with providing our products and services and their combinations to our customers and consumers, in particular with converged mobile devices, certain customer feedback, information on consumer usage patterns and other personal and consumer data is collected and stored through our products and services and their combinations either by the consumers or by us. Loss, improper disclosure or leakage of any personal or consumer data collected by us, made available to us or stored in or through our products and services could result in liability to us and harm our reputation and brand. In addition, governmental authorities may use our products or services and their combinations to access the personal data of individuals without our involvement, for example, through so-called lawful intercept capability of network infrastructure. Even perceptions that our products and services and their combinations do not adequately protect personal or consumer data collected by us, made available to us or stored in or through our products and services or that they are being used by third parties to access personal or consumer data could impair our sales or our reputation and brand value.

We are a global company and have sales in most countries of the world and, consequently, our sales and profitability are dependent on the development of the mobile and fixed communications industry in numerous diverse markets, as well as on general economic conditions globally and regionally.

Our sales and profitability depend materially on the development of the mobile and fixed communications industry in numerous diverse markets in terms of the number of new mobile subscribers and the number of existing subscribers who upgrade or replace their existing mobile devices and the growth of the investments made by mobile network operators and service providers. In certain low penetration markets, in order to support a continued increase in mobile subscribers, we continue to be dependent on our own and mobile network operators and distributors ability to increase the sales volumes of lower cost mobile devices and on mobile network operators to offer affordable tariffs and tailored mobile network solutions designed for a low total cost of ownership. In highly penetrated markets, we are more dependent on our own and mobile network operators

Table of Contents

ability to successfully introduce value-added products and services, such as converged mobile devices that drive the upgrade and replacement of devices, as well as ownership of multiple devices. NAVTEQ is dependent on the development of a wide variety of products and services that use its data, the availability and functionality of such products and services and the rate at which consumers and businesses purchase those products and services. Nokia Siemens Networks is dependent on the pace of the investments made by mobile network operators and service providers. If we and the mobile network operators and distributors are not successful in our attempts to increase subscriber numbers, stimulate increased usage or drive upgrade and replacement sales of mobile devices and develop and increase demand for value-added services, including content and applications, or if mobile network operators and service providers invest in the related infrastructure less than anticipated, our business and results of operations could be materially adversely affected.

As we are a global company with sales in most countries of the world, our sales and profitability are dependent on general economic conditions globally and regionally. The traditional mobile communications industry has matured to varying degrees in different markets and, consequently, the industry is more vulnerable than before to the negative impacts of deteriorations in global economic conditions. Our net sales and profitability were negatively impacted in 2009 by, among other factors, the deteriorated global economic conditions, including weaker consumer and corporate spending, constrained credit availability and currency market volatility. The demand environment, in particular for mobile devices, improved during the latter part of 2009 as the global economy started to show initial signs of recovery. However, there can be no assurances that a sustainable global recovery is underway and about the impact and the timing of any such recovery in the various markets where Nokia does business. Accordingly, if these initial improvements are only temporary or if there is a continuation of, or further deterioration in, the current global economic conditions, this may result in our current and potential customers and consumers postponing or reducing spending on our products and services and their combinations. In addition, mobile network operators may reduce the device subsidies that they offer to the consumers or attempt to extend the periods of contracts that obligate the consumer to use a certain device and postpone or reduce investments in their network infrastructure and related services. The demand for digital map information and other location-based content by automotive and mobile device manufacturers may decline in relation to any further contraction of sales in the automotive and consumer electronics industry.

In addition, any further deterioration in the current global or regional economic conditions may:

- limit the availability of credit which may have a negative impact on the financial condition, and in particular on the purchasing ability, of some of our distributors, independent retailers and network operator customers and may also result in requests for extended payment terms, credit losses, insolvencies, limited ability to respond to demand or diminished sales channels available to us;

- cause financial difficulties for our suppliers and collaborative partners which may result in their failure to perform as planned and, consequently, in delays in the delivery of our products and services, including applications and content;

- increase volatility in exchange rates which may increase the costs of our products and services that we may not be able to pass on to our customers and result in significant competitive benefit to certain of our competitors that incur a material part of their costs in other currencies than we do; hamper our pricing; and increase our hedging costs and limit our ability to hedge our exchange rate exposure;

- result in inefficiencies due to our deteriorated ability to appropriately forecast developments in our industry and plan our operations accordingly, delayed or insufficient investments in new market segments and failure to adjust our costs appropriately;

cause reductions in the future valuations of our investments and assets and result in impairment charges related to goodwill or other assets due to any significant underperformance relative to historical or projected future results by us or any part of our business or any significant changes in the manner of our use of acquired assets or the strategy for our overall business;

cause lowered credit ratings of our short and long-term debt or their outlook from the credit rating agencies and, consequently, impair our ability to raise new financing or refinance our current borrowings and increase our interest costs associated with any new debt instruments;

result in failures of derivative counterparties or other financial institutions which could have a negative impact on our treasury operations;

result in increased and/or more volatile taxes which could negatively impact our effective tax rate; and

impact our investment portfolio and other assets and result in impairment.

