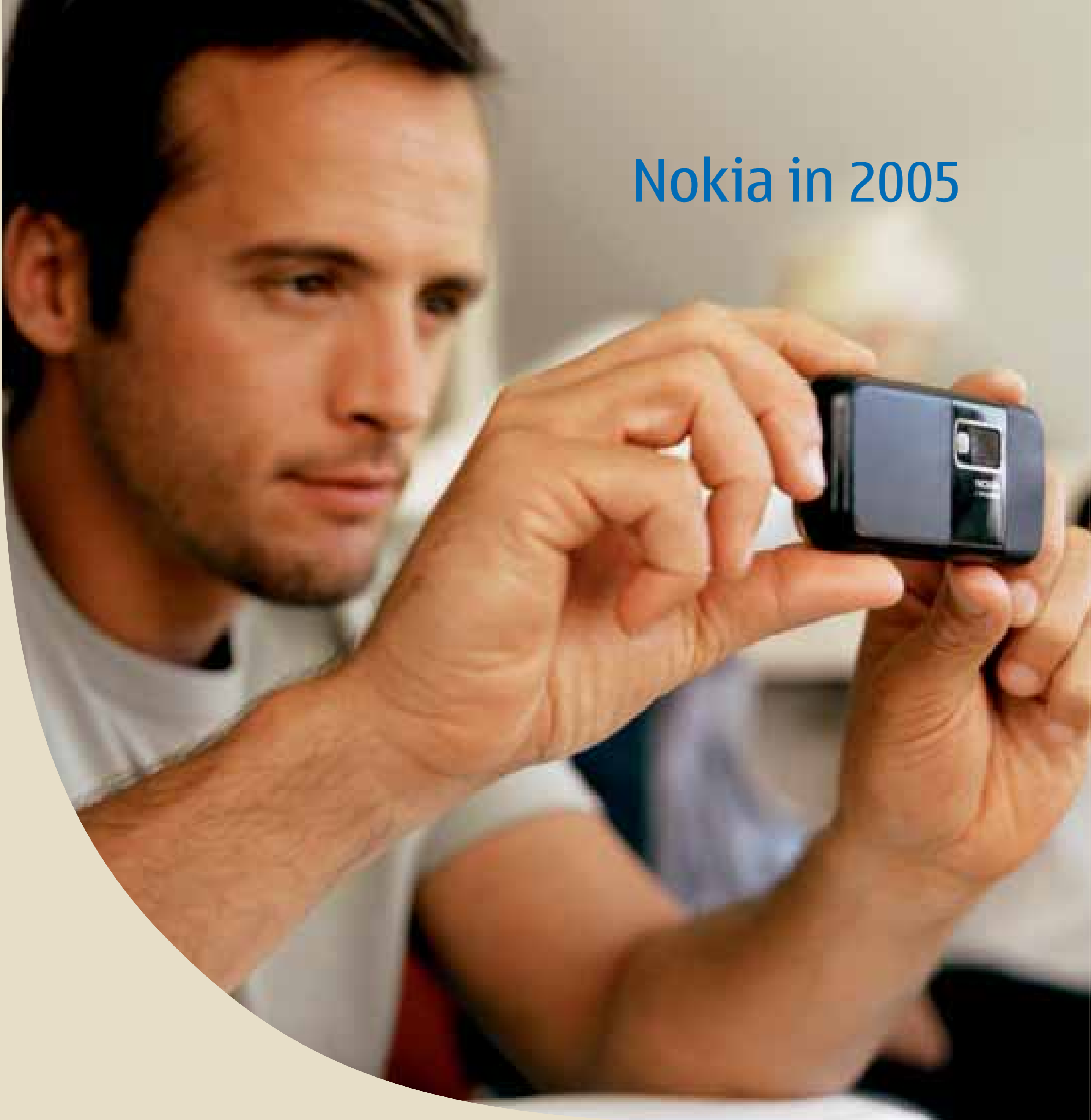
Nokia in 2005



NOKIA
Connecting People

The device on the cover is a Nokia 6233.

Review by the Board of Directors and Nokia Annual Accounts 2005

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Key data

Based on financial statements according to International Financial Reporting Standards, IFRS

Nokia, EURm	2005	2004 As revised	Change, %
Net sales	34 191	29 371	16
Operating profit	4 639	4 326	7
Profit before taxes	4 971	4 705	6
Net profit	3 616	3 192	13
Research and development	3 825	3 776	1
Return on capital employed, %	36.7	31.5	
Net debt to equity (gearing), %	−77	−79	
EUR			
Earnings per share, basic	0.83	0.69	20
Dividend per share	0.37 *	0.33	12
Average number of shares (1 000 shares)	4 365 547	4 593 196	

* Board's proposal

Business Groups, EURm	2005	2004 As revised	Change, %
Mobile Phones			
Net sales	20 811	18 521	12
Operating profit	3 598	3 786	−5
Multimedia			
Net sales	5 981	3 676	63
Operating profit	836	175	
Enterprise Solutions			
Net sales	861	839	3
Operating profit	−258	−210	
Networks			
Net sales	6 557	6 431	2
Operating profit	855	884	−3

Personnel, December 31	2005	2004	Change, %
Mobile Phones	2 716	2 558	6
Multimedia	2 799	2 738	2
Enterprise Solutions	2 092	2 234	−6
Networks	18 332	16 595	10
Common Group Functions	32 935	31 380	5
Nokia Group	58 874	55 505	6

10 major markets, net sales, EURm	2005	2004 As revised
China	3 403	2 678
USA	2 743	3 430
UK	2 405	2 269
India	2 022	1 369
Germany	1 982	1 730
Russia	1 410	946
Italy	1 160	884
Spain	923	768
Saudi Arabia	897	750
France	870	604

10 major countries	2005	2004
Personnel, December 31		
Finland	23 485	23 069
United States	5 883	6 706
China	5 860	4 788
Hungary	4 186	3 778
Germany	3 610	3 522
Brazil	2 184	2 640
UK	1 956	1 903
Mexico	1 901	1 160
India	1 609	591
Denmark	1 362	1 296

Main currencies, rates at the end of 2005

1 EUR		
	USD	1.1972
	GBP	0.6784
	SEK	9.4326
	JPY	139.29

Review by the Board of Directors 2005

Nokia's net sales increased 16% to EUR 34 191 million (EUR 29 371 million). Sales of Mobile Phones increased 12% to EUR 20 811 million (EUR 18 521 million). Sales of Multimedia increased 63% to EUR 5 981 million (EUR 3 676 million). Sales of Enterprise Solutions increased 3% to EUR 861 million (EUR 839 million). Sales of Networks increased 2% to EUR 6 557 million (EUR 6 431 million).

Nokia's operating profit for 2005 increased 7% to EUR 4 639 million, including net positive special items of EUR 80 million (operating profit of EUR 4 326 million in 2004, including net positive special items of EUR 33 million), representing a 2005 operating margin of 13.6% (14.7%). Operating profit in Mobile Phones decreased 5% to EUR 3 598 million (operating profit of EUR 3 786 million in 2004), representing a 2005 operating margin of 17.3% (20.4%). Operating profit in Multimedia increased to EUR 836 million, including net positive special items of EUR 4 million (operating profit of EUR 175 million in 2004), representing a 2005 operating margin of 14.0% (4.8%). Enterprise Solutions operating loss was EUR 258 million, including a EUR 29 million restructuring charge (operating loss of EUR 210 million in 2004). Operating profit in Networks decreased to EUR 855 million, including net positive special items of EUR 60 million (operating profit of EUR 884 million in 2004, including net negative special items of EUR 115 million) representing a 2005 operating margin of 13.0% (13.7%).

Common Group expenses totaled EUR 392 million, including EUR 45 million gain for real estate sales. Common Group expenses in 2004 totaled 309 million, including a one time positive item of EUR 160 million representing the premium returns under our multi-line, multi-year insurance program, which expired in 2004, and a EUR 12 million loss from the divestiture of Nextrom.

In 2005, net financial income was EUR 322 million (EUR 405 million), including a EUR 57 million gain for the sale of the France Telecom bond (EUR 106 million gain in 2004).

Profit before tax and minority interests was EUR 4 971 million (EUR 4 705 million). Net profit totaled EUR 3 616 million (EUR 3 192 million). Earnings per share increased to EUR 0.83 (basic) and EUR 0.83 (diluted), compared to EUR 0.69 (basic) and EUR 0.69 (diluted) in 2004.

As of December 31, 2005, our net debt-to-equity ratio (gearing) was –77% (–79% as of December 31, 2004). In 2005, capital expenditure amounted to EUR 607 million (EUR 548 million).

Global reach

In 2005, Europe accounted for 42% of Nokia's net sales (41% in 2004), Asia-Pacific 18% (16%), China 11% (10%), North America 8% (12%), Latin America 8% (9%), and Middle East & Africa 13% (12%). The 10 markets in which Nokia generated the greatest net sales in 2005 were, in descending order of magnitude, China, the US, the UK, India, Germany, Russia, Italy, Spain, Saudi Arabia and France, together representing 52% of total net sales in 2005. In comparison, the 10 markets in which Nokia generated the greatest net sales in 2004 were the US, China, the UK, Germany, India, Brazil, Russia, the United Arab Emirates, Italy and Spain, together representing 55% of total net sales in 2004.

Research and development, and technology

As of December 31, 2005, we employed 20 882 people in research and development in 26 countries, representing approximately 36% of Nokia's total workforce. R&D expenses totaled EUR 3 825 million in 2005, an increase of 1% from 2004 (EUR 3 776 million). R&D expenses represented 11.2% of Nokia's net sales in 2005, compared to 12.9% of net sales in 2004.

In February 2005, Nokia introduced the S60 Platform 3rd Edition, aimed at supporting the platform's expansion into the mid range and catering to new segments such as multimedia and enterprise. By year end, S60 licensees had introduced a cumulative total of 34 smartphone models based on the platform, strengthening S60's position as the industry's number one smartphone platform. During the year, Nokia introduced 14 devices based on the Symbian OS, upon which the S60 platform is built.

Memberships in Forum Nokia, the world's largest mobile application developer community, passed the 2 million mark in May 2005. Forum Nokia estimated, in November 2005, that the total global revenue earned by third party developers from mobile Java applications running on device platforms from Nokia would be EUR 340 million in 2005 alone.

Nokia in mobile devices in 2005

In our Mobile Phones, Multimedia and Enterprise Solutions business groups, combined mobile device volumes were up 28% in 2005, compared to 2004, reaching 265 million units – a new annual volume record for Nokia. Market volume for the same period was estimated at 795 million units, an increase of 24%. Based on our preliminary market estimate, Nokia's market share grew to 33% in 2005, compared to 32% in 2004.

In smartphones, according to Nokia estimates, the total industry volume reached approximately 46.3 million units in 2005, compared to an estimated 20.6 million units in 2004. Nokia's own smartphone volumes in 2005 grew to 28.5 million units, compared to 11.8 million units in 2004. Nokia shipped more than 40 million mobile devices with an integrated music player in 2005.

Mobile Phones in 2005

During 2005, Mobile Phones introduced 41 new mobile device models, including 18 new CDMA phones. Of the new models, 32 were in the mid range or high end, while nine were at the entry level.

Launch highlights from 2005:

- Nokia's first operator-specific designs, including the Nokia 6102 and Nokia 6234
- Mobile Phones first 3G phones for the mass market: the Nokia 6280/6282 and Nokia 6233/6234
- Mobile Phones first music phone: the Nokia 3250
- The L'Amour fashion collection: the Nokia 7380, Nokia 7370 and Nokia 7360

The high end Nokia 6230 and Nokia 6230i were Nokia's highest revenue generating phones in 2005. These two products were also the industry's best selling devices in Europe during each month of the year. By the end of 2005, our combined cumulative volumes of the two devices had reached approximately 25 million units.

Multimedia in 2005

Multimedia's business continued to develop well in 2005, driven by growing demand for converged mobile devices with advanced imaging, music, web browsing and email functionality. Nokia became the global market leader in 3G/WCDMA devices during the year, as a result of high sales of products such as the Nokia 6680 and the Nokia 6630, as well as the Nokia N70 towards the end of 2005.

A key development during the year was the launch of the Nokia Nseries sub-brand and multimedia computer product category. In 2005, we announced six Nokia Nseries multimedia computer models, two of which began shipping during the year. Targeting early adopters and technology leaders, these advanced mobile devices include Carl Zeiss optics, megapixel cameras, multi-gigabyte memories, stereo sound, VHS resolution video and WLAN connectivity.

Other developments in 2005 include:

- The launch of the Nokia 770 Internet Tablet, our first device in the new Internet Tablet category
- The announcement of collaboration agreements with Yahoo!, Carl Zeiss, Microsoft, Bose, Harman Kardon, JBL and Sennheiser
- The launch of the world's first DVB-H enabled mobile device, the Nokia N92
- Cumulative deliveries of Nokia's Mobile Broadcast Solution server 3.0 reached 25 by year end
- The announcement of plans to expand the N-Gage multiplayer gaming experience across a range of Nokia smartphones and Nokia Nseries devices

Net sales by business group Jan. 1 – Dec. 31	2005 EURm	%	2004 EURm	%	Change
Mobile Phones	20 811	61	18 521	63	12
Multimedia	5 981	17	3 676	12	63
Enterprise Solutions	861	3	839	3	3
Networks	6 557	19	6 431	22	2
Inter-business group eliminations	–19	–	–96	–	–
Nokia Group	34 191	100	29 371	100	16

Operating profit by business group Jan. 1 – Dec. 31	2005 EURm	% of net sales	2004 EURm	% of net sales
Mobile Phones	3 598	17.3	3 786	20.4
Multimedia	836	14.0	175	4.8
Enterprise Solutions	–258	–30.0	–210	–25.0
Networks	855	13.0	884	13.7
Common Group Expenses	–392	–	–309	–
Nokia Group	4 639	13.6	4 326	14.7

Enterprise Solutions in 2005

In 2005, the Nokia 9500 Communicator and Nokia 9300 enterprise smartphone began shipping in volumes. Nokia also began shipping both devices with BlackBerry Connect software, reaching more than 30 operators and distributors worldwide.

Enterprise Solutions made a number of announcements during the year, including:

- The launch of the Nokia Business Center software solution
- The pending acquisition of Intellisync
- The launch of the Nokia Eseries devices
- A licensing agreement for Microsoft Corp's ActiveSync to enable direct over-the-air synchronization between Nokia enterprise mobile devices and the Microsoft Exchange Server 2003
- Plans to work closely with Cisco, OnRelay, and Avaya on enterprise options for mobile voice

Networks in 2005

During 2005, Networks announced 16 contracts in 3G/WCDMA, including agreements with 10 new customers. By year end, Nokia had supplied to a total of 44 of the 100 operators that had launched commercial 3G/WCDMA services to date. In the growing HSDPA market we announced seven deals, bringing Nokia's total HSDPA references to 20.

In GSM, EDGE and GPRS, we signed some 20 contracts in 2005. By year end, Nokia had delivered GSM/EDGE technology to more than 130 customers in nearly 70 countries, was a supplier to 45 of the 121 operators that had launched EDGE commercially, and had signed more than 50 contracts for EDGE.

In core networks, Nokia cemented its leadership in the 3GPP Release 4 mobile softswitch market, with 60 deals for the Nokia MSC Server System (MSS) during 2005. In the IP Multimedia Subsystem (IMS) market, Nokia won 11 commercial deals and trialed the solution with almost 20 operators. In GSM-based Push to Talk over Cellular, we won contracts with 24 new customers in 2005. In fixed-mobile convergence, we concluded agreements with 10 customers and launched our Voice over IP (VoIP) server.

Nokia's Services Business unit was created at the start of 2005, focusing on managed services, consulting and integration. By year end, Services accounted for more than 30 percent of Networks revenues, and major deals included a managed services contract with Bharti Tele-Ventures.

During 2005, Networks honed its business focus, selling its professional mobile radio business to EADS. We also entered new growth markets like Bangladesh and Vietnam, and established a new presence in countries such as Tunisia.

Acquisitions and divestments

In November 2005, Nokia announced the acquisition of Intellisync Corporation, a leader in platform-independent wireless messaging and mobile software. This acquisition is planned to position Nokia to deliver the industry's most complete offering for the development, deployment and management of mobility in the enterprise. The transaction is also planned to enhance Nokia's ability to respond to customer needs in this fast growing market. The acquisition is currently scheduled to be completed during the first quarter of 2006, subject to the approval of Intellisync shareholders and other customary closing conditions.

In September 2005, Nokia's Professional Mobile Radio business, including TETRA infrastructure and terminals, was acquired by and transferred to EADS.

Changes in the management

The Board of Directors has released Mr. Jorma Ollila, Chairman and CEO, upon his request from his duties as the CEO and Chairman of the Group Executive Board effective June 1, 2006. Mr. Olli-Pekka Kallasvuo was appointed President and COO as of October 1, 2005 and President and CEO and Chairman of the Group Executive Board as of June 1, 2006. Mr. Pekka Ala-Pietilä, formerly President of Nokia and Head of Customer and Market Operations, resigned from the Group Executive Board and his position as President effective October 1, 2005.

Personnel

The average number of personnel for 2005 was 56 896 (53 511 for 2004). At the end of 2005, Nokia employed 58 874 people worldwide (55 505 at year end 2004). In 2005, Nokia's personnel increased by a total of 3 369 employees (increase of 4 146 in 2004).

Shares and share capital

In 2005, Nokia's share capital increased by EUR 7 514.40 as a result of the issue of 125 240 new shares upon exercise of stock options issued to personnel in 2003. As a result of the new share issues, Nokia received a total of EUR 1 659 743.60 in additional shareholders' equity in 2005. Effective April 22, 2005, a total of 230 million shares held by the company were cancelled pursuant to the shareholders' resolution taken at the Annual General Meeting on April 7, 2005. As a result of the cancellation, the share capital was reduced by the aggregate par value of the shares cancelled, EUR 13 800 000, which corresponded to less than 5% of the share capital of the company and the total voting rights at that time. The cancellation did not reduce the shareholders' equity. Neither the aforementioned issuances nor the cancellation of shares had any significant effect on the relative holdings of the other shareholders of the company nor on their voting power.

Nokia repurchased through its share repurchase plans a total of 315 010 000 shares on the Helsinki Exchange at an aggregate price of approximately EUR 4 265 billion during the period from January 28, 2005 to December 23, 2005. The price paid was based on the market price at the time of repurchase. The shares were repurchased to be used for the purposes specified in the authorizations given by the Annual General Meetings of 2004 and 2005 to the Board. The aggregate par value of the shares purchased was EUR 18 900 600, representing approximately 7.10% of the share capital of the company and the total voting rights. These new holdings did not have any significant effect on the relative holdings of the other shareholders of the company nor on their voting power.

On December 31, 2005, Nokia and its subsidiary companies owned 261 511 283 Nokia shares. The shares had an aggregate par value of EUR 15 690 676.98, representing approximately 5.9% of the share capital of the company and the total voting rights.

The total number of shares at December 31, 2005 was 4 433 886 540. On December 31, 2005, Nokia's share capital was EUR 266 033 192.40.

Outlook for the full year 2006

Nokia expects the mobile device market volume to grow more than 10% in 2006, from our preliminary estimate of approximately 795 million units in 2005. We also expect the device industry to experience value growth in 2006, but expect some decline in industry ASPs, primarily reflecting the increasing impact of the emerging markets. Nokia expects moderate growth in the mobile infrastructure market in euro terms in 2006. Nokia's goal is to increase its market share both in mobile devices and the infrastructure market, in order to build on its industry leading position.

Dividend

Nokia's Board of Directors will propose a dividend of EUR 0.37 per share for 2005.

Consolidated profit and loss accounts, IFRS

Financial year ended December 31	Notes	2005 EURm	2004 As revised EURm	2003 As revised EURm
Net sales		**34 191**	29 371	29 533
Cost of sales		**–22 209**	–18 179	–17 325
Gross profit		**11 982**	11 192	12 208
Research and development expenses		**–3 825**	–3 776	–3 788
Selling and marketing expenses	7	**–2 961**	–2 564	–2 657
Administrative and general expenses		**–609**	–611	–635
Other income	8	**285**	343	300
Other expenses	8, 9	**–233**	–162	–384
Customer finance impairment charges, net of reversals	9	**–**	–	226
Impairment of goodwill	9	**–**	–	–151
Amortization of goodwill	11	**–**	–96	–159
Operating profit	3, 4, 5, 6, 7, 8, 9, 10, 11	**4 639**	4 326	4 960
Share of results of associated companies	34	**10**	–26	–18
Financial income and expenses	12	**322**	405	352
Profit before tax		**4 971**	4 705	5 294
Tax	13	**–1 281**	–1 446	–1 697
Profit before minority interests		**3 690**	3 259	3 597
Minority interests		**–74**	–67	–54
Profit attributable to equity holders of the parent		**3 616**	**3 192**	**3 543**

Earnings per share (for profit attributable to the equity holders of the parent)	31	2005 EURm	2004 As revised EURm	2003 As revised EURm
Basic		**0.83**	0.69	0.74
Diluted		**0.83**	0.69	0.74

Average number of shares (1 000 shares)	31	2005	2004	2003
Basic		**4 365 547**	4 593 196	4 761 121
Diluted		**4 371 239**	4 600 337	4 761 160

See Notes to consolidated financial statements.

Consolidated balance sheets, IFRS

December 31	Notes	**2005** EURm	2004 As revised EURm
ASSETS			
Non-current assets			
Capitalized development costs	14	**260**	278
Goodwill	14	**90**	90
Other intangible assets	14	**211**	209
Property, plant and equipment	15	**1 585**	1 534
Investments in associated companies	16	**193**	200
Available-for-sale investments	17	**246**	169
Deferred tax assets	27	**692**	623
Long-term loans receivable	18	**63**	–
Other non-current assets		**7**	58
		3 347	3 161
Current assets			
Inventories	19, 21	**1 668**	1 305
Accounts receivable, net of allowances for doubtful accounts (2005: EUR 281 million, 2004: EUR 361 million)	20, 21	**5 346**	4 382
Prepaid expenses and accrued income	20	**1 938**	1 429
Other financial assets		**89**	595
Available-for-sale investments	17	**–**	255
Available-for-sale investments, liquid assets	17	**6 852**	9 085
Available-for-sale investments, cash equivalents	17, 35	**1 493**	1 367
Bank and cash	35	**1 565**	1 090
		18 951	19 508
Total assets		**22 298**	**22 669**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders of the parent			
Share capital	23	**266**	280
Share issue premium		**2 458**	2 366
Treasury shares, at cost		**−3 616**	−2 022
Translation differences		**69**	−126
Fair value and other reserves	22	**−176**	13
Retained earnings	25	**13 154**	13 720
		12 155	14 231
Minority interests		**205**	168
Total equity		**12 360**	14 399
Non-current liabilities	26		
Long-term interest-bearing liabilities		**21**	19
Deferred tax liabilities	27	**151**	179
Other long-term liabilities		**96**	96
		268	294
Current liabilities			
Short-term borrowings	28	**377**	215
Accounts payable		**3 494**	2 669
Accrued expenses	29	**3 320**	2 604
Provisions	30	**2 479**	2 488
		9 670	7 976
Total shareholders' equity and liabilities		**22 298**	**22 669**

See Notes to consolidated financial statements.

Consolidated cash flow statements, IFRS

Financial year ended December 31	Notes	2005 EURm	2004 As revised EURm	2003 As revised EURm
Cash flow from operating activities				
Profit attributable to equity holders of the parent		**3 616**	3 192	3 543
Adjustments, total	35	**1 774**	2 059	2 992
Profit attributable to equity holders of the parent before change in net working capital		**5 390**	5 251	6 535
Change in net working capital	35	**−366**	241	−184
Cash generated from operations		**5 024**	5 492	6 351
Interest received		**353**	204	256
Interest paid		**−26**	−26	−33
Other financial income and expenses, net received		**47**	41	118
Income taxes paid		**−1 254**	−1 368	−1 440
Net cash from operating activities		**4 144**	4 343	5 252
Cash flow from investing activities				
Acquisition of Group companies		**−92**	–	−7
Purchase of current available-for-sale investments, liquid assets		**−7 277**	−10 318	−11 695
Purchase of non-current available-for-sale investments		**−89**	−388	−282
Purchase of shares in associated companies		**−16**	−109	−61
Additions to capitalized development costs		**−153**	−101	−218
Long-term loans made to customers		**−56**	–	−97
Proceeds from repayment and sale of long-term loans receivable		**–**	368	315
Proceeds from (+) / payment of (−) other long-term receivables		**14**	2	−18
Proceeds from short-term loans receivable		**182**	66	63
Capital expenditures		**−607**	−548	−432
Proceeds from disposal of shares in Group companies, net of disposed cash		**5**	1	–
Proceeds from disposal of shares in associated companies		**18**	–	–
Proceeds from disposal of businesses		**95**	–	–
Proceeds from maturities and sale of current available-for-sale investments, liquid assets		**9 402**	9 737	8 793
Proceeds from sale of current available-for-sale investments		**247**	587	–
Proceeds from sale of non-current available-for-sale investments		**3**	346	381
Proceeds from sale of fixed assets		**167**	6	19
Dividends received		**1**	22	24
Net cash from (used in) investing activities		**1 844**	−329	−3 215
Cash flow from financing activities				
Proceeds from stock option exercises		**2**	–	23
Purchase of treasury shares		**−4 258**	−2 648	−1 355
Proceeds from long-term borrowings		**5**	1	8
Repayment of long-term borrowings		**–**	−3	−56
Proceeds from (+) / repayment of (−) short-term borrowings		**212**	−255	−22
Dividends paid		**−1 531**	−1 413	−1 378
Net cash used in financing activities		**−5 570**	−4 318	−2 780
Foreign exchange adjustment		**183**	−23	−146
Net increase (+) / decrease (−) in cash and cash equivalents		**601**	−327	−889
Cash and cash equivalents at beginning of period		**2 457**	2 784	3 673
Cash and cash equivalents at end of period		**3 058**	**2 457**	**2 784**

Consolidated cash flow statements, IFRS (continued)

Financial year ended December 31	Notes	**2005** **EURm**	2004 As revised EURm	2003 As revised EURm
Cash and cash equivalents comprise of:				
Bank and cash		**1 565**	1 090	1 145
Current available-for-sale investments, cash equivalents	17, 38	**1 493**	1 367	1 639
		3 058	2 457	2 784

See Notes to consolidated financial statements.

The figures in the consolidated cash flow statement cannot be directly traced from the balance sheet without additional information as a result of acquisitions and disposals of subsidiaries and net foreign exchange differences arising on consolidation.

Consolidated statements of changes in shareholders' equity, IFRS

Group, EURm	Number of shares (000's)	Share capital	Share issue premium	Treasury shares	Translation differences	Fair value and other reserves	Retained earnings	Before minority interests	Minority interests	Total
Balance at January 1, 2003	4 786 762	287	2 225	−20	135	−7	11 661	14 281	173	14 454
Impact of implementing IAS 39(R)						−21	21			
Revised balance at January 1, 2003	4 786 762	287	2 225	−20	135	−28	11 682	14 281	173	14 454
Tax benefit on stock options exercised			13					13		13
Translation differences					−375			−375	−33	−408
Net investment hedge gains					155			155		155
Cash flow hedges, net of tax [1]						10		10		10
Available-for-sale investments, net of tax						98		98		98
Other increase, net							40	40	8	48
Profit [1]							3 543	3 543	54	3 597
Total recognized income and expense		–	13	–	−220	108	3 583	3 484	29	3 513
Share issue related to acquisitions	1 225		18					18		18
Stock options exercised	7 160	1	22					23		23
Stock options exercised related to acquisitions			−6					−6		−6
Share-based compensation [1, 2]			41					41		41
Acquisition of treasury shares	−95 339			−1 363				−1 363		−1 363
Reissuance of treasury shares	460			10				10		10
Dividend							−1 340	−1 340	−38	−1 378
Total of other equity movements		1	75	−1 353	–	–	−1 340	−2 617	−38	−2 655
Revised balance at December 31, 2003	4 700 268	288	2 313	−1 373	−85	80	13 925	15 148	164	15 312
Translation differences					−119			−119	−16	−135
Net investment hedge gains					78			78		78
Cash flow hedges, net of tax [1]						−1		−1		−1
Available-for-sale investments, net of tax						−66		−66		−66
Other decrease, net							−1	−1	−5	−6
Profit (1)							3 192	3 192	67	3 259
Total recognized income and expense		–	–	–	−41	−67	3 191	3 083	46	3 129
Stock options exercised	5	–	–					–		–
Stock options exercised related to acquisitions			−8					−8		−8
Share-based compensation [1, 2]			53					53		53
Acquisition of treasury shares	−214 120			−2 661				−2 661		−2 661
Reissuance of treasury shares	788			14				14		14
Cancellation of treasury shares		−8	8	1 998			−1 998	–		–
Dividend							−1 398	−1 398	−42	−1 440
Total of other equity movements		−8	53	−649	–	–	−3 396	−4 000	−42	−4 042
Revised balance at December 31, 2004	4 486 941	280	2 366	−2 022	−126	13	13 720	14 231	168	14 399
Tax benefit on stock options exercised			−2					−2		−2
Translation differences					406			406	31	437
Net investment hedge losses					−211			−211		−211
Cash flow hedges, net of tax						−132		−132		−132
Available-for-sale investments, net of tax						−57		−57		−57
Other decrease, net							−55	−55	1	−54
Profit							3 616	3 616	74	3 690
Total recognized income and expense		–	−2	–	195	−189	3 561	3 565	106	3 671
Stock options exercised	125		2					2		2
Stock options exercised related to acquisitions			−1					−1		−1
Share-based compensation [2]			79					79		79
Acquisition of treasury shares	−315 174			−4 268				−4 268		−4 268
Reissuance of treasury shares	484			10				10		10
Cancellation of treasury shares		−14	14	2 664			−2 664	–		–
Dividend							−1 463	−1 463	−69	−1 532
Total of other equity movements		−14	94	−1 594	–	–	−4 127	−5 641	−69	−5 710
Balance at December 31, 2005	4 172 376	266	2 458	−3 616	69	−176	13 154	12 155	205	12 360

1 2003 and 2004 financial statements have been revised to reflect the retrospective implementation of IFRS 2 and IAS 39(R). See Note 2.

2 Share-based compensation is shown net of deferred compensation recorded related to social security costs on share-based payments

Dividends declared per share were EUR 0.37 for 2005 (EUR 0.33 for 2004 and EUR 0.30 for 2003), subject to shareholders' approval.

Notes to the consolidated financial statements

1. Accounting principles

Basis of presentation

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

As of January 1, 2005 the Group adopted IFRS 2, Share-based Payment. The standard requires the recognition of share-based payment transactions in financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the Company. Prior to the adoption of IFRS 2, the Group did not recognize the financial effect of share-based payments until such payments were settled. In accordance with the transitional provisions of IFRS 2, the Standard has been applied retrospectively to all grants of shares, share options or other equity instruments that were granted after November 7, 2002 and that were not yet vested at the effective date of the standard.

As of January 1, 2005 the Group adopted IAS 39(R), Financial Instruments: Recognition and Measurement, which supersedes IAS 39 (revised 2000). Under IAS 39(R), hedge accounting is no longer allowed under Treasury Center foreign exchange netting. This change is retrospective for the Group as an existing IFRS user.

The comparative figures for 2004 and 2003 have been revised to reflect the adoption of IFRS 2 and IAS 39(R) and the effects are summarized in the consolidated statement of changes in shareholders' equity, and further information is disclosed in the accounting policies and in Notes to the consolidated financial statements.

The Group adopted IFRS 3, Business Combinations together with IAS 36(R), Impairment of Assets, and IAS 38(R), Intangible Assets, as of January 1, 2005, resulting in a change in the accounting policy for goodwill. Until December 31, 2004, goodwill was amortized on a straight line basis over its expected useful life over a period ranging from two to five years and assessed for an indication of impairment, periodically. In accordance with the provisions of IFRS 3, the Group ceased amortization of goodwill from January 1, 2005 for all acquisitions made prior to March 31, 2004. Accumulated amortization as of December 31, 2004 has been eliminated with a corresponding decrease in the cost of goodwill. From January 1, 2005, goodwill is assessed for impairment annually, and whenever there are indications of impairment. Under the transitional provisions of IFRS 3, this change in accounting policy was effective immediately for acquisitions made after March 31, 2004.

Consequent upon the adoption of IAS 21(R), The Effects of Changes in Foreign Exchange Rates, the Group has changed its accounting policy for the translation differences of goodwill arising on acquisitions of foreign companies made after January 1, 2005. Goodwill on acquisitions of foreign companies made prior to that is translated to euros at historical rates. In accordance with IAS 21(R), goodwill on acquisitions of foreign companies made after January 1, 2005, is translated into euros at closing rates.

The impacts of IFRS 3 and IAS 21(R) are prospective from January 1, 2005. The adoption of IFRS 3, IAS 21(R), IAS 36(R) and IAS 38(R) did not have any impact to the Group's financial position, results of operations or cash flows.

Principles of consolidation

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

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

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

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

Goodwill

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

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

Transactions in foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the dates of the individual transactions. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used. At the end of the accounting period, the unsettled balances on foreign currency receivables and liabilities are valued at the rates of exchange prevailing at the year-end. Foreign exchange gains and losses arising from balance sheet items, as well as fair value changes in the related hedging instruments, are reported in Financial Income and Expenses.

Foreign Group companies

In the consolidated accounts all items in the profit and loss accounts of foreign subsidiaries are translated into euro at the average foreign exchange rates for the accounting period. The balance sheets of foreign Group companies are translated into euro at the year-end foreign exchange rates with the exception of goodwill arising on the acquisition of a foreign company prior to the adoption of IAS 21 (revised 2004) as of January 1, 2005, which is translated to euro at historical rates. Differences resulting from the translation of profit and loss account items at the average rate and the balance sheet items at the closing rate are treated as an adjustment affecting consolidated shareholders' equity. On the disposal of all or part of a foreign Group company by sale, liquidation, repayment of share capital or abandonment, the cumulative amount or proportionate share of the translation difference is recognized as income or as expense in the same period in which the gain or loss on disposal is recognized.

Fair valuing principles

Financial assets and liabilities

Under IAS 39(R), the Group classifies its investments in marketable debt and equity securities and investments in unlisted equity securities into the following categories: held-to-maturity, trading, or available-for-sale depending on the purpose for acquiring the investments as well as ongoing intentions. All investments of the Group are currently classified as available-for-sale. Available-for-sale investments are fair valued by using quoted market rates, discounted cash flow analyses and other appropriate valuation models at the balance sheet date. Certain unlisted equities for which fair values cannot be measured reliably are reported at cost less impairment. All purchases and sales of investments are recorded on the trade date, which is the date that the Group commits to purchase or sell the asset.

The fair value changes of available-for-sale investments are recognized in shareholders' equity. When the investment is disposed of, the related accumulated fair value changes are released from

shareholders' equity and recognized in the profit and loss account. The weighted average method is used when determining the cost-basis of publicly listed equities being disposed of. FIFO (First-in First-out) method is used to determine the cost basis of fixed income securities being disposed of. An impairment is recorded when the carrying amount of an available-for-sale investment is greater than the estimated fair value and there is objective evidence that the asset is impaired. The cumulative net loss relating to that investment is removed from equity and recognized in the profit and loss account for the period. If, in a subsequent period, the fair value of the investment increases and the increase can be objectively related to an event occurring after the loss was recognized, the loss is reversed, with the amount of the reversal included in the profit and loss account.

The fair values of other financial assets and financial liabilities are assumed to approximate their carrying values, either because of their short maturities, or their fair values cannot be measured reliably.

Derivatives

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

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

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

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

Hedge accounting

Hedging of anticipated foreign currency denominated sales and purchases

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

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

For qualifying foreign exchange forwards the change in fair value that reflects the change in spot exchange rates is deferred in shareholders' equity to the extent that the hedge is effective. For qualifying foreign exchange options, or option strategies, the change in intrinsic value is deferred in shareholders' equity to the extent that the hedge is effective. In all cases the ineffective portion is recognized immediately in the profit and loss account. Hedging costs, either expressed as the change in fair value that reflects the change in forward exchange rates less the change in spot exchange rates for forward foreign exchange contracts, or changes in the time value for options, or options strategies, are recognized within other operating income or expenses.

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

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39(R) are recognized immediately in the profit and loss account. The fair value changes of derivative instruments that directly relate to normal business operations are recognized within other operating income and expenses. The fair value changes from all other derivative instruments are recognized in financial income and expenses.

Foreign currency hedging of net investments

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

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

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

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

Revenue recognition

Sales from the majority of the Group are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable. An immaterial part of the revenue from products sold through distribution channels is recognized when the reseller or distributor sells the products to the end users. The Group records reductions to revenue for special pricing agreements, price protection and other volume based discounts.

In addition, sales and cost of sales from contracts involving solutions achieved through modification of complex telecommunications equipment are recognized on the percentage of completion method when the outcome of the contract can be estimated reliably. This occurs when total contract revenue and the costs to complete the contract can be estimated reliably, it is probable that the economic benefits associated with the contract will flow to the Group and the stage of contract completion can be measured. When the Group is not able to meet those conditions, the policy is to recognize revenues only equal to costs incurred to date, to the extent that such costs are expected to be recovered.

Completion is measured by reference to cost incurred to date as a percentage of estimated total project costs, the cost-to-cost method.

The percentage of completion method relies on estimates of total expected contract revenue and costs, as well as dependable measurement of the progress made towards completing a particular project. Recognized revenues and profits are subject to revisions during the project in the event that the assumptions regarding the overall project outcome are revised. The cumulative impact of a revision in

estimates is recorded in the period such revisions become likely and estimable. Losses on projects in progress are recognized in the period they become likely and estimable.

The Group's customer contracts may include the provision of separately identifiable components of a single transaction, for example the construction of a network solution and subsequent network maintenance services. Accordingly, for these arrangements, revenue recognition requires proper identification of the components of the transaction and evaluation of their commercial effect in order to reflect the substance of the transaction. If the components are considered separable, revenue is allocated across the identifiable components based upon relative fair values.

All the Group's material revenue streams are recorded according to the above policies.

Shipping and handling costs

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

Research and development

Research and development costs are expensed as they are incurred, except for certain development costs, which are capitalized when it is probable that a development project will generate future economic benefits, and certain criteria, including commercial and technical feasibility, have been met. Capitalized development costs, comprising direct labor and related overhead, are amortized on a systematic basis over their expected useful lives between two and five years.

Capitalized development costs are subject to regular assessments of recoverability based on anticipated future revenues, including the impact of changes in technology. Unamortized capitalized development costs determined to be in excess of their recoverable amounts are expensed immediately.

Other intangible assets

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

Pensions

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

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

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

Property, plant and equipment

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

Buildings and constructions	20 – 33 years
Production machinery, measuring and test equipment	1 – 3 years
Other machinery and equipment	3 – 10 years

Land and water areas are not depreciated.

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

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

Leases

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

Inventories

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

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

An allowance is recorded for excess inventory and obsolescence.

Accounts receivable

Accounts receivable are carried at the original invoice amount to customers less an estimate made for doubtful receivables based on a periodic review of all outstanding amounts, which includes an analysis of historical bad debt, customer concentrations, customer creditworthiness, current economic trends and changes in our customer payment terms. Bad debts are written off when identified.

Cash and cash equivalents

Bank and cash consist of cash at bank and in hand. Cash equivalents consist of highly liquid available-for-sale investments purchased with remaining maturities at the date of acquisition of three months or less.

Short-term investments

The Group considers all highly liquid marketable securities purchased with maturity at acquisition of more than three months as short-term investments. They are included in current available-for-sale investments, liquid assets, in the balance sheet.

Borrowings

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

Loans to customers

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

Income taxes

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

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

Under this method the Group is required, in relation to an acquisition, to make provision for deferred

taxes on the difference between the fair values of the net assets acquired and their tax bases.

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

Provisions

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

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

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

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

The Group recognizes a provision for pension and other social costs on unvested equity instruments based upon local statutory law, net of deferred compensation, which is recorded as a component of shareholders equity. The provision is considered as a cash-settled share-based payment and is measured by reference to the fair value of the equity benefits provided, and the amount of the provision is adjusted to reflect the changes in the Nokia share price. The Group recognizes a provision for prior year tax contingencies based upon the estimated future settlement amount at each balance sheet date.

Share-based compensation

The Group has three types of equity settled share-based compensation schemes for employees: stock options, performance shares and restricted shares. Employee services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments as at the date of grant, excluding the impact of any non-market vesting conditions. Non-market vesting conditions attached to the performance shares are included in assumptions about the number of shares that the employee will ultimately receive. On a regular basis the Group reviews the assumptions made and revises its estimates of the number of performance shares that are expected to be settled, where necessary. Share-based compensation is recognized as an expense in the profit and loss account over the service period. When stock options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

Dividends

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

Earnings per share

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

Use of estimates

The preparation of financial statements in conformity with IFRS requires the application of judgment by management in selecting appropriate assumptions for calculating financial estimates, which inherently contain some degree of uncertainty. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported carrying values of assets and liabilities and the reported amounts of revenues and expenses that may not be readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Set forth below are areas requiring significant judgment and estimation that may have an impact on reported results and the financial position.