We currently believe our funding position to be sufficient to meet our operating and capital expenditures in the foreseeable future. However, adverse developments in the global financial markets could have a material adverse effect on our financial condition and results of operations. For a more detailed discussion of our liquidity and capital resources, see Item 5B. Liquidity and Capital Resources and Note 33 of our consolidated financial statements included in Item 18 of this annual report.

Our business and results of operations, particularly our profitability, may be materially adversely affected if we are not able to successfully manage costs related to our products and services and their combinations, and to our operations.

We need to introduce cost-efficient products in a timely manner with new or enhanced functionalities and services, manage proactively the costs related to our portfolio of products and services and their combinations, manufacturing, logistics and other operations and mitigate adverse impacts of exchange rate fluctuations related to such costs. If we fail in any of these efforts, this could have a material adverse effect on our business and results of operations, particularly our profitability. We believe that our market position in mobile devices provides economies of scale and, therefore, a cost advantage in many areas of our business compared to our competitors. However, in certain areas of our converged mobile device business, such as software development, applications and content, we do not have a similar scale and cost benefit. Currency fluctuations may also have an adverse impact on our ability to manage our costs and on our cost advantage relative to certain of our competitors who incur a material part of their costs in other currencies than we do. If we fail to maintain or improve our market position and scale compared to our competitors across the range of our products and services, as well as leverage our scale to the fullest extent, or if we are unable to develop or otherwise acquire software, applications and content cost competitively in comparison to our competitors, or if our costs increase relative to those of our competitors due to currency fluctuations, our relative cost advantage may be eroded, which could materially adversely affect our competitive position, business and results of operations, particularly our profitability.

During 2009, we increased our cost-efficiency to adapt to the market situation. We need to continue to manage our operating expenses and other costs to maintain cost efficiency and competitive pricing of our products and services and their combinations. Any failure by us to determine the appropriate prioritization of operating expenses and other costs, to identify and implement on a timely basis the appropriate measures to adjust our operating expenses and other costs accordingly or to maintain reductions could have a material adverse effect on our business, results of operations and financial condition.

The products and services we offer are subject to natural price erosion over their life cycle. In addition, the average selling price of our traditional mobile devices has declined during recent years and it may continue to decline in the future. Factors that adversely impact the average selling price of our mobile devices include the extent to which our customers and consumers do not upgrade their mobile devices, postpone replacement or replace their current device with a lower-priced device, and the extent to which our product mix and sales are weighted towards lower-priced products and our regional mix is weighted towards emerging markets where lower-priced products predominate. Moreover, some of our competitors may continue to reduce their prices resulting in significantly lower profit margins than is customary in this industry, which would lower the average selling price of our devices if we chose for competitive reasons to lower our prices. Our inability to lower our costs at the same rate or faster than the price erosion and declining average selling price of our devices could have a material adverse effect on our business and results of operations, particularly our profitability.

Nokia Siemens Networks also operates in a market that has been and will continue to be subject to price erosion driven by a number of factors including the competitive nature of the market. In 2009, Nokia Siemens Networks achieved savings both in procurement and production costs as well as operating expenses. The inability to continue to lower its costs and expenses however, could have a material adverse effect on Nokia Siemens Networks business and results of operations, particularly profitability. In 2009, Nokia Siemens Networks announced a plan to further lower operating expenses and other costs to improve its financial performance and increase profitability. If Nokia Siemens Networks is unable to execute its plan effectively and timely or if the plan fails to achieve the desired results, that may have a material adverse effect on our business, results of operations and financial condition.

Our net sales, costs and results of operations, as well as the US dollar value of our dividends and market price of our ADSs, are affected by exchange rate fluctuations, particularly between the euro, which is our reporting currency, and the US dollar, the Japanese yen and the Chinese yuan, as well as certain other currencies.