Revenue recognition

Sales from the majority of the Group are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable. Current sales may materially change if management's assessment of such criteria was determined to be inaccurate.

Revenue from contracts involving solutions achieved through modification of complex telecommunications equipment is recognized on the percentage of completion basis when the outcome of the contract can be estimated reliably. Recognized revenues and profits are subject to revisions during the project in the event that the assumptions regarding the overall project outcome are revised. Current sales and profit estimates for projects may materially change due to the early stage of a long-term project, new technology, changes in the project scope, changes in costs, changes in timing, changes in customers' plans, realization of penalties, and other corresponding factors.

Customer financing

The Group has provided a limited amount of customer financing and agreed extended payment terms with selected customers. Should the actual financial position of the customers or general economic conditions differ from assumptions, the ultimate collectibility of such financings and trade credits may be required to be re-assessed, which could result in a write-off of these balances and thus negatively impact profits in future periods.

Allowances for doubtful accounts

The Group maintains allowances for doubtful accounts for estimated losses resulting from the subsequent inability of customers to make required payments. If the financial conditions of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required in future periods.

Inventory-related allowances

The Group periodically reviews inventory for excess amounts, obsolescence and declines in market value below cost and records an allowance against the inventory balance for any such declines. These reviews require management to estimate future demand for products. Possible changes in these estimates could result in revisions to the valuation of inventory in future periods.

Warranty provisions

The Group provides for the estimated cost of product warranties at the time revenue is recognized. The Group's warranty provision is established based upon best estimates of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. As new products incorporating complex technologies are continuously introduced, and as local laws, regulations and practices may change, changes in these estimates could result in additional allowances or changes to recorded allowances being required in future periods.

Provision for intellectual property rights, or IPR, infringements

The Group provides for the estimated future settlements related to asserted and unasserted IPR infringements based on the probable outcome of each infringement. IPR infringement claims can last for varying periods of time, resulting in irregular movements in the IPR infringement provision. The ultimate outcome or actual cost of settling an individual infringement may materially vary from estimates.

Legal contingencies

Legal proceedings covering a wide range of matters are pending or threatened in various jurisdictions against the Group. Provisions are recorded for pending litigation when it is determined that an unfavorable outcome is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of settlement may materially vary from estimates.

Capitalized development costs

The Group capitalizes certain development costs when it is probable that a development project will generate future economic benefits and certain criteria, including commercial and technical feasibility, have been met. Should a product fail to substantiate its estimated feasibility or life cycle, material development costs may be required to be written off in future periods.

Valuation of long-lived and intangible assets and goodwill

The Group assesses the carrying value of identifiable intangible assets, long-lived assets and goodwill annually, or more frequently if events or changes in circumstances indicate that such carrying value may not be recoverable. Factors that trigger an impairment review include underperformance relative to historical or projected future results, significant changes in the manner of the use of the acquired assets or the strategy for the overall business and significant negative industry or economic trends. The most significant variables in determining cash flows are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. Amounts estimated could differ materially from what will actually occur in the future.

Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, unlisted equities, currency options and embedded derivatives) are determined using valuation techniques. The Group uses judgment to select an appropriate valuation methodology as well as underlying assumptions based on existing market practice and conditions. Changes in these assumptions may cause the Group to recognize impairments or losses in future periods.

Deferred taxes

Management judgment is required in determining provisions for income taxes, deferred tax assets and liabilities and the extent to which deferred tax assets can be recognized. If the final outcome of these matters differs from the amounts initially recorded, differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Pensions

The determination of pension benefit obligation and expense for defined benefit pension plans is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, the discount rate, expected long-term rate of return on plan assets and annual rate of increase in future compensation levels. A portion of plan assets is invested in equity securities which are subject to equity market volatility. Changes in assumptions may materially affect the pension obligation and future expense.

Share-based compensation

The Group has various types of equity settled share-based compensation schemes for employees. Fair value of stock options is based on certain assumptions, including, among others, expected volatility and expected life of the options. Non-market vesting conditions attached to performance shares are included in assumptions about the number of shares that the employee will ultimately receive relating to projections of sales and earnings per share. Significant differences in equity market performance, employee option activity and the Group's projected and actual sales and earnings per share performance, may materially affect future expense.

New IFRS standards and revised IAS standards

In August 2005, the IASB issued IFRS 7, Financial Instruments: Disclosures, which will supersede all disclosure requirements addressed earlier in IAS 32, Financial Instruments: Recognition and Measurement, and includes a comprehensive set of qualitative and quantitative disclosures on risk exposures from all financial instruments. IFRS 7 is effective for fiscal years beginning on or after January 1, 2007. The Group does not expect the adoption of this standard to have a material impact on the disclosures as it has also in the past disclosed qualitative and quantitative information on risk exposures.

In December 2004, the IASB issued Amendment to IAS 19 Employee Benefits-Actuarial Gains and Losses, Group Plans and Disclosures, which introduces the option of an alternative recognition approach for actuarial gains and losses. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts. The Group will apply this amendment from annual periods beginning January 1, 2006.

2. Adoption of IFRS 2 and IAS 39(R)

The comparative figures for 2004 and 2003 have been revised to reflect the adoption of IFRS 2 and IAS 39(R) and the effects are summarized as follows:

	2004			2003		
	IFRS 2 EURm	IAS 39(R) EURm	Total EURm	IFRS 2 EURm	IAS 39(R) EURm	Total EURm
Increase in net sales	–	104	104	–	78	78
Increase in cost of sales	–	–46	–46	–	–88	–88
Increase in research and development expenses	–43	–	–43	–28	–	–28
Increase in selling and marketing expenses	–12	–	–12	–8	–	–8
Increase in administrative and general expenses	–7	–	–7	–5	–	–5
Increase (–)/decrease (+) in tax expense	2	–13	–11	–	2	2
Increase (+)/decrease (–) in profit attributable to equity holders of the parent	–60	45	–15	–41	–8	–49
Decrease in accrued expenses	–2	–	–2	–	–	–
Increase in provisions	9	–	9	–	–	–
Increase in share issue premium	94	–	94	41	–	41
Decrease in fair value and other reserves	–	–56	–56	–	–12	–12

	2004			2003		
	IFRS 2 EUR	IAS 39(R) EUR	Total EUR	IFRS 2 EUR	IAS 39(R) EUR	Total EUR
Decrease in basic earnings per share	–0.01	0.00	–0.01	–0.01	0.00	–0.01
Decrease in diluted earnings per share	–0.01	0.00	–0.01	–0.01	0.00	–0.01

3. Segment information

Nokia is organized on a worldwide basis into four primary business segments: Mobile Phones; Multimedia; Enterprise Solutions; and Networks. Nokia's reportable segments represent the strategic business units that offer different products and services for which monthly financial information is provided to the Board.

Mobile Phones connects people by providing expanding mobile voice and data capabilities across a wide range of mobile devices.

Multimedia brings connected mobile multimedia experiences to consumers in the form of advanced mobile devices and applications.

Enterprise Solutions offers businesses and institutions a broad range of products and solutions, including enterprise-grade mobile devices, underlying security infrastructure, software and services.

Networks provides network infrastructure, communications and networks service platforms as well as professional services to operators and service providers.

In addition to the four business groups, the Group's organization has two horizontal units to support the mobile device business groups, increase operational efficiency and competitiveness, and to take advantage of economies of scale: Customer and Market Operations and Technology Platforms. The horizontal groups are not separate reporting entities, but their costs are carried mainly by the mobile device business groups, which comprises of Mobile Phones, Multimedia and Enterprise Solutions, with the balance included in Common Group Functions. The costs and revenues as well as assets and liabilities of the horizontal groups are allocated to the mobile device business groups on a symmetrical basis; with any amounts not so allocated included in Common Group Functions. Common Group Functions consists of common research and general Group functions.

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

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

2005, EURm	Mobile Phones	Multimedia	Enterprise Solutions	Networks	Total reportable segments	Common Group Functions	Eliminations	Group
Profit and loss information								
Net sales to external customers	20 811	5 979	839	6 556	34 185	6		34 191
Net sales to other segments	–	2	22	1	25	–6	–19	–
Depreciation and amortization	247	83	22	241	593	119		712
Impairment and customer finance charges	–	36	–	–	36	30		66
Operating profit/loss	3 598	836	–258	855	5 031	–392		4 639
Share of results of associated companies	–	–	–	–	–	10		10
Balance sheet information								
Capital expenditures [1]	273	77	24	102	476	131		607
Segment assets [2]	4 355	1 374	202	3 437	9 368	1 135	–53	10 450
of which:								
Investments in associated companies	–	–	–	–	–	193		193
Unallocated assets [3]								11 848
Total assets								22 298
Segment liabilities [4]	4 772	1 505	315	1 607	8 199	241	–156	8 284
Unallocated liabilities [5]								1 654
Total liabilities								9 938
2004, As revised, EURm								
Profit and loss information								
Net sales to external customers	18 443	3 653	815	6 431	29 342	29		29 371
Net sales to other segments	78	23	24	–	125	–29	–96	–
Depreciation and amortization	306	77	23	314	720	148		868
Impairment and customer finance charges	–	–	–	115	115	11		126
Operating profit/loss	3 786	175	–210	884	4 635	–309		4 326
Share of results of associated companies	–	–	–	–	–	–26		–26
Balance sheet information								
Capital expenditures [1]	279	67	18	91	455	93		548
Segment assets [2]	3 758	787	210	3 055	7 810	1 142	–12	8 940
of which:								
Investments in associated companies	–	–	–	–	–	200		200
Unallocated assets [3]								13 729
Total assets								22 669
Segment liabilities [4]	4 114	934	271	1 574	6 893	170	–12	7 051
Unallocated liabilities [5]								1 219
Total liabilities								8 270
2003, As revised, EURm								
Profit and loss information								
Net sales to external customers	20 851	2 523	513	5 635	29 522	11		29 533
Net sales to other segments	125	8	27	–	160	–11	–149	–
Depreciation and amortization	378	55	10	520	963	175		1 138
Impairment and customer finance charges	–	–	–	200	200	40		240
Operating profit/loss	5 893	–196	–143	–216	5 338	–378		4 960
Share of results of associated companies	–	–	–	–	–	–18		–18

1 Including goodwill and capitalized development costs, capital expenditures in 2005 amount to EUR 760 million (EUR 649 million in 2004). The goodwill and capitalized development costs consist of EUR 31 million in 2005 (EUR 11 million in 2004) for Mobile Phones, EUR 16 million in 2005 (EUR 3 million in 2004) for Multimedia, EUR 5 million in 2005 (EUR 1 million in 2004) for Enterprise Solutions, EUR 93 million in 2005 (EUR 83 million in 2004) for Networks and EUR 8 million in 2005 (EUR 3 million in 2004) for Common Group Functions.

2 Comprises intangible assets, property, plant and equipment, investments, inventories and accounts receivable as well as prepaid expenses and accrued income except those related to interest and taxes.

3 Unallocated assets include cash and other liquid assets, available-for-sale investments, long-term loans receivable and other financial assets as well as interest and tax related prepaid expenses and accrued income. Tax related prepaid expenses and accrued income, and deferred tax assets amount to EUR 1 127 million in 2005 (EUR 826 million in 2004).

4 Comprises accounts payable, accrued expenses and provisions except those related to interest and taxes.

5 Unallocated liabilities include non-current liabilities and short-term borrowings as well as interest and tax related prepaid income, accrued expenses and provisions. Tax related prepaid income and accrued expenses, and deferred tax liabilities amount to EUR 433 million in 2005 (EUR 246 million in 2004).

Net sales to external customers by geographic area by location of customer	2005 EURm	2004 As revised EURm	2003 As revised EURm
Finland	**331**	351	347
China	**3 403**	2 678	2 023
USA	**2 743**	3 430	4 488
Great Britain	**2 405**	2 269	2 711
India	**2 022**	1 369	1 064
Germany	**1 982**	1 730	2 297
Other	**21 305**	17 544	16 603
Total	**34 191**	29 371	29 533

Segment assets by geographic area	2005 EURm	2004 EURm
Finland	**3 619**	3 429
China	**1 120**	880
USA	**1 437**	1 025
Great Britain	**437**	502
India	**416**	225
Germany	**390**	353
Other	**3 031**	2 526
Total	**10 450**	8 940

Capital expenditures by market area	2005 EURm	2004 EURm	2003 EURm
Finland	**259**	216	160
China	**93**	57	53
USA	**74**	80	49
Great Britain	**12**	5	9
India	**31**	3	2
Germany	**26**	20	17
Other	**112**	167	142
Total [1]	**607**	548	432

1 Including goodwill and capitalized development costs, capital expenditures amount to EUR 760 million in 2005 (EUR 649 million in 2004 and EUR 670 million in 2003). The goodwill and capitalized development costs in 2005 consist of EUR 0 million in USA (EUR 0 million in USA in 2004 and EUR 20 million in USA in 2003) and EUR 153 million in other areas (EUR 101 million in 2004 and EUR 218 million in 2003).

4. Percentage of completion

Contract sales recognized under the cost-to-cost method of percentage of completion accounting were EUR 5 520 million in 2005 (EUR 5 197 million in 2004 and EUR 4 807 million in 2003). Billings in advance of contract revenues, included in prepaid income under accrued expenses, were EUR 148 million at December 31, 2005 (EUR 185 million in 2004 and EUR 195 million in 2003). Contract revenues recorded prior to billings, included in accounts receivable, were EUR 0 million at December 31, 2005 (EUR 80 million in 2004 and EUR 665 million in 2003).

5. Personnel expenses

EURm	2005	2004 As revised	2003 As revised
Wages and salaries	**3 127**	2 805	2 501
Share-based compensation expense, total	**104**	62	41
Pension expenses, net	**252**	253	184
Other social expenses	**394**	372	341
Personnel expenses as per profit and loss account	**3 877**	3 492	3 067

Share-based compensation expense includes pension and other social costs of EUR 9 million in 2005 (EUR 2 million in 2004 and EUR 0 million in 2003) based upon the related employee benefit charge recognized during the year.

The net of tax share-based compensation expense amounted to EUR 82 million in 2005 (EUR 60 million in 2004 and EUR 41 million in 2003).

Pension expenses, comprised of multi-employer, insured and defined contribution plans were EUR 206 million in 2005 (EUR 192 million in 2004 and EUR 146 million in 2003).

Average personnel	2005 EURm	2004 EURm	2003 EURm
Mobile Phones	**2 647**	2 853	
Multimedia	**2 750**	2 851	
Enterprise Solutions	**2 185**	2 167	
Networks	**17 676**	15 463	
Common Group Functions	**31 638**	30 177	
Nokia Group	**56 896**	53 511	51 605

6. Pensions

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

Effective on January 1, 2005, the Finnish TEL system was reformed. The most significant change that has an impact on the Group's future financial statements is that pensions accumulated after 2005 are calculated on the earnings during the entire working career, not only on the basis of the last few years of employment as provided by the old rules. An increase to the rate at which pensions accrue led to a past service cost of EUR 5 million in 2004, which will be recognized over employees' future working life.

As a result of the changes in the TEL system, which increased the Group's obligation in respect of ex-employees and reduced the obligation in respect of recent recruits, a change in the liability has been recognised to cover future disability pensions. In 2005, to compensate the Group for the additional liability in respect of ex-employees assets of EUR 24 million were transferred from the pooled part of the pension system to cover future disability pensions inside Nokia Pension Foundation. As this transfer of assets is effectively a reduction of the obligation to the pooled premium, it has been accounted for as a credit to the profit and loss account during 2005.

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

	2005		2004	
EURm	Domestic plans	Foreign plans	Domestic plans	Foreign plans
Fair value of plan assets	904	372	768	303
Present value of obligations	−890	−495	−727	−398
Surplus/(Deficit)	14	−123	41	−95
Unrecognized net actuarial losses	128	105	93	82
Unrecognized past service cost	3	–	5	–
Prepaid/(Accrued) pension cost in balance sheet	145	−18	139	−13

Present value of obligations include EUR 35 million (EUR 36 million in 2004) of unfunded obligations.

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

EURm	2005	2004	2003
Current service cost	69	62	54
Interest cost	58	56	46
Expected return on plan assets	−64	−56	−55
Net actuarial losses recognized in year	9	–	3
Past service cost gain (−) loss (+)	1	−1	–
Transfer from central pool	−24	–	–
Curtailment	−3	–	−10
Total, included in personnel expenses	46	61	38

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

EURm	2005	2004
Prepaid pension costs at beginning of year	126	79
Net income (expense) recognized in the profit and loss account	−46	−61
Contributions paid	46	108
Foreign exchange	1	–
Prepaid pension costs at end of year	127 *	126 *

* Included within prepaid expenses and accrued income.

The principal actuarial weighted average assumptions used were as follows:

	2005		2004	
%	Domestic	Foreign	Domestic	Foreign
Discount rate for determining present values	4.20	4.55	4.75	5.00
Expected long-term rate of return on plan assets	4.44	5.49	5.00	5.31
Annual rate of increase in future compensation levels	3.50	3.91	3.50	3.82
Pension increases	2.00	2.55	2.00	2.38

The prepaid pension cost above is made up of a prepayment of EUR 207 million (EUR 202 million in 2004) and an accrual of EUR 80 million (EUR 76 million in 2004).

The domestic pension plans' assets include Nokia securities with fair values of EUR 6 million in 2005 (EUR 4 million in 2004).

The foreign pension plan assets include a self investment through a loan provided to Nokia by the Group's German pension fund of EUR 62 million (EUR 62 million in 2004). See Note 34.

The actual return on plan assets was EUR 147 million in 2005 (EUR 83 million in 2004).

7. Advertising and promotional expenses

The Group expenses advertising and promotion costs as incurred. Advertising and promotional expenses were EUR 1 481 million in 2005 (EUR 1 144 million in 2004 and EUR 1 414 million in 2003).

8. Other operating income and expenses

Other operating income for 2005 includes a gain of EUR 61 million relating to the divestiture of the Group's Tetra business, a EUR 18 million gain related to the partial sale of a minority investment (see Note 16) and a EUR 45 million gain related to qualifying sales and leaseback transactions for real estate. In 2005, Enterprise Solutions recorded a charge of EUR 29 million for personnel expenses and other costs in connection with a restructuring taken in light of general downturn in market conditions, which were fully paid during 2005.

Other operating income for 2004 includes a gain of EUR 160 million representing the premium return under a multi-line, multi-year insurance program, which expired during 2004. The return was due to our low claims experience during the policy period.

Other operating income for 2003 includes a gain of EUR 56 million on the sale of the remaining shares of Nokian Tyres Ltd. In 2003, Networks recorded a charge of EUR 80 million for personnel expenses and other costs in connection with the restructuring taken in light of general downturn in market conditions, of which EUR 15 million was paid during 2003.

9. Impairment

2005, EURm	Mobile Phones	Multimedia	Enterprise Solutions	Networks	Common Group Functions	Group
Impairment of available-for-sale investments	–	–	–	–	30	30
Total, net	–	–	–	–	30	30
2004, EURm						
Impairment of available-for-sale investments	–	–	–	–	11	11
Impairment of capitalized development costs	–	–	–	115	–	115
Total, net	–	–	–	115	11	126
2003, EURm						
Customer finance impairment charges, net of reversals	–	–	–	−226	–	−226
Impairment of goodwill	–	–	–	151	–	151
Impairment of available-for-sale investments	–	–	–	–	27	27
Impairment of capitalized development costs	–	–	–	275	–	275
Total, net	–	–	–	200	27	227

During 2004, the Group recorded an impairment charge of EUR 65 million of capitalized development costs due to the abandonment of FlexiGateway and Horizontal Technology modules. In addition, an impairment charge of EUR 50 million was recorded on WCDMA radio access network program due to changes in market outlook. The impairment loss was determined as the difference between the carrying amount of the asset and its recoverable amount. The recoverable amount for WCDMA radio access network was derived from the discounted cash flow projections, which cover the estimated life of the WCDMA radio access network current technology, using a discount rate of 15%. The impaired technologies were part of Networks business group.

Relating to restructuring at Networks, the Group recorded a EUR 206 million impairment of capitalized development costs in 2003 relating to the WCDMA 3G systems. In 2003, Nokia also recorded a EUR 26 million and EUR 43 million impairment of capitalized development costs relating to FlexiGateway and Metrosite systems, respectively. The impairment losses were determined as the difference between the carrying amount of the asset and its recoverable amount. In determining the recoverable amount, the Group calculated the present value of estimated discounted future cash flows, using a 15% discount rate for WCDMA and FlexiGateway and 12% discount rate for Metrosite, expected to arise from the continuing use of the asset and from its disposal at the end of its useful life.