We operate globally and are therefore exposed to foreign exchange risks in the form of both transaction risks and translation risks. Our policy is to monitor and hedge exchange rate exposure, and we manage our operations to mitigate, but not to eliminate, the impacts of exchange rate fluctuations. Significant volatility in the exchange rates may increase our hedging costs, as well as limit our ability to hedge our exchange rate exposure in particular against unfavorable movements in the exchange rates of certain emerging market currencies. Further, exchange rate fluctuations may have an adverse affect on our net sales, costs and results of operations, as well as our competitive position. Exchange rate fluctuations may also make our pricing more difficult as our products may be re-routed by the distribution channels for sale to consumers in other geographic areas where sales can be made at more favorable exchange rates by those channels. Further, exchange rate fluctuations may also materially affect the US dollar value of any dividends or other distributions that are paid in euro as well as the market price of our ADSs. For a more detailed discussion of exchange risks, see Item 5A. Operating Results Certain Other Factors Exchange Rates and Note 33 of our consolidated financial statements included in Item 18 of this annual report.

We depend on a limited number of suppliers for the timely delivery of sufficient quantities of fully functional components, sub-assemblies, software, applications and content and for their compliance with our supplier requirements, such as our own and our customers and consumers product quality, safety, security and other standards. Their failure to deliver or meet those requirements could materially adversely affect our ability to deliver our products and services and their combinations successfully and on time.

Our manufacturing operations depend on obtaining sufficient quantities of fully functional components, sub-assemblies, software, applications and content on a timely basis. In mobile devices, our principal supply requirements are for electronic components, mechanical components, software, applications and content, which all have a wide range of applications in our products. Electronic components include chipsets, integrated circuits, microprocessors, standard components, printed wiring boards, sensors, memory devices, cameras, audio components, displays, batteries and chargers, while mechanical components include covers, connectors, key mats, antennas and mechanisms. Software, applications and content include various third-party software, applications and content that enable various functionalities and services to be added into our products, such as Internet access,

various means of messaging, media, music, entertainment, navigation, location-based and other services. Nokia Siemens Networks components and sub-assemblies sourced and manufactured by third-party suppliers include Nokia Siemens Networks-specific integrated circuits and radio frequency components; servers; sub-assemblies such as printed wire board assemblies, filters, combiners and power units; and cabinets.

In some cases, our dependence on third-party suppliers has increased as a result of our strategic decisions to outsource certain activities, for example parts of our own chipset R&D and to expand the use of commercially available chipsets. In addition, a particular component may be available only from a limited number of suppliers. Suppliers may from time to time extend lead times, limit supplies, increase prices or be unable to increase supplies to meet increased demand due to capacity constraints or other factors, which could adversely affect our ability to deliver our products and services and their combinations on a timely basis. Moreover, a supplier may fail to meet our supplier requirements, such as, most notably, our and our customers and consumers product quality, safety, security and other standards, and consequently some of our products and services and their combinations may be unacceptable to us and our customers and consumers, or may fail to meet our quality controls. In case of issues affecting a product s safety or regulatory compliance, we may be subject to damages due to product liability, or defective products, components or services may need to be replaced or recalled. In addition, a component supplier may experience delays or disruption to its manufacturing processes or financial difficulties or even insolvency or closure of its business, in particular due to difficult economic conditions. Due to our high volumes, any of these events could delay our successful and timely delivery of products and services and their combinations that meet our and our customers and consumers quality, safety, security and other requirements, or otherwise materially adversely affect our sales and results of operations or our reputation and brand value. See Item 4B. Business Overview Devices & Services Production and Nokia Siemens Networks Production for a more detailed discussion of our production activities.

Possible consolidation among our suppliers could potentially result in larger suppliers with stronger bargaining power and limit the choice of alternative suppliers, which could lead to an increase in the cost, or limit the availability, of components that may materially adversely affect our sales and results of operations. The intensive competition among our suppliers and the resulting pressure on their profitability, as well as negative effects from shifts in demand for components and sub-assemblies, may result in the exit of certain suppliers from our industry and decrease the ability of some suppliers to invest in the innovation that is vital for our business. Further, our dependence on a limited number of suppliers that require purchases in their home country foreign currency increases our exposure to fluctuations in the exchange rate between the euro, our reporting currency, and such foreign currency and, consequently, may increase our costs which we may not be able to pass on to our customers.

Many of the production sites of our suppliers are geographically concentrated. In the event that any of these geographic areas is generally affected by adverse conditions that disrupt production and/or deliveries from any of our suppliers, this could adversely affect our ability to deliver our products, services, and their combinations on a timely basis, which may materially adversely affect our business and results of operations.

We are developing new technologies, products and services, including applications and content, in collaboration with other companies. We believe that success in the converged mobile device market in particular requires such collaboration and partnering. If any of those companies were to fail to perform as planned or if we fail to achieve the collaboration or partnering arrangements needed to succeed, we may not be able to bring our products and services to market successfully or in a timely way and this could have a material adverse effect on our sales and results of operations.