The impairment charge recorded in 2002 relating to Mobilcom was substantially reversed in 2003 by EUR 226 million as a result of the company receiving repayment of the Mobilcom loans receivables in the form of subordinated convertible perpetual bonds of France Telecom. See Notes 12, 17 and 22.

The Group has evaluated the carrying value of goodwill arising from certain acquisitions by determining if the carrying values of the net assets of the cash generating unit to which the goodwill belongs exceeds the recoverable amounts of that unit. In 2003, in the Networks business, the Group recorded an impairment charge of EUR 151 million on goodwill related to the acquisition of Amber Networks. The recoverable amount for Amber Networks was derived from the value in use discounted cash flow projections, which cover the estimated life of the Amber platform technology, using a discount rate of 15%. The impairment was a result of significant declines in the market outlook for products under development.

During 2005 the Group's investment in certain equity securities suffered a permanent decline in fair value resulting in an impairment charge of EUR 30 million relating to non-current available-for-sale investments (EUR 11 million in 2004 and EUR 27 million in 2003).

10. Acquisitions

In 2003, the Group made three minor purchase acquisitions for a total consideration of EUR 38 million, of which EUR 20 million was in cash and EUR 18 million in non-cash consideration.

11. Depreciation and amortization

Depreciation and amortization by function

EURm	2005	2004	2003
Cost of sales	242	196	214
Research and development	349	431	537
Selling and marketing	9	14	23
Administrative and general	99	123	162
Other operating expenses	13	8	43
Amortization of goodwill	–	96	159
Total	712	868	1 138

12. Financial income and expenses

EURm	2005	2004	2003
Income from available-for-sale investments			
Dividend income	1	22	24
Interest income	295	299	323
Other financial income	77	178	38
Foreign exchange gains and losses	–11	8	32
Interest expense	–18	–22	–25
Other financial expenses	–22	–80	–40
Total	322	405	352

During 2005, Nokia sold the remaining holdings in the subordinated convertible perpetual bonds issued by France Telecom. As a result, the Group booked a total net gain of EUR 57 million (EUR 106 million in 2004) in other financial income, of which EUR 53 million (EUR 104 million in 2004) was recycled from Fair Value and Other Reserves. See Notes 17 and 22.

13. Income taxes

EURm	2005	2004 As revised	2003 As revised
Income tax expense			
Current tax	–1 262	–1 403	–1 684
Deferred tax	–19	–43	–13
Total	–1 281	–1 446	–1 697
Finland	–759	–1 128	–1 114
Other countries	–522	–318	–583
Total	–1 281	–1 446	–1 697

The differences between income tax expense computed at statutory rates (in Finland 26% in 2005 and 29% in 2004 and 2003) and income taxes recognised in the consolidated income statement is reconciled as follows at December 31:

EURm	2005	2004 As revised	2003 As revised
Income tax expense at statutory rate	1 295	1 372	1 555
Amortization of goodwill	–	28	46
Impairment of goodwill	–	–	58
Provisions without income tax benefit/expense	11	–	–
Taxes for prior years	1	–34	56
Taxes on foreign subsidiaries' profits in excess of (lower than) income taxes at statutory rates	–30	–130	–77
Operating losses with no current tax benefit	–	–	8
Net increase in provisions	22	67	14
Change in deferred tax rate	–	26	–
Deferred tax liability on undistributed earnings	8	60	–
Adoption of IAS 39(R) and IFRS 2	–	11	–2
Other	–26	46	39
Income tax expense	1 281	1 446	1 697

At December 31, 2005, the Group had loss carry forwards, primarily attributable to foreign subsidiaries of EUR 92 million (EUR 105 million in 2004 and EUR 186 million in 2003), most of which will expire between 2006 and 2023.

In the beginning of 2005, the corporate tax rate in Finland was reduced from 29% to 26%. The impact of the change on the Profit and loss account through change in deferred taxes in 2004 was EUR 26 million. In 2005, there was no impact on the Profit and loss account through a change in deferred tax.

Income taxes include a tax benefit from a tax refund from previous years of EUR 48 million in 2005.

Certain of the Group companies' income tax returns for periods ranging from 1998 through 2004 are under examination by tax authorities. The Group does not believe that any significant additional taxes in excess of those already provided for will arise as a result of the examinations.

During 2004, the Group analyzed its future foreign investment plans with respect to certain foreign investments. As a result of this analysis, the Group concluded that it could no longer represent that all foreign earnings may be permanently reinvested. Accordingly, the Group recorded the recognition of a EUR 60 million deferred tax liability in 2004. In 2005, the deferred tax liability was EUR 68 million.

14. Intangible assets

EURm	2005	2004
Capitalized development costs		
Acquisition cost January 1	1 322	1 336
Translation differences	–	–
Additions during the period	153	101
Disposals during the period	–30	–115
Accumulated acquisition cost December 31	1 445	1 322
Accumulated depreciation January 1	–1 044	-799
Translation differences	–	–
Disposals during the period	30	–
Depreciation for the period	–171	–245
Accumulated depreciation December 31	–1 185	–1 044
Net book value January 1	278	537
Net book value December 31	260	278
Goodwill		
Acquisition cost January 1	1 298	1 298
Transfer of accumulated depreciation	–1 208	–
Translation differences	–	–
Additions during the period	–	–
Disposals during the period	–	–
Accumulated acquisition cost December 31	90	1 298
Accumulated depreciation January 1	–1 208	–1 112
Transfer of accumulated depreciation	1 208	–
Translation differences	–	–
Disposals during the period	–	–
Depreciation for the period	–	–96
Accumulated depreciation December 31	–	–1 208
Net book value January 1	90	186
Net book value December 31	90	90
Other intangible assets		
Acquisition cost January 1	631	548
Translation differences	3	4
Additions during the period	59	86
Disposals during the period	–17	–7
Accumulated acquisition cost December 31	676	631
Accumulated depreciation January 1	–422	–363
Translation differences	7	2
Disposals during the period	14	7
Depreciation for the period	–64	–68
Accumulated depreciation December 31	–465	–422
Net book value January 1	209	185
Net book value December 31	211	209

15. Property, plant and equipment

EURm	2005	2004
Land and water areas		
Acquisition cost January 1	104	108
Translation differences	1	–
Additions during the period	5	1
Disposals during the period	–28	–5
Accumulated acquisition cost December 31	82	104
Net book value January 1	104	108
Net book value December 31	82	104
Buildings and constructions		
Acquisition cost January 1	910	887
Translation differences	16	–5
Additions during the period	29	38
Disposals during the period	–90	–10
Accumulated acquisition cost December 31	865	910
Accumulated depreciation January 1	–220	–196
Translation differences	–1	2
Disposals during the period	12	6
Depreciation for the period	–35	–32
Accumulated depreciation December 31	–244	–220
Net book value January 1	690	691
Net book value December 31	621	690
Machinery and equipment		
Acquisition cost January 1	3 340	3 223
Translation differences	149	-44
Additions during the period	470	438
Disposals during the period	–224	–277
Accumulated acquisition cost December 31	3 735	3 340
Accumulated depreciation January 1	–2 650	–2 521
Translation differences	–111	31
Disposals during the period	217	266
Depreciation for the period	–440	–426
Accumulated depreciation December 31	–2 984	–2 650
Net book value January 1	690	702
Net book value December 31	751	690
Other tangible assets		
Acquisition cost January 1	21	18
Translation differences	1	2
Additions during the period	1	1
Disposals during the period	–6	–
Accumulated acquisition cost December 31	17	21
Accumulated depreciation January 1	–11	–6
Translation differences	1	–3
Disposals during the period	6	–
Depreciation for the period	–2	–2
Accumulated depreciation December 31	–6	–11
Net book value January 1	10	12
Net book value December 31	11	10
Advance payments and fixed assets under construction		
Net carrying amount January 1	40	53
Additions	105	25
Disposals	–	–
Transfers to:		
Other intangible assets	–3	–1
Buildings and constructions	–4	–8
Machinery and equipment	–20	–30
Translation differences	2	1
Net carrying amount December 31	120	40
Total property, plant and equipment	**1 585**	1 534

16. Investments in associated companies

EURm	2005	2004
Net carrying amount January 1	200	76
Additions	12	150
Deductions	–17	–
Share of results	10	–26
Translation differences	8	1
Other movements	–20	–1
Net carrying amount December 31	193	200

In 2005, the Group disposed part of its 36.2% minority holding in Aircom Ltd. resulting to a holding of 10%. The gain on the sale recorded in other operating income was EUR 18 million. The Group's remaining 10% holding in Aircom shares is recorded as a non-current available-for-sale investment.

In 2004, the Group increased its ownership in Symbian from 32.2% to 47.9% by acquiring part of the shares of Symbian owned by Psion for EUR 102 million (GBP 70 million). EUR 68 million (GBP 47 million) of the total acquisition cost was paid in cash and the remaining purchase price is considered as contingent consideration to be paid in 2005 and 2006. The Group also participated in a rights issue to raise EUR 73 million (GBP 50 million) additional funding to Symbian. The issue was pro rata to existing shareholders.

Shareholdings in associated companies are comprised of investments in unlisted companies in all periods presented.

17. Available-for-sale investments

EURm	2005	2004
Fair value at January 1	10 876	11 088
Deductions, net	–2 227	–221
Fair value gains (losses)	–28	20
Impairment charges (Note 9)	–30	–11
Fair value at December 31	8 591	10 876
Non-current	246	169
Current	–	255
Current, liquid assets	6 852	9 085
Current, cash equivalents	1 493	1 367

Available-for-sale investments, comprising marketable debt and equity securities and investments in unlisted equity shares, are fair valued, except in the case of certain unlisted equities, where the fair value cannot be measured reliably. Such unlisted equities are carried at cost, less impairment (EUR 82 million in 2005 and EUR 54 million in 2004). Fair value for equity investments traded in active markets and for unlisted equities, where the fair value can be measured reliably, was EUR 165 million in 2005 and EUR 115 million in 2004. Fair value for equity investments traded in active markets is determined by using exchange quoted bid prices. For other investments, fair value is estimated by using the current market value of similar instruments or by reference to the discounted cash flows of the underlying net assets. Gains and losses arising from the change in the fair value of available-for-sale investments are recognized directly in Fair value and Other Reserves.

Available-for-sale investments comprise: (1) highly liquid, interest-bearing investments with maturities at acquisition of longer than 3 months, which are regarded as current available-for-sale investments, liquid assets, (2) similar types of investments as in category (1), but with maturities at acquisition of less than 3 months, which are regarded as current available-for-sale investments, cash equivalents. The remaining part of the available-for-sale investments portfolio is classified as non-current. See Note 38 for details of these investments.

18. Long-term loans receivable

Long-term loans receivable, consisting of loans made to suppliers and to customers principally to support their financing of network infrastructure and services or working capital, net of allowances and write-offs amounts (Note 9), are repayable as follows:

EURm	2005	2004
Under 1 year	56	–
Between 1 and 2 years	–	–
Between 2 and 5 years	7	–
Over 5 years	–	–
	63	–

19. Inventories

EURm	2005	2004
Raw materials, supplies and other	361	326
Work in progress	685	477
Finished goods	622	502
Total	1 668	1 305

20. Receivables and prepaids

Accounts receivable include EUR 166 million (EUR 118 million in 2004) due more than 12 months after the balance sheet date.

Prepaid expenses and accrued income consists of VAT and other tax receivables, prepaid pension costs, accrued interest income and other accrued income, but no amounts which are individually significant.

21. Valuation and qualifying accounts

Allowances on assets to which they apply:	Balance at beginning of year EURm	Charged to cost and expenses EURm	Deductions [1] EURm	Balance at end of year EURm
2005				
Allowance for doubtful accounts	361	80	–160	281
Excess and obsolete inventory	172	376	–249	299
2004				
Allowance for doubtful accounts	367	155	–161	361
Excess and obsolete inventory	188	308	–324	172
2003				
Allowance for doubtful accounts	300	228	–161	367
Excess and obsolete inventory	290	229	–331	188

1 Deductions include utilization and releases of the allowances.

22. Fair value and other reserves

	Hedging reserve, EURm			Available-for-sale investments, EURm			Total, EURm		
	Gross	Tax	Net	Gross	Tax	Net	Gross	Tax	Net
Balance at December 31, 2002, As revised	2	0	2	–13	–16	–29	–11	–16	–27
Cash flow hedges (revised):									
Fair value gains/losses in period	12	–2	10	–	–	–	12	–2	10
Available-for-sale investments:									
Net fair value gains/losses	–	–	–	110	–12	98	110	–12	98
Transfer to profit and loss account on impairment	–	–	–	27	–	27	27	–	27
Transfer of fair value gains to profit and loss account on disposal	–	–	–	–84	20	–64	–84	20	–64
Transfer of fair value losses to profit and loss account on disposal	–	–	–	43	–6	37	43	–6	37
Balance at December 31, 2003, As revised	14	–2	12	83	–14	69	97	–16	80
Cash flow hedges (revised):									
Fair value gains/losses in period	–	–1	–1	–	–	–	–	–1	–1
Available-for-sale investments:									
Net fair value gains/losses	–	–	–	18	–1	17	18	–1	17
Transfer to profit and loss account on impairment	–	–	–	11	–	11	11	–	11
Transfer of fair value gains to profit and loss account on disposal	–	–	–	–105	10	–95	–105	10	–95
Transfer of fair value losses to profit and loss account on disposal	–	–	–	–	–	–	–	–	–
Balance at December 31, 2004, As revised	14	–3	11	7	–5	2	21	–8	13
Cash flow hedges:									
Fair value gains/losses in period	–177	45	–132	–	–	–	–177	45	–132
Available-for-sale investments:									
Net fair value gains/losses	–	–	–	–69	6	–63	–69	6	–63
Transfer to profit and loss account on impairment	–	–	–	9	–	9	9	–	9
Transfer of fair value gains to profit and loss account on disposal	–	–	–	–5	–	–5	–5	–	–5
Transfer of fair value losses to profit and loss account on disposal	–	–	–	2	–	2	2	–	2
Balance at December 31, 2005	–163	42	–121	–56	1	–55	–219	43	–176

Following the changes in IFRS on hedge accounting rules IAS 39(R) effective from January 1, 2005, the Group has revised its method of hedging foreign exchange risks to ensure hedge accounting treatment under the new rules. As IAS 39(R) changes are retrospective for the Group as an existing IFRS user, the reserves of cash flow hedges recorded in equity at the end of 2003 and 2004, that would not qualify for hedge accounting under IAS 39(R), are reclassified to profit and loss account, which impacts on the closing balances of cash flow hedge reserves. The retrospective implementation of this change increased 2004 and 2003 net sales by EUR 104 million and EUR 78 million, respectively, and increased 2004 operating profit by EUR 58 million and decreased 2003 operating profit by EUR 10 million. More information on the adoption of IAS 39(R) is available in Note 1 and Note 2.

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

The Group continuously reviews the underlying cash flows and the hedges allocated thereto, to ensure that the amounts transferred to the Hedging Reserve during the year ended December 31, 2005 and 2004 do not include gains/losses on forward exchange contracts that have been designated to hedge forecasted sales or purchases that are no longer expected to occur. Because of the number of transactions undertaken during each period and the process used to calculate the reserve balance, separate disclosure of the transfers of gains and losses to and from the reserve would be impractical.

All of the net fair value gains or losses recorded in the Fair value and other reserve at December 31, 2005 on open forward foreign exchange contracts which hedge anticipated future foreign currency sales or purchases are transferred from the Hedging Reserve to the profit and loss account when the forecasted foreign currency cash flows occur, at various dates up to 1 year from the balance sheet date.

23. The shares of the Parent Company

See Note 15 to the financial statements of the Parent Company.

24. Share-based payment

The Group has several equity based incentive programs for employees, in which management also participates. The programs include performance share plans, stock option plans and restricted share plans.

The equity-based incentive grants are generally forfeited, if the employment relationship with the Group terminates, and they are conditional upon the fulfillment of the performance and such other conditions, as determined in the relevant plan rules.

Stock options

The Group's outstanding stock option plans currently include the so called "Global plans" launched in 2001, 2003 and 2005. These plans have been approved by the Annual General Meeting in the year of the launch of the plan.

Under these plans, each stock option entitles the holder to subscribe for one new Nokia share with a par value of EUR 0.06 each. In the 2001 stock option plan the stock options are transferable and the stock options under the 2003 and 2005 plans are non-transferable by the participants. All of the stock options have a quarterly staggered vesting schedule, as specified in the table below. The exercise prices are determined at the time of the grant, on a quarterly basis equalling the trade volume weighted average price of the Nokia share on the Helsinki Stock Exchange during the trading days of the first whole week of the second month (i.e. February, May, August or November) of the respective calendar quarter, when the sub-category of the stock option is denominated.

The exercises based on the stock options issued under the 2001, 2003 and 2005 stock option plans are settled with newly issued shares which will entitle the holder to a dividend for the financial year in which the subscription occurs. Other shareholder rights commence on the date on which the shares subscribed for are registered with the Finnish Trade Register.

Pursuant to the stock options issued, an aggregate maximum number of 144 495 187 new shares were authorized for subscription representing EUR 8 669 711 of the share capital and approximately 3% of the total number of votes on December 31, 2005. During 2005 the exercise of 125 240 options resulted in the issuance of 125 240 new shares and an increase of the share capital of the Group by EUR 7 514.40.

There were no other stock options or convertible bonds outstanding as of December 31, 2005, which upon exercise would result in an increase of the share capital of the parent company.

Outstanding stock option plans of the Group, December 31, 2005

Plan (Year of launch)	Total plan size	Number of participants (approx.)	Option (Sub)category	Vesting status (as percentage of total number of stock options outstanding)	Exercise period: First vest date	Exercise period: Last vest date	Exercise period: Expiry date	Exercise price/ share EUR
2001 [1, 2]			2001A+B	100.00	July 1, 2002	July 1, 2005	December 31, 2006	36.75
			2001C3Q/01	100.00	October 1, 2002	October 3, 2005	December 31, 2006	20.61
			2001C4Q/01	93.75	January 1, 2003	January 2, 2006	December 31, 2006	26.67
			2001C1Q/02	87.50	April 1, 2003	April 3, 2006	December 31, 2007	26.06
			2001C3Q/02	75.00	October 1, 2003	October 2, 2006	December 31, 2007	12.99
			2001C4Q/02	68.75	January 1, 2004	January 2, 2007	December 31, 2007	16.86
			2002A+B	81.25	July 1, 2003	July 3, 2006	December 31, 2007	17.89
	102 869 000	30 000						
2003 [2]			2003 2Q	56.25	July 1, 2004	July 2, 2007	December 31, 2008	14.95
			2003 3Q	50.00	October 1, 2004	October 1, 2007	December 31, 2008	12.71
			2003 4Q	43.75	January 3, 2005	January 2, 2008	December 31, 2008	15.05
			2004 2Q	31.25	July 1, 2005	July 1, 2008	December 31, 2009	11.79
			2004 3Q	25.00	October 3, 2005	October 1, 2008	December 31, 2009	9.44
			2004 4Q	0.00	January 2, 2006	January 2, 2009	December 31, 2009	12.35
	33 452 000	20 000						
2005 [2]			2005 2Q	0.00	July 3, 2006	July 1, 2009	December 31, 2010	12.79
			2005 3Q	0.00	October 2, 2006	October 1, 2009	December 31, 2010	13.09
			2005 4Q	0.00	January 2, 2007	January 1, 2010	December 31, 2010	14.48
	8 174 000	4 000						

1 The stock options under the 2001 plan are listed on the Helsinki Stock Exchange.

2 The Group's current stock option plans (the so called "Global plans") have a vesting schedule with a 25% vesting 1 year after grant, and quarterly vesting thereafter, each representing 6.25% of the total grant. The grants vest fully in 4 years.

Other employee stock option plans

In addition to the plans discussed above, the Group has minor stock option plans for the Group's employees in the U.S. and Canada which do not result in an increase of the share capital of the Group and in which holders receive Nokia ADSs. The plans are settled with Nokia's existing shares, which are converted into ADS's. On the basis of these stock option plans the Group had 1.2 million stock options outstanding on December 31, 2005. Each stock option entitles the holder to receive the same amount of Nokia ADSs. The average exercise price of stock options under these plans is USD 25.36. These stock options are included in the table below. Treasury shares are acquired by the Group to meet its obligations under employee stock compensation plans in the U.S. and Canada. When treasury shares are issued on exercise of stock options any gain or loss is recognized in share issue premium.