We are increasingly collaborating and partnering with third parties to develop technologies, products and services, including applications and content. These arrangements involve the commitment by

Table of Contents

each party of various resources, including technology, research and development efforts, and personnel. Our ability to collaborate and partner successfully is increasingly important to the success of our converged mobile devices and the Internet and other services we incorporate into our devices. Although the objective of the collaborative and partnering arrangements is a mutually beneficial outcome for each party, our ability to introduce new products and services and their combinations that meet our and our customers and consumers quality, safety, security and other standards successfully and on schedule could be hampered if, for example, any of the following risks were to materialize: we fail to engage the right partners or we are unable to collaborate and partner effectively to reach the targets set for the collaboration; the arrangements with the parties we work with do not develop as expected; the technologies provided by the parties we work with are not sufficiently protected or infringe third parties intellectual property rights in a way that we cannot foresee or prevent; the technologies, products or services supplied by the parties we work with do not meet the required quality, safety, security and other standards or customer needs; our own quality controls fail; or the financial condition of our collaborative partners deteriorates which may result in underperformance by the collaborative partners or insolvency or closure of the business of such partners. Any further deterioration of the global economic conditions may decrease the number of collaborative partners and limit the ability of the remaining collaborative partners to invest in their technologies, products and services. Our increasing reliance on collaborative partnering for Nokia-branded or co-branded products and services and their combinations may result in more variable quality due to our more limited control which may have a negative effect on our reputation and erode the value of the Nokia brand. Any of these events could materially adversely affect our sales and results of operations.

Our sales and results of operations could be materially adversely affected if we fail to efficiently manage our manufacturing, service creation and delivery as well as logistics without interruption or make timely and appropriate adjustments, or fail to ensure that our products and services meet our and our customers and consumers requirements and are delivered on time and in sufficient volumes.

Our product manufacturing, service creation and delivery as well as logistics are complex, require advanced and costly equipment and include outsourcing to third parties. These operations are continuously modified in an effort to improve efficiency and flexibility of our manufacturing, service creation and delivery as well as logistics and to produce, create and distribute continuously changing volumes. We may experience difficulties in adapting our supply to meet the changing demand for our products, both ramping up and down production at our facilities as needed on a timely basis; maintaining an optimal inventory level; adopting new manufacturing processes; finding the most timely way to develop the best technical solutions for new products; managing the increasingly complex manufacturing process for our high-end products, particularly the software for those products; or achieving manufacturing efficiency and flexibility, whether we manufacture our products and create our services ourselves or outsource to third parties. We may also face challenges in retooling our manufacturing processes to accommodate the production of devices in smaller lot sizes to customize devices to the specifications of certain mobile networks operators or to comply with regional technical standards. Further, we may experience challenges in having our services fully operational at the time they are made available to customers and consumers, including issues related to localization of the services to numerous markets and to the integration of our services with, for example, billing systems of network operators.

We may also experience challenges caused by third parties or other external difficulties in connection with our efforts to modify our operations to improve the efficiency and flexibility of our manufacturing, service creation and delivery as well as logistics, including, but not limited to, strikes, purchasing boycotts, public harm to the Nokia brand and claims for compensation resulting from our decisions on where to locate our manufacturing facilities and business. Such difficulties may have a material adverse effect on our business and results of operations and may result from, among other things, delays in adjusting or upgrading production at our facilities, delays in expanding production capacity, failure in our manufacturing, service creation and delivery as well as logistics processes, failures in the activities we have outsourced, and interruptions in the data communication systems that run our operations. Such failures or interruptions could result in our products and services not meeting our and our customers and consumers quality, safety, security and other requirements, or being delivered late or in insufficient or excess volumes compared to our own estimates or customer requirements, which could have a material adverse effect on our sales, results of operations, reputation and the value of the Nokia brand.

Our products and services and their combination include increasingly complex technologies, some of which have been developed by us or licensed to us by certain third parties. As a consequence, evaluating the rights related to the technologies we use or intend to use is more and more challenging, and we expect increasingly to face claims that we have infringed third parties intellectual property rights. The use of these technologies may also result in increased licensing costs for us, restrictions on our ability to use certain technologies in our products and services and/or costly and time-consuming litigation, which could have a material adverse effect on our business, results of operations and financial condition.

Our products and services and their combination include increasingly complex technologies, some of which have been developed by us or licensed to us by third parties. As the amount of such proprietary technologies and the number of parties claiming intellectual property rights continues to increase, even within individual products, as the range of our products and services and their combination becomes more diversified and we enter new businesses, and as the complexity of the technology increases, the possibility of alleged infringement and related intellectual property claims against us continues to rise. The holders of patents and other intellectual property rights potentially relevant to our products and services and their combination may be unknown to us, may have different business models