Total stock options outstanding

	Number of shares	Weighted average exercise price, EUR	Weighted average share price, EUR	Aggregate intrinsic value, EURm
Shares under option at December 31, 2002	**221 443 235**	**28.81**		**106**
Granted [1]	31 098 505	14.94		
Exercised	7 700 791	3.97	12.57	
Forfeited	5 847 332	25.23		
Shares under option at December 31, 2003	**238 993 617**	**27.90**		**105**
Granted	7 172 424	11.88		
Exercised	781 338	8.33	12.49	
Forfeited	4 733 995	19.55		
Expired	97 693 392	33.99		
Shares under option at December 31, 2004	**142 957 316**	**23.29**		**4**
Granted	8 552 160	12.82		
Exercised	724 796	10.94	13.42	
Forfeited	5 052 794	17.86		
Shares under option at December 31, 2005	**145 731 886**	**22.97**		**61**
Options exercisable at December 31, 2003 (shares)	148 150 370	31.88		18
Options exercisable at December 31, 2004 (shares)	83 667 122	26.18		12
Options exercisable at December 31, 2005 (shares)	**112 095 407**	**25.33**		**17**

1 Includes options converted in acquisitions.

The weighted average grant date fair value per option granted was EUR 2.45 in 2005, EUR 2.59 in 2004 and EUR 3.48 in 2003.

The total intrinsic value of options exercised was EUR 2 million in 2005, EUR 3 million in 2004 and EUR 66 million in 2003.

The options outstanding by range of exercise price at December 31, 2005 are as follows:

	Options outstanding			Vested options outstanding		
Exercise prices, EUR	**Number of shares**	**Weighted average remaining contractual life in years**	**Weighted average exercise price, EUR**	**Number of shares**	**Weighted remaining contractual life in years**	**Weighted average exercise price, EUR**
0.56 – 14.48	15 404 732	2.89	12.24	2 631 467	1.81	11.13
14.95 – 17.72	27 034 385	1.23	14.96	15 136 134	0.59	14.96
17.89	44 820 871	0.60	17.89	37 025 490	0.50	17.89
18.63 – 36.49	19 557 612	0.38	26.65	18 388 030	0.38	26.65
36.75 – 47.14	38 914 286	0.40	36.77	38 914 286	0.40	36.77
	145 731 886			112 095 407		

Nokia calculates the fair value of options using the Black Scholes model. The fair value of the stock options is estimated on the date of grants using the following assumptions:

	2005	2004	2003
Dividend yield	2.50%	2.44%	2.05%
Weighted average expected volatility	25.92%	33.00%	35.00%
Risk-free interest rate	2.16–3.09%	2.24–4.22%	2.20–3.70%
Weighted average risk-free interest rate	2.60%	3.07%	2.80%
Expected life (years)	3.59	3.20	3.60
Weighted average share price	13.20	11.84	14.53

Expected term of share options is estimated by observing general option holder behaviour and actual historical terms of Nokia stock option programs.

The assumption of the expected volatility has been set by reference to the implied volatility of options available on Nokia shares in the open market and in light of historical patterns of volatility.

Performance shares

The Group has granted performance shares under the 2004 and 2005 performance share plans, which have been approved by the Board of Directors. A valid authorization from the Annual General Meeting is required, when the plans are settled using the Company's newly issued shares or disposal of existing treasury shares. The Group may also settle the plans using shares purchased on the open market or in lieu of shares cash settlement. The Group introduced performance shares in 2004 as the main element to broad-based equity compensation program, to further emphasize the performance element in employees' long-term incentives. The performance shares represent a commitment by the Company to deliver Nokia shares to employees at a future point in time, subject to the company's fulfillment of pre-defined performance criteria. No performance shares will vest unless the Company's performance reaches at least one of the threshold levels measured by two independent, pre-defined performance criteria. For performance between the threshold and maximum performance levels the settlement follows a linear scale. Performance exceeding the maximum criteria does not increase the number of shares vesting. The maximum number of performance shares (Maximum Number) equals four times the number originally granted (Threshold Number). The criteria are calculated based on the Group's Average Annual Net Sales Growth and Earnings per Share ("EPS") Growth (basic) for the four year performance period of the plan. For the 2004 plan the performance period consists of the fiscal years 2004 through 2007 and for the 2005 plan the years 2005 through 2008.

For both the 2004 and 2005 plans, if either of the required performance levels are achieved, the first settlement will take place after two years' interim measurement period and is limited to a maximum vesting equal to the Threshold Number. The second and final settlement, if any, will be after the close of the four year performance period. Any settlement made after the Interim Measurement Period, will be deducted from the final settlement after the full Performance Period.

The following tables give certain information about our 2004 and 2005 performance share plans.

Plan name	Total Plan Size (Threshold Number)	Number of participants (approx.)	Interim Measurement Period	Performance Period	1st (Interim) Settlement	2nd (Final) Settlement
2004	3 685 063	11 000	2004–2005	2005–2008	2006	2009
2005	4 357 754	12 000	2005–2006	2006–2009	2007	2010

		Performance criterion [1]	2004 Plan	2005 Plan
Threshold Performance	EPS growth	Interim Measurement Period	0.80	0.75
		Performance Period	0.84	0.82
		Vesting (no. of shares) [2]	1.84 million	2.18 million
	Average Annual Net Sales Growth	Interim Measurement Period	4%	3%
		Performance Period	4%	3%
		Vesting (no. of shares) [2]	1.84 million	2.18 million
Maximum Performance	EPS growth	Interim Measurement Period	0.94	0.96
		Performance Period	1.18	1.33
		Vesting (no. of shares) [2]	7.37 million	8.72 million
	Average Annual Net Sales Growth	Interim Measurement Period	16%	12%
		Performance Period	16%	12%
		Vesting (no. of shares) [2]	7.37 million	8.72 million

1 Both the EPS and Average Annual Net Sales Growth criteria have an equal weight of 50%.

2 A performance share represents the grant at threshold. At maximum performance, the settlement amounts to 4 times the number of shares originally granted at threshold.

In accordance with the plan rules, prior to vesting, the Group will determine the method by which the shares are obtained for delivery, which may also include cash settlement. Until the shares are transferred and delivered, the recipients will not have any shareholder rights, such as voting or dividend rights associated with respect to the performance shares.

The table below gives certain information relating to the performance shares outstanding as at December 31, 2005.

	Number of performance shares at Threshold	Weighted average grant date fair value EUR [1]	Weighted average remaining contractual term (years)
Performance shares at January 1, 2005	**3 910 840**	**10.58**	**3.25**
Granted	4 469 219	11.86	3.74
Forfeited	337 242	10.74	3.88
Performance shares at December 31, 2005	**8 042 817**	**11.28**	**2.79**

1 The fair value of performance shares is estimated based on the grant date market price of the Company's share less expected dividends.

No performance shares vested during the year. Based on the performance of the Group during the Interim Measurement Period 2004–2005, under the 2004 Performance Share Plan, both performance criteria were met and as such 3.68 million shares equalling the threshold number are expected to vest in 2006. The shares will vest as of the date of the Annual General Meeting of the Group on March 30, 2006 and the settlement will take place as soon as practicable after vesting.

Restricted shares

Since 2003, the Group has granted restricted shares to recruit, retain, reward and motivate selected high potential employees, who are critical to the future success. The restricted share plans 2003, 2004 and 2005 have been approved by the Board of Directors. A valid authorization from the Annual General Meeting is required when the plans are settled using the Company's newly issued shares or disposal of existing own shares. The Group may also settle the plans using shares purchased on the open market. The number of participants in the restricted share plans is approximately 500. All of our restricted share grants have a restriction period of three years after grant, after which period the granted shares will vest. As soon as practicable after vesting, they will be transferred and delivered to the recipients. Until shares are transferred and delivered, the recipients will not have any shareholder rights, such as voting or dividend rights associated with these restricted shares.

The table below gives certain information relating to the Restricted Shares outstanding as at December 31, 2005.

	Number of Restricted Shares	Weighted average grant date fair value EUR [1]	Weighted average remaining contractual term (years)
Restricted Shares at January 1, 2005	**2 319 430**	**11.55**	**2.06**
Granted	3 016 746	12.14	2.76
Forfeited	150 500	14.31	0.74
Restricted Shares at December 31, 2005	**5 185 676**	**11.59**	**2.06**

1 The fair value of Restricted Shares is estimated based on the grant date market price of the Company's share less expected dividends.

No Restricted Shares vested during the year.

Other equity plans for employees

The Group also sponsors other immaterial equity plans for employees.

Total compensation cost related to unvested awards

As of December 31, 2005, there was EUR 287 million of total deferred compensation cost related to nonvested share-based compensation arrangements granted under the company's plans, including deferred compensation recorded related to other social costs. That cost is expected to be recognized over a weighted average period of 2.89 years. The total fair value of shares vested during the years ended December 31, 2005, 2004 and 2003 was EUR 150 million, EUR 242 million and EUR 300 million, respectively.

25. Distributable earnings

EURm	2005
Retained earnings	13 154
Translation differences (distributable earnings)	–176
Treasury shares	–3 616
Other non-distributable items	
Portion of untaxed reserves	91
Distributable earnings December 31	9 453

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

26. Long-term liabilities

Long-term loans are repayable as follows:

	Outstanding Dec. 31, 2005 EURm	Repayment date beyond 5 years EURm	Outstanding Dec. 31, 2004 EURm
Long-term interest-bearing liabilities	21	21	19
Other long-term liabilities	96	96	96
	117	117	115
Deferred tax liabilities	151		179
Total long-term liabilities	268		294

The long-term liabilities, excluding deferred tax liabilities as of December 31, 2005, mature as follows:

	EURm	Percent of total
2006	–	–
2007	–	–
2008	–	–
2009	–	–
2010	–	–
Thereafter	117	100.0%
	117	100.0%

The currency mix of the Group long-term liabilities as at December 31, 2005 was as follows:

EUR 96.00% USD 4.00%

27. Deferred taxes

EURm	2005	2004
Deferred tax assets:		
Intercompany profit in inventory	49	41
Tax losses carried forward	7	12
Warranty provision	107	118
Other provisions	170	174
Fair value gains/losses	43	–
Untaxed reserves	88	88
Other temporary differences	228	190
Total deferred tax assets	692	623
Deferred tax liabilities:		
Untaxed reserves	–24	–30
Fair value gains/losses	–	–28
Undistributed earnings	–68	–60
Other	–59	–61
Total deferred tax liabilities	–151	–179
Net deferred tax asset	541	444
The tax charged to shareholders' equity is as follows:		
Fair value and other reserves, fair value gains/losses	93	–7

In 2005, the corporate tax rate in Finland reduced from 29% to 26%. The decrease of tax rate had no impact in deferred taxes in 2005 (a reduction of EUR 26 million in net deferred tax assets in 2004).

During 2004, the Group analyzed the majority of its future foreign investment plans with respect to foreign investments. As a result of this analysis, the Group concluded that it could no longer represent that all foreign earnings may be permanently reinvested. Accordingly, the Group recorded the recognition of a EUR 68 million deferred tax liability during 2005 (EUR 60 million in 2004).

At December 31, 2005 the Group had loss carry forwards of EUR 71 million (EUR 67 million in 2004) for which no deferred tax asset was recognized due to uncertainty of utilization of these loss carry forwards. These loss carry forwards will expire in years 2006 through 2011.

28. Short-term borrowings

Short-term borrowings consist primarily of borrowings from banks denominated in different foreign currencies. The weighted average interest rate at December 31, 2005 and 2004 was 4.68% and 3.07%, respectively.

29. Accrued expenses

EURm	2005	2004 As revised
Social security, VAT and other taxes	790	448
Wages and salaries	326	209
Prepaid income	268	293
Other	1 936	1 654
Total	3 320	2 604

Other operating expense accruals include various amounts which are individually insignificant.

30. Provisions

EURm	Warranty	IPR infringements	Tax	Other	Total
At January 1, 2005, As revised	1 217	358	364	549	2 488
Exchange differences	22	–	–	–	22
Additional provisions	819	101	64	169	1 153
Change in fair value	–	–	–	3	3
Changes in estimates	–202	–41	–42	–39	–324
Charged to profit and loss account	617	60	22	133	832
Utilized during year	–675	–22	–	–166	–863
At December 31, 2005	**1 181**	**396**	**386**	**516**	**2 479**

EURm	2005	2004
Analysis of total provisions at December 31:		
Non-current	**788**	726
Current	**1 691**	1 762

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

Other provisions include provisions for non-cancelable purchase commitments, provision for pension and other social costs on share-based awards and provision for losses on projects in progress.

31. Earnings per share

	2005	2004 As revised	2003 As revised
Numerator/EURm			
Basic/Diluted:			
Profit attributable to equity holders of the parent	**3 616**	3 192	3 543
Denominator/1 000 shares			
Basic:			
Weighted average shares	**4 365 547**	4 593 196	4 761 121
Effect of dilutive securities:			
stock options, restricted shares and performance shares	**5 692**	7 141	40
Diluted:			
Adjusted weighted average shares and assumed conversions	**4 371 239**	4 600 337	4 761 160

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

32. Commitments and contingencies

EURm	2005	2004
Collateral for our own commitments		
Property under mortgages	18	18
Assets pledged	10	11
Contingent liabilities on behalf of Group companies		
Other guarantees	276	275
Contingent liabilities on behalf of other companies		
Guarantees for loans [1]	–	3
Other guarantees	2	2
Financing commitments		
Customer finance commitments [1]	13	56

1 See also Note 38 b.

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

Property under mortgages given as collateral for our own commitments include mortgages given to the Finnish National Board of Customs as a general indemnity of EUR 18 million in 2005 (EUR 18 million in 2004).

Assets pledged for the Group's own commitments include available-for-sale investments of EUR 10 million in 2005 (EUR 11 million of available-for-sale investments in 2004).

Other guarantees include guarantees of Nokia's performance of EUR 234 million in 2005 (EUR 223 million in 2004). However, EUR 182 million of these guarantees are provided to certain Networks' customers in the form of bank guarantees, standby letters of credit and other similar instruments. These instruments entitle the customer to claim payment as compensation for non-performance by Nokia of its obligations under network infrastructure supply agreements. Depending on the nature of the instrument, compensation is payable either immediately upon request, or subject to independent verification of nonperformance by Nokia.

Guarantees for loans on behalf of other companies of EUR 0 million in 2005 (EUR 3 million in 2004) represent guarantees relating to payment by certain Networks' customers under specified loan facilities between such customers and their creditors. Nokia's obligations under such guarantees are released upon the earlier of expiration of the guarantee or early payment by the customer.

Financing commitments of EUR 13 million in 2005 (EUR 56 million in 2004) are available under loan facilities negotiated with customers of Networks. Availability of the amounts is dependent upon the borrower's continuing compliance with stated financial and operational covenants and compliance with other administrative terms of the facility. The loan facilities are primarily available to fund capital expenditure relating to purchases of network infrastructure equipment and services and to fund working capital.

The Group has been named as defendant along with certain of its senior executives in a class action complaint in the United States relating to certain public statements about its product portfolio and related financial projections in early 2004. The Group does not believe that the claim has merit and intends to vigorously defend itself.

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

As of December 31, 2005, the Group had purchase commitments of EUR 1 919 million (EUR 1 236 million in 2004) relating to inventory purchase obligations, primarily for purchases in 2006.

33. Leasing contracts

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

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

		Operating leases
Leasing payments, EURm		
	2006	187
	2007	144
	2008	108
	2009	88
	2010	60
	Thereafter	77
	Total	664

Rental expense amounted to EUR 262 million in 2005 (EUR 236 million in 2004 and EUR 285 million in 2003).

34. Related party transactions

Nokia Pension Foundation is a separate legal entity that manages and holds in trust the assets for the Group's Finnish employee benefit plans; these assets include 0.009% of Nokia shares.

At December 31, 2005, the Group had borrowings amounting to EUR 62 million (EUR 62 million in 2004) from Nokia Unterstützungskasse GmbH, the Group's German pension fund, which is a separate legal entity.

The Group recorded net rental expense of EUR 2 million in 2005 (EUR 2 million in 2004 and EUR 2 million in 2003) pertaining to a sale-leaseback transaction with the Nokia Pension Foundation involving certain buildings and a lease of the underlying land.

There were no loans granted to the members of the Group Executive Board and Board of Directors at December 31, 2005 or 2004.

EURm	2005	2004	2003
Transactions with associated companies			
Share of results of associated companies	10	–26	–18
Dividend income	1	2	3
Share of shareholders' equity of associated companies	33	37	18
Liabilities to associated companies	14	3	3

Management remuneration

CEO and Chairman, and President

The following table depicts the base salary and cash incentive payments information awarded to the Chief Executive Officer and Chairman, and the President of Nokia Corporation for fiscal years 2003-2005 as well as the share-based compensation expense relating to equity-based awards, expensed by the Group.

	2005			2004			2003		
	Base salary EUR	Cash incentive payments EUR	Share-based compensation expense EUR	Base salary EUR	Cash incentive payments EUR	Share-based compensation expense EUR	Base salary EUR	Cash incentive payments EUR	Share-based compensation expense EUR
Jorma Ollila CEO and Chairman	1 500 000	3 212 037	3 389 994	1 475 238	1 936 221	2 109 863	1 400 000	2 253 192	1 028 775
Olli-Pekka Kallasvuo President since Oct. 1, 2005	623 524	947 742	666 313	584 000	454 150	394 979	575 083	505 724	154 316
Pekka Ala-Pietilä President until Oct. 1, 2005 [1]	717 000	946 332	745 733	717 000	479 509	493 556	711 279	520 143	218 615

1 Pekka Ala-Pietilä served as the President of the Group and member of the Group Executive Board until he resigned from these positions effective October 1, 2005. As of this date Mr. Ala-Pietilä held the role of Executive Advisor until January 31, 2006, when he ceased employment with the Group. For 2006, based on these advisory services, Mr. Ala-Pietilä received a total payment of EUR 101 717. Based on the service contract, Pekka Ala-Pietilä is entitled to receive a payment of EUR 956 000 in 2006 for his commitments during 2006.

Total remuneration of the Group Executive Board awarded for the fiscal years ended 2003–2005 was EUR 14 684 602 in 2005 (EUR 13 594 942 in 2004 and EUR 10 859 644 in 2003), which consisted of base salaries and cash incentive payments. Total share-based compensation expense relating to equity-based awards, expensed by the Group was EUR 8 295 227 in 2005 (EUR 4 763 545 in 2004 and EUR 1 776 736 in 2003).

Board of Directors

The following table depicts the annual remuneration structure paid to the members of our Board of Directors, as resolved by the Annual General Meetings in the respective years. Since the fiscal year 1999, approximately 60% of each Board member's annual fee has been paid in cash, with the balance in Nokia Corporation shares acquired from the market.

	Chairman		Vice Chairman		Other Members		
Year	Gross annual fee EUR	Shares received [1]	Gross annual fee EUR	Shares received [1]	Gross annual fee EUR	Shares received [1]	Additional annual fees
2003	150 000	4 032	125 000	3 360	100 000	2 688	Chairman of the Audit Committee and Personnel Committee, each EUR 25 000
2004	150 000	4 834	125 000	4 028	100 000	3 223	Chairman of the Audit Committee and Personnel Committee, each EUR 25 000
2005	**165 000**	**5 011**	**137 500**	**4 175**	**110 000**	**3 340**	Chairman of the Audit Committee and Personnel Committee, each EUR 25 000; Each other member of the Audit Committee, EUR 10 000

1 As part of the gross annual fee for that year.

The following table depicts the total annual remuneration paid to the members of our Board of Directors, as resolved by the Annual General Meetings in the respective years.

	Gross annual fee *		
	2005 EUR	2004 EUR	2003 EUR
Board of directors			
Jorma Ollila [1] Chairman and CEO	165 000	150 000	150 000
Paul Collins Vice Chairman	162 500.[2]	150 000 [2]	150 000 [2]
Georg Ehrnrooth	120 000 [3]	100 000	100 000
Daniel R. Hesse	110 000	–	–
Dr. Bengt Holmström	110 000	100 000	100 000
Per Karlsson	135 000 [4]	125 000 [4]	125 000
Edouard Michelin	110 000	–	–
Dame Marjorie Scardino	110 000	100 000	100 000
Vesa Vainio	120 000 [5]	100 000	100 000
Arne Wessberg	120 000 [6]	100 000	100 000
Former Board Member:			
Robert F.W. van Oordt	–	–	125 000 [7]

1 In addition to the fee as the Chairman of the Board, Jorma Ollila receives compensation for his services as the CEO of Nokia Corporation. This annual cash compensation is presented in the table "CEO and Chairman, and President" above.

2 The 2005 fee of Paul Collins amounts to a total of EUR 162 500, consisting of a fee of EUR 137 500 for services as Vice Chairman of the Board and EUR 25 000 for services as Chairman of the Personnel Committee. Each 2004 and 2003 fees of Mr. Collins amounted to a total of EUR 150 000, consisting of a fee of EUR 125 000 for services as Vice Chairman of the Board and EUR 25 000 for services as Chairman of the Personnel Committee. As part of the total remuneration, Mr. Collins has received a total of 4 935 Nokia shares in 2005, 4 834 Nokia shares in 2004 and 4 032 Nokia shares in 2003.

3 The 2005 fee of Georg Ehrnrooth amounts to a total of EUR 120 000 consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee. As part of the total remuneration, Mr. Ehrnrooth has received a total of 3 644 Nokia shares.

4 The 2005 fee of Per Karlsson amounts to a total of EUR 135 000, consisting of a fee of EUR 110 000 for services as Member of the Board and EUR 25 000 for services as Chairman of the Audit Committee. The 2004 fee of Mr. Karlsson amounted to a total of EUR 125 000, consisting of a fee of EUR 100 000 for services as member of the Board and EUR 25 000 for services as Chairman of the Audit Committee. As part of the total remuneration, Mr. Karlsson has received a total of 4 100 Nokia shares in 2005 and 4 029 Nokia shares in 2004.

5 The 2005 fee of Vesa Vainio amounts to a total of EUR 120 000 consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee. As part of the total remuneration, Mr. Vainio has received a total of 3 644 Nokia shares.

6 The 2005 fee of Arne Wessberg amounts to a total of EUR 120 000 consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee. As part of the total remuneration, Mr. Wessberg has received a total of 3 644 Nokia shares.

7 The 2003 fee of Robert F.W. van Oordt amounted to a total of EUR 125 000, consisting of a fee of EUR 100 000 for services as Member of the Board and EUR 25 000 for services as Chairman of the Audit Committee. As part of the total remuneration, Mr. van Oordt received a total of 3 360 Nokia shares.

* In case a Board member's gross annual fee does not include any additional annual fees, the number of shares received as part of gross annual fee for that year is presented in the "Shares received" column above.

Retirement benefits of certain Group Executive Board Members

Jorma Ollila and Olli-Pekka Kallasvuo can as part of their service contract retire at the age of 60 with full retirement benefit, should they be employed by Nokia at the time. The full retirement benefit is calculated as if the executive had continued his service with Nokia through the statutory retirement age of 65. Mr. Ollila's service contract will terminate as of June 1, 2006. Following the current contract, he will not be eligible to receive any additional retirement benefits from Nokia after that date. Pekka Ala-Pietilä had an equal retirement arrangement during his employment at Nokia and he will not receive any additional retirement benefits from Nokia after termination of employment.

Hallstein Moerk, following his arrangement with a previous employer, has a retirement benefit of 65% of his pensionable salary beginning at the age of 62. Early retirement is possible at the age of 55 with reductions in benefits.

Simon Beresford-Wylie participates in the Nokia International Employee Benefit Plan (NIEBP). The NIEBP is a defined contribution retirement arrangement provided to some Nokia employees on international assignments. The contributions to NIEBP are funded two-thirds by Nokia and one-third by the employee. Because Mr. Beresford-Wylie also participates in the Finnish TEL system, the company contribution to NIEBP is 1.3% of annual earnings.

35. Notes to cash flow statement

EURm	**2005**	2004 As revised	2003 As revised
Adjustments for:			
Depreciation and amortization (Note 11)	712	868	1 138
(Profit)/loss on sale of property plant and equipment and available-for-sale investments	–131	26	170
Income taxes (Note 13)	1 281	1 446	1 697
Share of results of associated companies (Note 34)	–10	26	18
Minority interest	74	67	54
Financial income and expenses (Note 12)	–322	–405	–352
Impairment charges (Note 9)	66	129	453
Share-based compensation	104	62	41
Premium return	–	–160	–
Customer financing impairment charges and reversals	–	–	–226
Other	–	–	–1
Adjustments, total	1 774	2 059	2 992
Change in net working capital			
(Increase) Decrease in short-term receivables	–896	372	–205
Increase in inventories	–301	–193	–41
Increase in interest-free short-term borrowings	831	62	62
Change in net working capital	–366	241	–184
Non-cash investing activities			
Acquisition of:			
Current available-for-sale investments in settlement of customer loan	–	–	676
Company acquisitions	–	–	18
Total	–	–	694

36. Subsequent events (unaudited)

Changes in the Nokia Group Executive Board

On February 15, 2006 the Group announced that Pertti Korhonen, Chief Technology Officer and Executive Vice President, Technology Platforms, and a member of the Group Executive Board will resign from the Group Executive Board as of April 1, 2006. He will also resign from Nokia. Niklas Savander has been appointed as Executive Vice President, Technology Platforms and a member of the Group Executive Board as of April 1, 2006.

Preliminary Agreement with SANYO

On February 14, 2006, the Group and SANYO Electric Co., Ltd announced a preliminary agreement with intent to form a new global company comprised of their respective CDMA mobile phone businesses – separate from the parent companies. The relevant assets from both companies will be contributed or made available for the new entity. Final agreements are expected to be signed in the second quarter of 2006, with the new business expected to commence operations in the third quarter 2006, provided that the due diligence has been completed and all necessary regulatory approvals obtained.

Acquisition of Intellisync

In February 2006, the Group acquired 100 percent of the outstanding common shares of Intellisync (NASDAQ: SYNC) for cash consideration of approximately EUR 368 million. Intellisync delivers wireless email and other applications over an array of devices and application platforms across carrier networks. The Group believes it is positioned to deliver the industry's most complete offering for the development, deployment and management of mobility in the enterprise and the acquisition will enhance the Group's ability to respond to customer needs in this fast growing market. Intellisync will be integrated into the Enterprise Solutions business upon acquisition and its results of operations from that date will be included in the Group's consolidated financial statements The purchase price allocation is being performed with the assistance of a third party.

Assets acquired are expected to be EUR 51 million and liabilities EUR 17 million with a majority of the excess recognised as goodwill. The principal items that are expected to generate goodwill are the value of the synergies between Intellisync and the Group and the acquired workforce, neither of which qualifies as a separate amortizable intangible asset. None of the goodwill is expected to be deductible for tax purposes. The Group does not expect to write off any in-process R&D or dispose of any of the acquired operations.

For its recently completed fiscal year ended July 31, 2005 and quarter ended October 31, 2005, Intellisync reported revenues of USD 39 million (EUR 31 million) and USD 10 million (EUR 8 million), respectively, and net loss of USD 13 million (EUR 10 million) and USD 8 million (EUR 7 million), respectively. At July 31, 2005 and October 31, 2005, Intellisync's total assets were USD 161 million (EUR 133 million) and USD 156 million (EUR 130 million), respectively, and shareholders' equity was USD 82 million (EUR 68 million) and USD 79 million (EUR 66 million), respectively.

Telsim settlement

As previously agreed with Telsim and the Turkish Savings and Deposit Insurance Fund (TMSF), which currently controls and manages Telsim's assets, the Group will receive a settlement payment upon completion of the sale of Telsim's assets for losses the Group incurred in 2001. The Group's share of the announced purchase price expected to be received during the first half of 2006 is 7.5% of the purchase price, or USD 341 million (EUR 285 million) and is subject to negotiations.

37. Principal Nokia Group companies at December 31, 2005

%		Parent holding	Group majority
US	Nokia Inc.	–	100.00
DE	Nokia GmbH	100.00	100.00
GB	Nokia UK Limited	–	100.00
KR	Nokia TMC Limited	100.00	100.00
CN	Nokia Capitel Telecommunications Ltd	4.50	61.90
NL	Nokia Finance International B.V.	100.00	100.00
HU	Nokia Komárom Kft	100.00	100.00
BR	Nokia do Brazil Technologia Ltda	99.99	100.00
IN	Nokia India Ltd	100.00	100.00
Associated companies			
	Symbian Limited	47.90	47.90

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

38. Risk management

General risk management principles

Nokia's overall risk management concept is based on visibility of the key risks preventing Nokia from reaching its business objectives. This covers all risk areas: strategic, operational, financial and hazard risks. Risk management at Nokia is a systematic and pro-active way to analyze, review and manage all opportunities, threats and risks related to Nokia's objectives rather than to solely eliminate risks.

The principles documented in Nokia's Risk Policy and accepted by the Audit Committee of the Board of Directors require risk management and its elements to be integrated into business processes. One of the main principles is that the business or function owner is also the risk owner, however, it is everyone's responsibility at Nokia to identify risks preventing us from reaching our objectives.

Key risks are reported to the business and Group level management to create assurance on business risks and to enable prioritization of risk management implementation at Nokia. In addition to general principles there are specific risk management policies covering, for example, treasury and customer finance risks.

Financial risks

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

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

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

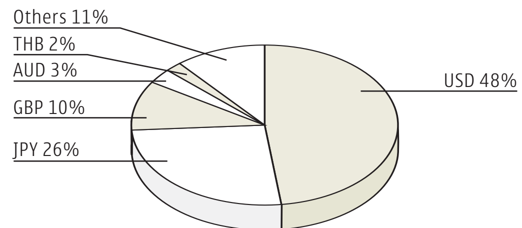
a) Market risk

Foreign exchange risk

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

Due to the changes in the business environment, currency combinations may also change within the financial year. The most significant non-euro sales currencies during the year were US dollar (USD), Chinese yuan (CNY) and UK pound sterling (GBP). In general, depreciation of another currency relative to the euro has an adverse effect on Nokia's sales and operating profit, while appreciation of another currency has a positive effect, with the exception of Japanese yen (JPY), being the only significant foreign currency in which Nokia has more purchases than sales.

The following chart shows the break-down by currency of the underlying net foreign exchange transaction exposure as of December 31, 2005 (in some of the currencies, especially the US dollar, Nokia has both substantial sales as well as cost, which have been netted in the chart).



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

Nokia uses the Value-at-Risk ("VaR") methodology to assess the foreign exchange risk related to the Treasury management of the Group exposures. The VaR figure represents the potential fair value losses for a portfolio resulting from adverse changes in market factors using a specified time period and confidence level based on historical data. To correctly take into account the non-linear price function of certain derivative instruments, Nokia uses Monte Carlo simulation. Volatilities and correlations are calculated from a one-year set of daily data. The VaR figures assume that the forecasted cash flows materialize as expected. The VaR figures for the Group transaction foreign exchange exposure, including hedging transactions and Treasury exposures for netting and risk management purposes, with a one-week horizon and 95% confidence level, are shown in Table 1, below.

Table 1 Transaction foreign exchange position Value-at-Risk

VaR	2005 EURm	2004 EURm
At December 31	**12.4**	12.7
Average for the year	**10.2**	14
Range for the year	**3.3 – 29.3**	1.6 – 26.9

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

Interest rate risk

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

Treasury is responsible for monitoring and managing the interest rate exposure of the Group. Due to the current balance sheet structure of Nokia, emphasis is placed on managing the interest rate risk of investments.

Nokia uses the VaR methodology to assess and measure the interest rate risk in the investment portfolio, which is benchmarked against a combination of three-month and one-to-three-year investment horizon. The VaR figure represents the potential fair value losses for a portfolio resulting from adverse changes in market factors using a specified time period and confidence level based on historical data. For interest rate risk VaR, Nokia uses variance-covariance methodology. Volatilities and correlations are calculated from a one-year set of daily data. The VaR-based interest rate risk figures for an investment portfolio with a one-week horizon and 95% confidence level are shown in Table 2, below.

Table 2 Treasury investment portfolio Value-at-Risk

VaR	2005 EURm	2004 EURm
At December 31	**6.9**	10.4
Average for the year	**10.0**	6.3
Range for the year	**6.9 – 15.3**	3.6 – 10.8

Equity price risk

Nokia has certain strategic minority investments in publicly traded companies. These investments are classified as available-for-sale. The fair value of the equity investments at December 31, 2005 was EUR 8 million (EUR 7 million in 2004).

There are currently no outstanding derivative financial instruments designated as hedges of these equity investments. The VaR figures for equity investments, shown in Table 3, below, have been calculated using the same principles as for interest rate risk.

Table 3 Equity investments Value-at-Risk

VaR	2005 EURm	2004 EURm
At December 31	**0.1**	0.1
Average for the year	**0.2**	0.2
Range for the year	**0.1 – 0.2**	0.1 – 0.3

In addition to the listed equity holdings, Nokia invests in private equity through Nokia Venture Funds. The fair value of these available-for-sale equity investments at December 31, 2005 was USD 177 million (USD 142 million in 2004). Nokia is exposed to equity price risk on social security costs relating to stock compensation plans. Nokia hedges this risk by entering into cash settled equity swap and option contracts.

b) Credit risk

Structured Finance Credit Risk

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

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

At the end of December 31, 2005, our long-term loans to customers and other third parties totaled EUR 63 million (no outstanding loans in 2004), while there was nil financial guarantees given on behalf of third parties (EUR 3 million in 2004). In addition, we had financing commitments totaling EUR 13 million, which does not, however, increase total outstanding and committed credit risk from EUR 63 million, as it is available only provided that outstanding loan EUR 56 million is repaid. Total structured financing (outstanding and committed) stood at EUR 63 million (EUR 59 million in 2004).

The term structured financing portfolio at December 31, 2005 was:

EURm	Outstanding	Financing commitments	Total
Total Portfolio	63	13	63

The term structured financing portfolio at December 31, 2005 mainly consists of outstanding and committed customer financing to a network operator.

Financial credit risk

Financial instruments contain an element of risk of the counterparties being unable to meet their obligations. This risk is measured and monitored by the Treasury function. The Group minimizes financial credit risk by limiting its counterparties to a sufficient number of major banks and financial institutions, as well as through entering into netting arrangements, which gives the Company the right to offset in the case that the counterparty would not be able to fulfill the obligations.

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

Current available-for-sale investments [1, 2, 3]

	Maturity date less than 12 months			Maturity date 12 months or more			Total		
	Fair value	Unrealized losses	Unrealized gains	Fair value	Unrealized losses	Unrealized gains	Fair value	Unrealized losses	Unrealized gains
2005, EURm									
Governments	30	–	–	3 919	–32	2	3 949	–32	2
Banks	2 962	–3	–	803	–5	1	3 765	–7	1
Corporates	60	–	–	433	–1	2	459	–1	2
Asset backed securities	25	–	–	112	–	–	172	–	–
	3 077	–3	–	5 267	–38	5	**8 345**	**–41**	**5**
2004, EURm									
Governments	1 820	–	1	3 999	–14	4	5 819	–14	5
Banks	3 927	–	1	428	–1	2	4 355	–1	3
Corporates	166	–	–	302	–	10	468	–	10
Asset backed securities	–	–	–	65	–	–	65	–	–
	5 913	–	2	4 794	–15	16	**10 707**	**–15**	**18**

EURm	2005	2004
Fixed rate investments	7 531	10 429
Floating rate investments	814	278
Total	8 345	10 707

1 Available-for-sale investments are carried at fair value in 2005 and 2004.

2 Weighted average interest rate for current available-for-sale investments was 3.52% in 2005 and 3.63% in 2004.

3 Included within current Available-for-sale investments is EUR 10 million and EUR 11 million of restricted cash at December 31, 2005 and 2004, respectively.

c) Liquidity risk

Nokia guarantees a sufficient liquidity at all times by efficient cash management and by investing in liquid interest bearing securities. Due to the dynamic nature of the underlying business Treasury also aims at maintaining flexibility in funding by keeping committed and uncommitted credit lines available. At the end of December 31, 2005 the committed facility totaled USD 2.0 billion. The committed credit facility is intended to be used for U.S. and Euro Commercial Paper Programs back up purposes. The commitment fee on the facility is 0.045% per annum.

The most significant existing funding programs include:

Revolving Credit Facility of USD 2 000 million, maturing in 2012

Local commercial paper program in Finland, totaling EUR 750 million

Euro Commercial Paper (ECP) program, totaling USD 500 million

US Commercial Paper (USCP) program, totaling USD 500 million

None of the above programs have been used to a significant degree in 2005.

Nokia's international creditworthiness facilitates the efficient use of international capital and loan markets. The ratings of Nokia from credit rating agencies have not changed during the year. The ratings as at December 31, 2005 were:

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

Hazard risk

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

Nokia purchases both annual insurance policies for specific risks as well as multi-line and/or multi-year insurance policies, where available.

Notional amounts of derivative financial instruments [1]

EURm	2005	2004
Foreign exchange forward contracts [2]	**29 991**	10 745
Currency options bought [2]	**284**	715
Currency options sold [2]	**165**	499
Interest rate swaps	**50**	–
Cash settled equity options [3]	**150**	237
Credit default swaps [4]	**–**	200

1 Includes the gross amount of all notional values for contracts that have not yet been settled or cancelled. The amount of notional value outstanding is not necessarily a measure or indication of market risk, as the exposure of certain contracts may be offset by that of other contracts.

2 As at December 31, 2005 notional amounts include contracts amounting to EUR 2.4 billion used to hedge the shareholders' equity of foreign subsidiaries (December 31, 2004 EUR 1.6 billion).

3 Cash settled equity options can be used to hedge risk relating to incentive programs and investment activities.

4 Credit default swaps are used to selectively hedge counterparty risks involved in investment activities.

Fair values of derivatives

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

EURm	2005	2004
Derivatives with positive fair value [1]		
Forward foreign exchange contracts [2]	**60**	278
Currency options bought	**1**	14
Cash settled equity options	**8**	5
Derivatives with negative fair value [1]		
Forward foreign exchange contracts [2]	**–97**	–89
Currency options written	**–**	–11
Credit default swaps	**–**	–2

1 Out of the forward foreign exchange contracts and currency options, fair value EUR –27 million was designated for hedges of net investment in foreign subsidiaries as at December 31, 2005 (EUR 43 million at December 31, 2004) and reported within translation differences.

2 Out of the foreign exchange forward contracts, fair value EUR 163 million was designated for cash flow hedges as at December 31, 2005 (EUR 14 million at December 31, 2004) and reported in fair value and other reserves.

Parent company financial statements according to Finnish Accounting Standards

Profit and loss accounts, FAS

Financial year ended Dec. 31	Notes	2005 EURm	2004 EURm
Net sales		26 552	22 888
Cost of sales		−18 318	−15 162
Gross margin		8 234	7 726
Selling and marketing expenses		−1 228	−982
Research and development expenses		−3 658	−3 587
Administrative expenses		−680	−666
Other operating expenses		−304	−63
Other operating income		154	124
Operating profit	2, 3	2 518	2 552
Financial income and expenses			
Income from long-term investments			
Dividend income from Group companies		723	418
Dividend income from other companies		1	23
Interest income from Group companies		3	6
Other interest and financial income			
Interest income from Group companies		221	169
Interest income from other companies		4	–
Other financial income from other companies		2	21
Exchange gains and losses		−241	117
Interest expenses and other financial expenses			
Interest expenses to Group companies		−159	−65
Interest expenses to other companies		−5	−2
Other financial expenses		−5	−10
Financial income and expenses, total		544	677
Profit before extraordinary items and taxes		3 062	3 229
Extraordinary items			
Group contributions		−16	12
Extraordinary items, total		−16	12
Profit before taxes		3 046	3 241
Income taxes			
for the year		−648	−826
from previous years		24	19
Net profit		2 422	2 434

See Notes to the financial statements of the parent company.

Balance sheets, FAS

Financial year ended Dec. 31	Notes	2005 EURm	2004 EURm
ASSETS			
Fixed assets and other non-current assets			
Intangible assets	4		
Capitalized development costs		260	328
Intangible rights		55	59
Other long-term expenses		4	–
		319	387
Tangible assets	5	–	–
Investments			
Investments in subsidiaries	6	3 565	3 597
Investments in associated companies	6	7	5
Long-term loan receivables from Group companies		45	140
Long-term loan receivables from other companies		63	38
Other non-current assets	7	5	7
		3 685	3 787
Current assets			
Inventories and work in progress			
Raw materials and supplies		146	102
Work in progress		223	84
Finished goods		315	284
Prepaid inventories		–	2
		684	472
Receivables			
Trade debtors from Group companies		1 588	633
Trade debtors from other companies		1 632	1 523
Short-term loan receivables from Group companies		11 752	12 704
Short-term loan receivables from other companies		13	6
Prepaid expenses and accrued income from Group companies		148	71
Prepaid expenses and accrued income from other companies		946	576
		16 079	15 513
Bank and cash		32	75
		20 799	20 234

Financial year ended Dec. 31	Notes	2005 EURm	2004 EURm
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	8		
Share capital		266	280
Share issue premium		2 246	2 230
Treasury shares	8	−3 614	−2 012
Retained earnings	9	6 107	7 729
Net profit for the year	8, 9	2 422	2 434
		7 427	10 661
Liabilities			
Short-term liabilities			
Current finance liabilities from Group companies		9 515	6 436
Current finance liabilities from other companies		–	2
Advance payments from other companies		121	133
Trade creditors to Group companies		918	634
Trade creditors to other companies		1 170	902
Accrued expenses and prepaid income to Group companies		2	76
Accrued expenses and prepaid income to other companies		1 646	1 390
		13 372	9 573
		20 799	20 234

See Notes to the financial statements of the parent company.

Cash flow statements, FAS

Financial year ended Dec. 31	Notes	2005 EURm	2004 EURm
Cash flow from operating activities			
Net profit		2 422	2 434
Adjustments, total	13	526	539
Net profit before change in net working capital		2 948	2 973
Change in net working capital	13	−655	679
Cash generated from operations		2 293	3 652
Interest received		227	175
Interest paid		−163	−70
Other financial income and expenses		−49	133
Income taxes paid		−858	−928
Cash flow before extraordinary items		1 450	2 962
Extraordinary income and expenses		12	93
Net cash from operating activities		1 462	3 055
Cash flow from investing activities			
Investments in shares		−8	−398
Additions to capitalized development costs		−153	−101
Capital expenditures		−29	−39
Proceeds from sale of shares		10	346
Long-term loans made to customers		−56	−1
Proceeds from repayment and sale of long term loans receivable		–	365
Proceeds from other long-term receivables		98	13
Payments of short-term receivables		723	−2 880
Dividends received		714	366
Net cash from (used in) investing activities		1 299	−2 329
Cash flow from financing activities			
Proceeds from share issue		2	–
Proceeds from borrowings		2 927	3 333
Repayment of borrowings		−4	−23
Purchase of treasury shares		−4 266	−2 660
Dividends paid		−1 463	−1 399
Support to the Foundation of Nokia Corporation		–	−5
Net cash used in financing activities		−2 804	−754
Net decrease in cash and cash equivalents		−43	−28
Cash and cash equivalents at beginning of period		75	103
Cash and cash equivalents at end of period		32	75

See Notes to the financial statements of the parent company.

Notes to the financial statements of the parent company

1. Accounting principles

The Parent company Financial Statements are prepared according to Finnish Accounting Standards (FAS).

See Note 1 to Notes to the consolidated financial statements.

2. Personnel expenses

EURm	2005	2004
Wages and salaries	1 288	1 172
Pension expenses	179	162
Other social expenses	82	80
Personnel expenses as per profit and loss account	1 549	1 414

Management remuneration

CEO and Chairman, and President

The following table depicts the base salary and cash incentive payments information awarded to the Chief Executive Officer and Chairman, and the President of Nokia Corporation for fiscal years 2003–2005 as well as the share-based compensation expense relating to equity-based awards, expensed by the Group.

	2005			2004			2003		
EUR	Base salary	Cash incentive payments	Share-based compensation expense	Base salary	Cash incentive payments	Share-based compensation expense	Base salary	Cash incentive payments	Share-based compensation expense
Jorma Ollila CEO and Chairman	1 500 000	3 212 037	3 389 994	1 475 238	1 936 221	2 109 863	1 400 000	2 253 192	1 028 775
Olli-Pekka Kallasvuo President since October 1, 2005	623 524	947 742	666 313	584 000	454 150	394 979	575 083	505 724	154 316
Pekka Ala-Pietilä President until October 1, 2005 [1]	717 000	946 332	745 733	717 000	479 509	493 556	711 279	520 143	218 615

1 Pekka Ala-Pietilä served as the President of the Group and member of the Group Executive Board until he resigned from these positions effective October 1, 2005. As of this date Mr. Ala-Pietilä held the role of Executive Advisor until January 31, 2006, when he ceased employment with the Group. For 2006, based on these advisory services, Mr. Ala-Pietilä received a total payment of EUR 101 717. Based on the service contract, Pekka Ala-Pietilä is entitled to receive a payment of EUR 956 000 in 2006 for his commitments during 2006.

Total remuneration of the Group Executive Board awarded for the fiscal years ended 2003–2005 was EUR 14 684 602 in 2005 (EUR 13 594 942 in 2004 and EUR 10 859 644 in 2003), which consisted of base salaries and cash incentive payments. Total share-based compensation expense relating to equity-based awards, expensed by the Group was EUR 8 295 227 in 2005 (EUR 4 763 545 in 2004 and EUR 1 776 736 in 2003).

Board of Directors

The following table depicts the annual remuneration structure paid to the members of our Board of Directors, as resolved by the Annual General Meetings in the respective years. Since the fiscal year 1999, approximately 60% of each Board member's annual fee has been paid in cash with the balance in Nokia Corporation shares acquired from the market.

	Chairman		Vice Chairman		Other members		
Year	Gross annual fee EUR	Shares received [1] EUR	Gross annual fee EUR	Shares received [1] EUR	Gross annual fee EUR	Shares received [1] EUR	Additional annual fees
2003	150 000	4 032	125 000	3 360	100 000	2 688	Chairman of the Audit Committee and Personnel Committee, each EUR 25 000
2004	150 000	4 834	125 000	4 028	100 000	3 223	Chairman of the Audit Committee and Personnel Committee, each EUR 25 000
2005	165 000	5 011	137 500	4 175	110 000	3 340	Chairman of the Audit Committee and Personnel Committee, each EUR 25 000; Each other member of the Audit Committee, EUR 10 000

1 As part of the gross annual fee for that year.

The following table depicts the total annual remuneration paid to the members of our Board of Directors, as resolved by the Annual General Meetings in the respective years.

	Gross annual fee *		
	2005 EUR	2004 EUR	2003 EUR
Board of Directors			
Jorma Ollila Chairman and CEO [1]	**165 000**	150 000	150 000
Paul Collins Vice Chairman	**162 500** [2]	150 000 [2]	150 000 [2]
Georg Ehrnrooth	**120 000** [3]	100 000	100 000
Daniel R. Hesse	**110 000**	–	–
Dr. Bengt Holmström	**110 000**	100 000	100 000
Per Karlsson	**135 000** [4]	125 000 [4]	125 000
Edouard Michelin	**110 000**	–	–
Dame Marjorie Scardino	**110 000**	100 000	100 000
Vesa Vainio	**120 000** [5]	100 000	100 000
Arne Wessberg	**120 000** [6]	100 000	100 000
Former Board Member: Robert F.W. van Oordt	**–**	–	125 000 [7]

1 In addition to the fee as the Chairman of the Board, Jorma Ollila receives compensation for his services as the CEO of Nokia Corporation. This annual cash compensation is presented in the table "CEO and Chairman, and President" above.

2 The 2005 fee of Paul Collins amounts to a total of EUR 162 500, consisting of a fee of EUR 137 500 for services as Vice Chairman of the Board and EUR 25 000 for services as Chairman of the Personnel Committee. Each 2004 and 2003 fees of Mr. Collins amounted to a total of EUR 150 000, consisting of a fee of EUR 125 000 for services as Vice Chairman of the Board and EUR 25 000 for services as Chairman of the Personnel Committee. As part of the total remuneration, Mr. Collins has received a total of 4 935 Nokia shares in 2005, 4 834 Nokia shares in 2004 and 4 032 Nokia shares in 2003.

3 The 2005 fee of Georg Ehrnrooth amounts to a total of EUR 120 000 consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee. As part of the total remuneration, Mr. Ehrnrooth has received a total of 3 644 Nokia shares.

4 The 2005 fee of Per Karlsson amounts to a total of EUR 135 000, consisting of a fee of EUR 110 000 for services as Member of the Board and EUR 25 000 for services as Chairman of the Audit Committee. The 2004 fee of Mr. Karlsson amounted to a total of EUR 125 000, consisting of a fee of EUR 100 000 for services as member of the Board and EUR 25 000 for services as Chairman of the Audit Committee. As part of the total remuneration, Mr. Karlsson has received a total of 4 100 Nokia shares in 2005 and 4 029 Nokia shares in 2004.

5 The 2005 fee of Vesa Vainio amounts to a total of EUR 120 000 consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee. As part of the total remuneration, Mr. Vainio has received a total of 3 644 Nokia shares.

6 The 2005 fee of Arne Wessberg amounts to a total of EUR 120 000 consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee. As part of the total remuneration, Mr. Wessberg has received a total of 3 644 Nokia shares.

7 The 2003 fee of Robert F.W. van Oordt amounted to a total of EUR 125 000, consisting of a fee of EUR 100 000 for services as Member of the Board and EUR 25 000 for services as Chairman of the Audit Committee. As part of the total remuneration, Mr. van Oordt received a total of 3 360 Nokia shares.

* In case a Board member's gross annual fee does not include any additional annual fees, the number of shares received as part of gross annual fee for that year is presented in the "Shares received" column on the table on page 40.

Retirement benefits of certain Group Executive Board Members

Jorma Ollila and Olli-Pekka Kallasvuo can as part of their service contract retire at the age of 60 with full retirement benefit, should they be employed by Nokia at the time. The full retirement benefit is calculated as if the executive had continued his service with Nokia through the statutory retirement age of 65. Mr. Ollila's service contract will terminate as of June 1, 2006. Following the current contract, he will not be eligible to receive any additional retirement benefits from Nokia after that date. Pekka Ala-Pietilä had an equal retirement arrangement during his employment at Nokia and he will not receive any additional retirement benefits from Nokia after termination of employment. Hallstein Moerk, following his arrangement with a previous employer, has a retirement benefit of 65% of his pensionable salary beginning at the age of 62. Early retirement is possible at the age of 55 with reductions in benefits.

Simon Beresford-Wylie participates in the Nokia International Employee Benefit Plan (NIEBP). The NIEBP is a defined contribution retirement arrangement provided to some Nokia employees on international assignments. The contributions to NIEBP are funded two-thirds by Nokia and one-third by the employee. Because Mr. Beresford-Wylie also participates in the Finnish TEL system, the company contribution to NIEBP is 1.3% of annual earnings.

Personnel average	**2005**	2004
Production	**5 984**	5 029
Marketing	**1 326**	1 609
R&D	**13 149**	12 861
Administration	**3 152**	3 292
	23 611	22 791
Personnel, December 31	**23 509**	22 990

3. Depreciation and amortization

EURm	**2005**	2004
Depreciation and amortization by asset class category		
Intangible assets		
Capitalized development costs	**221**	290
Intangible rights	**28**	31
Tangible assets	**–**	–
Total	**249**	321
Depreciation and amortization by function		
R&D	**232**	298
Production	**1**	–
Selling, marketing and administration	**16**	23
Total	**249**	321

4. Intangible assets

EURm	**2005**	2004
Capitalized development costs		
Acquisition cost January 1	**1 394**	1 416
Additions	**153**	101
Disposals	**–30**	–123
Accumulated amortization December 31	**–1 257**	–1 066
Net carrying amount December 31	**260**	328
Intangible rights		
Acquisition cost January 1	**290**	256
Additions	**25**	40
Disposals	**–4**	–4
Accumulated amortization December 31	**–256**	–233
Net carrying amount December 31	**55**	59
Other intangible assets		
Acquisition cost January 1	**3**	3
Additions	**4**	–
Accumulated amortization December 31	**–3**	–3
Net carrying amount December 31	**4**	–

5. Tangible assets

At the end of 2005 and 2004 the parent company had no tangible assets. These assets were leased from Nokia Asset Management Oy, a company wholly owned by Nokia Corporation.

6. Investments

EURm	2005	2004
Investments in subsidiaries		
Acquisition cost January 1	3 597	3 540
Additions	65	68
Disposals	−97	−11
Net carrying amount December 31	3 565	3 597
Investments in associated companies		
Acquisition cost January 1	5	4
Additions	2	1
Disposals	–	–
Net carrying amount December 31	7	5

7. Other non-current assets

EURm	2005	2004
Investments in other shares		
Acquisition cost January 1	7	17
Additions	4	334
Disposals	−6	−344
Net carrying amount December 31	5	7
Other investments	–	–
	5	7

8. Shareholders' equity

Parent Company, EURm	Share capital	Share issue premium	Treasury shares	Retained earnings	Total
Balance at December 31, 2002	287	2 182	–	9 401	11 870
Share issue	1	40			41
Acquisitions of treasury shares			−1 351		−1 351
Dividend				−1 339	−1 339
Net profit				3 070	3 070
Balance at December 31, 2003	288	2 222	−1 351	11 132	12 291
Share issue					–
Cancellation of treasury shares	−8	8	1 999	−1 999	–
Acquisitions of treasury shares			−2 660		−2 660
Dividend				−1 399	−1 399
Support to the Foundation of Nokia Corporation				−5	−5
Net profit				2 434	2 434
Balance at December 31, 2004	280	2 230	−2 012	10 163	10 661
Share issue		2			2
Cancellation of treasury shares	−14	14	2 664	−2 664	–
Acquisitions of treasury shares			−4 266		−4 266
Dividend				−1 463	−1 463
Adoption of IAS 39(R)				71	71
Net profit				2 422	2 422
Balance at December 31, 2005	**266**	**2 246**	**−3 614**	**8 529**	**7 427**

9. Distributable earnings

EURm	2005	2004
Retained earnings from previous years	6 107	7 729
Net profit for the year	2 422	2 434
Retained earnings, total	8 529	10 163
Treasury shares	–3 614	–2 012
Distributable earnings, December 31	4 915	8 151

10. Commitments and contingencies

EURm	2005	2004
Contingent liabilities on behalf of Group companies		
Guarantees for loans	125	173
Leasing guarantees	357	246
Other guarantees	274	244
Contingent liabilities on behalf of other companies		
Guarantees for loans	–	3
Other guarantees	1	1

11. Leasing contracts

At December 31, 2005 the leasing contracts of the Parent Company amounted to EUR 464 million (EUR 491 million in 2004), of which EUR 425 million in 2005 relate to Group internal agreements. EUR 445 million will expire in 2006 (EUR 473 million in 2005).

12. Related party transactions

Nokia Pension Foundation is a separate legal entity that manages and holds in trust the assets of the Company's Finnish employees benefit plans; these assets include 0.009% of Nokia shares.

There were no loans granted to the members of the Group Executive Board and Board of Directors at December 31, 2005.

13. Notes to cash flow statements

EURm	2005	2004
Adjustments for:		
Depreciation	250	321
Income taxes	624	807
Financial income and expenses	–544	–677
Impairment of fixed assets	–	102
Impairment of non-current available-for-sale investments	–5	–
Other operating income and expenses	201	–14
Adjustments, total	526	539
Change in net working capital		
Short-term trade receivables, increase (–), decrease (+)	–1 471	682
Inventories, increase (–), decrease (+)	–212	–67
Interest-free short-term liabilities, increase (+), decrease (–)	1 028	64
Change in net working capital	–655	679

14. Principal Nokia Group companies on December 31, 2005

See Note 37 to Notes to the consolidated financial statements.

15. Nokia Shares and Shareholders

See Nokia Shares and Shareholders pages 44–47.

Nokia shares and shareholders

Shares and share capital

Nokia has one class of shares. Each Nokia share entitles the holder to one (1) vote at General Meetings of Nokia. The par value of the share is EUR 0.06.

The minimum share capital stipulated in the Articles of Association is EUR 170 million and the maximum share capital EUR 680 million. The share capital may be increased or reduced within these limits without amending the Articles of Association.

On December 31, 2005, the share capital of Nokia Corporation was EUR 266 033 192.40 and the total number of shares was 4 433 886 540.

On December 31, 2005, the total number of shares included 261 511 283 shares owned by the Group companies with an aggregate par value of EUR 15 690 676.98 representing approximately 5.9% of the share capital and the total voting rights.

Share capital and shares Dec. 31, 2005	**2005**	2004	2003	2002	2001
Share capital, EURm	**266**	280	288	287	284
Shares (1 000, par value EUR 0.06)	**4 433 887**	4 663 761	4 796 292	4 787 907	4 737 530
Shares owned by the Group (1 000)	**261 511**	176 820	96 024	1 145	1 228
Number of shares excluding shares owned by the Group (1 000)	**4 172 376**	4 486 941	4 700 268	4 786 762	4 736 302
Average number of shares excluding shares owned by the Group during the year (1 000), basic	**4 365 547**	4 593 196	4 761 121	4 751 110	4 702 852
Average number of shares excluding shares owned by the Group during the year (1 000), diluted	**4 371 239**	4 600 337	4 761 160	4 788 042	4 787 219
Number of registered shareholders [1]	**126 352**	142 095	133 991	129 508	116 352

1 Each account operator is included in the figure as only one registered shareholder.

Key ratios December 31, 2005, IFRS [1] (calculation see page 50)	**2005**	2004 As revised	2003 As revised	2002	2001
Earnings per share (for profit attributable to the equity holders of the parent), EUR					
Earnings per share, basic	**0.83**	0.69	0.74	0.71	0.47
Earnings per share, diluted	**0.83**	0.69	0.74	0.71	0.46
P/E Ratio	**18.61**	16.84	18.53	21.34	61.60
(Nominal) dividend per share, EUR	**0.37** *	0.33	0.30	0.28	0.27
Total dividends paid, EURm [2]	**1 641** *	1 539	1 439	1 341	1 279
Payout ratio	**0.45** *	0.48	0.41	0.39	0.57
Dividend yield, %	**2.4**	2.8	2.2	1.8	0.9
Shareholders' equity per share, EUR	**2.91**	3.17	3.22	2.98	2.58
Market capitalization, EURm [3]	**64 463**	52 138	65 757	72 537	137 163

* Board's proposal.

1 2004 and 2003 financial accounts now reflect the retrospective implementation of IFRS 2 and IAS 39(R). 2002 and 2001 data has not been adjusted from that reported in prior years, and therefore is not always comparable with data for the years 2003 to 2005.

2 Calculated for all the shares of the company as of the applicable year-end.

3 Shares owned by the Group companies are not included.

Splits of the par value of the Nokia share	**Par value before**	**Split ratio**	**Par value after**	**Effective date**
1986	FIM 100 (EUR 16.82)	5:1	FIM 20 (EUR 3.36)	December 31, 1986
1995	FIM 20 (EUR 3.36)	4:1	FIM 5 (EUR 0.84)	April 24, 1995
1998	FIM 5 (EUR 0.84)	2:1	FIM 2.5 (EUR 0.42)	April 16, 1998
1999	FIM 2.5 (EUR 0.42)	2:1	EUR 0.24 [1]	April 12, 1999
2000	EUR 0.24	4:1	EUR 0.06	April 10, 2000

1 At the same time with a bonus issue of EUR 0.03 per each share of a par value of EUR 0.24.

Authorizations

Authorization to increase the share capital

The Board of Directors had been authorized by Nokia shareholders at the Annual General Meeting held on March 25, 2004 to decide on an increase of the share capital by a maximum of EUR 55 500 000 offering a maximum of 925 000 000 new shares. In 2005, the Board of Directors did not increase the share capital on the basis of this authorization. The authorization expired on March 25, 2005.

At the Annual General Meeting held on April 7, 2005 Nokia shareholders authorized the Board of Directors to decide on an increase of the share capital by a maximum of EUR 53 160 000 within one year from the resolution of the Annual General Meeting. The increase of the share capital may consist of one or more issues offering a maximum of 886 000 000 new shares with a par value of EUR 0.06 each. The share capital may be increased in deviation from the shareholders' pre-emptive rights for share subscription provided that from the company's perspective important financial grounds exist such as financing or carrying out of an acquisition or another arrangement or granting incentives to selected members of the personnel. In 2005, the Board of Directors did not increase the share capital on the basis of this authorization. The authorization is effective until April 7, 2006.

At the end of 2005, the Board of Directors had no other authorizations to issue shares, convertible bonds, warrants or stock options.

The Board of Directors will propose to the Annual General Meeting convening on March 30, 2006 that the Board of Directors be authorized to resolve to increase the share capital of the company by issuing new shares, stock options or convertible bonds in one or more issues. The increase of the share capital through issuance of new shares, subscription of shares pursuant to stock options and conversion of convertible bonds into shares, may amount to a maximum of EUR 48 540 000 in total. As a result of share issuance, subscription of shares pursuant to stock options and conversion of convertible bonds into shares an aggregate maximum of 809 000 000 new shares with a par value of EUR 0.06 may be issued. The authorization is proposed to be effective until March 30, 2007, or in the event that the new Companies Act has been approved by the time of the Annual General Meeting, and enters into force latest on March 30, 2007, this authorization is proposed to be effective until June 30, 2007.

Other authorizations

At the Annual General Meeting held on March 25, 2004, Nokia shareholders authorized the Board of Directors to repurchase a maximum of 230 million Nokia shares. In 2005 Nokia repurchased 54 million Nokia shares on the basis of this authorization.

At the Annual General Meeting held on April 7, 2005, Nokia shareholders authorized the Board of Directors to repurchase a maximum of 443 200 000 Nokia shares, representing less than 10% of the share capital and the total voting rights, and to resolve on the disposal of a maximum of 443 200 000 Nokia shares. In 2005, a total of 261 010 000 Nokia shares were repurchased under this buy-back authorization, as a result of which the unused authorization amounted to 182 190 000 shares on December 31, 2005. No shares were disposed of in 2005 under the respective authorization. The shares may be repurchased under the buy-back authorization in order to carry out the company's stock repurchase plan. In addition, the shares may be repurchased in order to develop the capital structure of the company, to finance or carry out acquisitions or other arrangements, to settle the company's equity-based incentive plans, to be transferred for other purposes, or to be cancelled. The authorization to dispose of the shares may be carried out pursuant to terms determined by the Board in connection with acquisitions or in other arrangements or for incentive purposes to selected members of the personnel. The Board may resolve to dispose the shares in another proportion than that of the shareholders' pre-emptive rights to the company's shares, provided that from the company's perspective important financial grounds exist for such disposal. These authorizations are effective until April 7, 2006.

The Board of Directors will propose to the Annual General Meeting convening on March 30, 2006 that the Board of Directors be authorized to repurchase a maximum of 405 million Nokia shares by using unrestricted shareholders' equity. Further, the Board of Directors will propose that the Annual General Meeting authorize the Board of Directors to resolve to dispose a maximum of 405 million Nokia shares. These authorizations are proposed to be effective until March 30, 2007, or in the event that the new Companies Act has been approved by the time of the Annual General Meeting, and enters into force latest on March 30, 2007, these authorizations are proposed to be effective until June 30, 2007.

Share and bonus issues 2001–2005

Year	Type of Issue	Subscription price or amount of bonus issue EUR	Number of new shares (1 000)	Date of payment	Net proceeds EURm	New share capital EURm
2001	Nokia Stock Option Plan 1995	1.77	1 682	2001	2.97	0.10
	Nokia Stock Option Plan 1997	3.23	20 993	2001	67.81	1.26
	Nokia Stock Option Plan 1999	16.89	382	2001	6.46	0.02
	Share issue to stockholders of Amber Networks, Inc.	20.77	18 329	2001	380.72	1.10
	Total		**41 386**		**457.96**	**2.48**
2002	Nokia Stock Option Plan 1997	3.23	50 357	2002	162.50	3.02
	Nokia Stock Option Plan 1999	16.89	20	2002	0.33	0.00
	Total		**50 377**		**162.83**	**3.02**
2003	Nokia Stock Option Plan 1997	3.23	7 160	2003	23.11	0.43
	Share issue to stockholders of Eizel Technologies Inc.	14.76	1 225	2003	18.08	0.07
	Total		**8 385**		**41.19**	**0.50**
2004	Nokia Stock Option Plan 1999	16.89	5	2004	0.09	0.00
	Total		**5**		**0.09**	**0.00**
2005	Nokia Stock Option Plan 2003 2Q	14.95	61	2005	0.91	0.00
	Nokia Stock Option Plan 2003 3Q	12.71	6	2005	0.08	0.00
	Nokia Stock Option Plan 2004 2Q	11.79	55	2005	0.65	0.00
	Nokia Stock Option Plan 2004 3Q	9.44	3	2005	0.02	0.00
	Total		**125**		**1.66**	**0.01**

Reductions of share capital

Type of reduction	Year	Number of shares (1 000 par value EUR 0.06)	Amount of reduction of the share capital EURm	Amount of reduction of the restricted capital EURm	Amount of reduction of the retained earnings EURm
Cancellation of shares	2001	69	0.004	–	–
Cancellation of shares	2004	132 536	7.95	–	–
Cancellation of shares	2005	230 000	13.80	–	–

Share turnover (all stock exchanges)

	2005	2004	2003	2002	2001
Share turnover (1 000)	**12 977 232**	14 091 430	11 788 172	12 926 683	11 457 748
Total number of shares (1 000)	**4 433 887**	4 663 761	4 796 282	4 787 907	4 737 530
% of total number of shares	**293**	302	246	270	242

Share prices, EUR (Helsinki Stock Exchange)

	2005	2004	2003	2002	2001
Low/high	**10.75/15.75**	8.97/18.79	11.44/16.16	11.10/29.45	14.35/46.50
Average [1]	**13.20**	12.84	14.12	18.13	24.57
Year-end	**15.45**	11.62	13.71	15.15	28.96

1 Calculated by weighting average price with daily volumes.

Share prices, USD (New York Stock Exchange)

ADS	**2005**	2004	2003	2002	2001
Low/high	**13.92/18.62**	11.03/23.22	12.67/18.45	10.76/26.90	12.95/44.69
Average [1]	**16.39**	15.96	15.99	16.88	24.84
Year-end	**18.30**	15.67	17.00	15.50	24.53

1 Calculated by weighting average price with daily volumes.

Shareholders, December 31, 2005

Shareholders registered in Finland represent 14.62% and shareholders registered in the name of a nominee represent 85.38% of the total number of shares of Nokia Corporation. The number of registered shareholders was 126 352 on December 31, 2005. Each account operator (23) is included in this figure as only one registered shareholder.

Nominee registered shareholders include holders of American Depositary Receipts (ADR) and Svenska Depåbevis (SDB). As of December 31, 2005 ADRs represented 28.55% and SDBs 2.80% of the total number of shares in Nokia.

Largest shareholders registered in Finland, December 31, 2005

(excluding nominee registered shares and shares owned by Nokia Corporation [1])	Total number of shares (1 000)	% of all the shares	% of voting rights [2]
Svenska Litteratursällskapet i Finland rf	20 611	0.46	0.49
Sigrid Jusélius Foundation	15 300	0.35	0.37
Ilmarinen Mutual Pension Insurance Company	14 347	0.32	0.34
BNP Arbitrage	9 205	0.21	0.22
Varma Mutual Pension Insurance Company	7 400	0.17	0.18
The State Pension Fund	6 000	0.14	0.14
The Finnish Cultural Foundation	5 049	0.11	0.12
The Social Insurance Institution of Finland	4 289	0.10	0.10
The Finnish National Fund for Research and Development (Sitra)	3 885	0.09	0.09
Samfundet Folkhälsan i Svenska Finland rf	3 708	0.08	0.09

1 Nokia Corporation owned 261 010 000 shares as of December 31, 2005.

2 261 511 283 shares owned by the Group companies as of December 31, 2005 do not carry voting rights.

Breakdown of share ownership, Dec. 31, 2005 [1]

By number of shares owned	Number of shareholders	% of shareholders	Total number of shares	% of share capital
1–100	43 207	34.20	2 633 231	0.06
101–1 000	58 260	46.11	23 369 330	0.53
1 001–10 000	20 747	16.42	65 126 019	1.47
10 001–100 000	3 782	2.99	97 974 123	2.21
100 001–500 000	278	0.22	55 476 904	1.25
500 001–1 000 000	35	0.03	23 971 760	0.54
1 000 001–5 000 000	29	0.02	61 302 725	1.38
Over 5 000 000	14	0.01	4 104 032 448	92.56
Total	126 352	100.00	4 433 886 540	100.00

By nationality, %	Shares
Non-Finnish shareholders	85.38
Finnish shareholders	14.62
Total	**100.00**

By shareholder category (Finnish shareholders), %	Shares
Corporations	6.43
Households	4.15
Financial and insurance institutions	0.74
Non-profit organizations	2.10
General government	1.20
Total	**14.62**

1 Please note that the breakdown covers only shareholders registered in Finland, and each account operator (23) is included in the number of shareholders as only one registered shareholder. Due to this, the breakdown is not illustrative to the entire shareholder base of Nokia.

Shares and stock options owned by the members of the Board of Directors and the Group Executive Board

Members of the Board of Directors and the Group Executive Board owned on December 31, 2005 an aggregate of 632 733 shares representing approximately 0.02% of the aggregate number of shares and voting rights. They also owned stock options, which, if exercised in full, would be exercisable for 6 626 157 shares representing approximately 0.16% of the total number of shares and voting rights on December 31, 2005.

Nokia Group 2001 – 2005, IFRS

	2005	2004 As revised*	2003 As revised*	2002**	2001**
Profit and loss account, EURm					
Net sales	**34 191**	29 371	29 533	30 016	31 191
Cost and expenses	**–29 552**	–25 045	–24 573	–25 236	–27 829
Operating profit	**4 639**	4 326	4 960	4 780	3 362
Share of results of associated companies	**10**	–26	–18	–19	–12
Financial income and expenses	**322**	405	352	156	125
Profit before tax	**4 971**	4 705	5 294	4 917	3 475
Tax	**–1 281**	–1 446	–1 697	–1 484	–1 192
Profit before minority interests	**3 690**	3 259	3 597	3 433	2 283
Minority interests	**–74**	–67	-54	–52	–83
Profit attributable to equity holders of the parent	**3 616**	3 192	3 543	3 381	2 200
Balance sheet items, EURm					
Fixed assets and other non-current assets	**3 347**	3 161	3 837	5 742	6 912
Current assets	**18 951**	19 508	20 083	17 585	15 515
Inventories	**1 668**	1 305	1 169	1 277	1 788
Accounts receivable and prepaid expenses	**7 373**	6 406	6 802	6 957	7 602
Available-for-sale investments	**–**	255	816	–	–
Total cash and other liquid assets	**9 910**	11 542	11 296	9 351	6 125
Total equity	**12 360**	14 399	15 312	14 454	12 401
Capital and reserves attributable to equity holders of the parent	**12 155**	14 231	15 148	14 281	12 205
Minority interests	**205**	168	164	173	196
Long-term liabilities	**268**	294	328	461	460
Long-term interest-bearing liabilities	**21**	19	20	187	207
Deferred tax liabilities	**151**	179	241	207	177
Other long-term liabilities	**96**	96	67	67	76
Current liabilities	**9 670**	7 976	8 280	8 412	9 566
Short-term borrowings	**377**	215	387	377	831
Current portion of long-term loans	**–**	–	84	–	–
Accounts payable	**3 494**	2 669	2 919	2 954	3 074
Accrued expenses	**3 320**	2 604	2 468	2 611	3 477
Provisions	**2 479**	2 488	2 422	2 470	2 184
Total assets	**22 298**	22 669	23 920	23 327	22 427

* 2004 and 2003 financial statements now reflect the retrospective implementation of IFRS 2 and IAS 39(R).

** 2002 and 2001 data has not been adjusted from that reported in prior years, and therefore is not always comparable with data for years 2003 to 2005.

Key ratios and economic indicators *	2005	2004 As revised *	2003 As revised *	2002 **	2001 **
Net sales, EURm	34 191	29 371	29 533	30 016	31 191
Change, %	16.4	–0.5	–1.6	–3.8	2.7
Exports and foreign subsidiaries, EURm	33 860	29 020	29 186	29 663	30 738
Salaries and social expenses, EURm [1]	3 877	3 492	3 067	3 140	3 235
Operating profit, EURm	4 639	4 326	4 960	4 780	3 362
% of net sales	13.6	14.7	16.8	15.9	10.8
Financial income and expenses, EURm	322	405	352	156	125
% of net sales	0.9	1.4	1.2	0.5	0.4
Profit before tax, EURm	4 971	4 705	5 294	4 917	3 475
% of net sales	14.5	16.0	17.9	16.4	11.1
Profit from continuing operations, EURm	3 616	3 192	3 543	3 381	2 200
% of net sales	10.6	10.9	12.0	11.3	7.1
Taxes, EURm	1 281	1 446	1 699	1 484	1 192
Dividends, EURm	1 641 **	1 539	1 439	1 340	1 279
Capital expenditure, EURm	607	548	432	432	1 041
% of net sales	1.8	1.9	1.5	1.4	3.3
Gross investments***, EURm	870	1 197	1 013	966	2 149
% of net sales	3.1	4.1	3.4	3.2	6.9
R&D expenditure, EURm	3 825	3 776	3 788	3 052	2 985
% of net sales	11.2	12.9	12.8	10.2	9.6
Average personnel	56 896	53 511	51 605	52 714	57 716
Non-interest bearing liabilities, EURm	9 389	7 857	8 117	8 309	8 988
Interest-bearing liabilities, EURm	398	234	491	564	1 038
Return on capital employed, %	36.7	31.5	34.3	35.3	27.9
Return on equity, %	27.4	21.7	24.1	25.5	19.1
Equity ratio, %	56.1	64.4	64.8	62.5	56.0
Net debt to equity, %	–77	–79	–71	–61	–41

* 2004 and 2003 financial accounts now reflect the retrospective implementation of IFRS 2 and IAS 39(R). 2002 and 2001 data has not been adjusted from that reported in prior years, and therefore is not always comparable with data for the years 2003 to 2005.

** Board's proposal

*** Includes acquisitions, investments in shares and capitalized development costs.

1 Includes share-based compensation. See Note 5.

Calculation of key ratios, see page 50.

Calculation of key ratios

Key ratios under IFRS

Operating profit
Profit after depreciation

Shareholders' equity
Share capital + reserves attributable to equity holders of the parent

Earnings per share

$$\frac{\text{Profit attributable to equity holders of the parent}}{\text{Average of adjusted number of shares during the year}}$$

P/E ratio

$$\frac{\text{Adjusted share price, December 31}}{\text{Earnings per share}}$$

Dividend per share

$$\frac{\text{Nominal dividend per share}}{\text{The adjustment coefficients of the share issues that have taken place during or after the year in question}}$$

Payout ratio

$$\frac{\text{Dividend per share}}{\text{Earnings per share}}$$

Dividend yield, %

$$\frac{\text{Nominal dividend per share}}{\text{Share price}}$$

Shareholders' equity per share

$$\frac{\text{Capital and reserves attributable to equity holders of the parent}}{\text{Adjusted number of shares at year end}}$$

Market capitalization
Number of shares x share price per share class

Adjusted average share price

$$\frac{\text{Amount traded, in EUR, during the period}}{\text{Adjusted number of shares traded during the period}}$$

Share turnover, %

$$\frac{\text{Number of shares traded during the period}}{\text{Average number of shares during the period}}$$

Return on capital employed, %

$$\frac{\text{Profit before taxes + interest and other net financial expenses}}{\text{Average capital and reserves attributable to equity holders of the parent + short-term borrowings + long-term interest-bearing liabilities (including the current portion thereof) + minority shareholders' interests}}$$

Return on shareholders' equity, %

$$\frac{\text{Profit attributable to the equity holders of the parent}}{\text{Average capital and reserves attributable to equity holders of the parent during the year}}$$

Equity ratio, %

$$\frac{\text{Capital and reserves attributable to equity holders of the parent + minority shareholders' interests}}{\text{Total assets – advance payments received}}$$

Net debt to equity (gearing), %

$$\frac{\text{Long-term interest-bearing liabilities (including the current portion thereof) + short-term borrowings – cash and other liquid assets}}{\text{Capital and reserves attributable to the equity holders of the parent + minority shareholders' interests}}$$

Year-end currency rates 2005

	EUR =
USD	1.1972
GBP	0.6784
SEK	9.4326
JPY	139.29

Proposal by the Board of Directors to the Annual General Meeting

The distributable earnings in the balance sheet of the Group amount to EUR 9 453 million and those of the Company to EUR 4 915 million.

The Board proposes that from the funds at the disposal of the Annual General Meeting, a dividend of EUR 0.37 per share is to be paid out on a total of 4 433 886 540 shares, amounting to EUR 1 641 million.

Espoo, January 26, 2006

Jorma Ollila
Chairman and CEO

Paul J. Collins

Georg Ehrnrooth

Daniel R. Hesse

Bengt Holmström

Per Karlsson

Edouard Michelin

Marjorie Scardino

Vesa Vainio

Arne Wessberg

Olli-Pekka Kallasvuo
President and COO

Auditors' report
Translation

To the shareholders of Nokia Oyj

We have audited the accounting records, the financial statements and the administration of Nokia Oyj for the period 1.1. – 31.12.2005. The Board of Directors and the Managing Director have prepared the report of the Board of Directors and the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU and the parent company's financial statements prepared in accordance with prevailing regulations in Finland, that includes parent company's balance sheet, income statement, cash flow statement and the notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, the parent company's financial statements and on the administration of the parent company.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of administration is to examine that the members of the Board of Directors and the Managing Director of the parent company have legally complied with the rules of the Companies' Act.

Consolidated financial statements

In our opinion the consolidated financial statements give a true and fair view, as referred to in the International Financial Reporting Standards as adopted by the EU and defined in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position. The consolidated financial statements can be adopted.

Parent company's financial statements and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Finnish Accounting Act, of the parent company's result of operations as well as of the financial position. The financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding distributable funds is in compliance with the Companies' Act.

Helsinki, 26 January 2006

PricewaterhouseCoopers Oy
Authorized Public Accountants

Eero Suomela
APA

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US GAAP

Differences between International Financial Reporting Standards and US Generally Accepted Accounting Principles

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

EURm	2005	2004 As revised [1]	2003 As revised [1]
Reconciliation of profit attributable to equity holders of the parent under IFRS to net income under US GAAP:			
Profit attributable to equity holders of the parent reported under IFRS US GAAP adjustments:	3 616	3 192	3 543
Pension expense	–3	–	–12
Development costs	10	42	322
Social security cost on share-based payments	12	–6	–21
Share-based compensation expense	–39	39	32
Cash flow hedges	–12	31	19
Sale and leaseback transaction	–4	–	–
Amortization of identifiable intangible assets acquired	–	–11	–22
Impairment of identifiable intangible assets acquired	–	–47	–
Amortization of goodwill	–	106	162
Impairment of goodwill	–	–	151
Loss on disposal	–9	–	–
Deferred tax effect of US GAAP adjustments	11	–3	–77
Net income under US GAAP	3 582	3 343	4 097
Presentation of comprehensive income under US GAAP:			
Other comprehensive income (+)/loss (–):			
Foreign currency translation adjustment	272	–67	–273
Additional minimum liability, net of tax of EUR 5 million in 2005 and EUR –2 million in 2003	–8	–	3
Net losses on cash flow hedges, net of tax of EUR 43 million in 2005 (EUR 8 million in 2004 and EUR 4 million in 2003)	–122	–23	–4
Net unrealized losses (–)/gains(+) on securities:			
Net unrealized holding losses/gains during the year, net of tax of EUR 6 million in 2005 (EUR –2 million in 2004 and EUR –11 million in 2003)	–81	2	71
Transfer to profit and loss account on impairment	9	11	27
Less: Reclassification adjustment on disposal, net of tax of EUR 0 million in 2005 (EUR 10 million in 2004 and EUR 14 million in 2003)	–3	–95	–27
Other comprehensive income (+)/loss (–)	67	–172	–203
Comprehensive income under US GAAP	3 649	3 171	3 894

1 See Note 1 and 2

EURm	2005	2004
Reconciliation of total equity under IFRS to total shareholders' equity under US GAAP:		
Total equity reported under IFRS	12 360	14 399
Less minority interests	–205	–168
Capital reserves attributable to equity holders of the parent under IFRS	12 155	14 231
US GAAP adjustments:		
Pension expense	–52	–49
Additional minimum liability	–13	–
Development costs	–47	–57
Marketable securities and unlisted investments	17	35
Social security cost on share-based payments	20	15
Deferred compensation	–	–50
Share issue premium	135	146
Share-based compensation	–135	–96
Acquisition purchase price	2	2
Sale and leaseback transaction	–4	–
Amortization of identifiable intangible assets acquired	–62	–62
Impairment of identifiable intangible assets acquired	–47	–47
Amortization of goodwill	502	502
Impairment of goodwill	255	255
Loss on disposal	–9	–
Translation of goodwill	–242	–319
Deferred tax effect of US GAAP adjustments	83	70
Total shareholders' equity under US GAAP	12 558	14 576

Earnings per share under US GAAP:

EURm	2005	2004	2003
Earnings per share (net income):			
Basic	0.82	0.73	0.86
Diluted	0.82	0.73	0.86
Average number of shares (1 000 shares):			
Basic	4 365 547	4 593 196	4 761 121
Diluted	4 371 239	4 600 337	4 761 160

Pension expense and additional minimum liability

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

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

Development costs

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

Under US GAAP, software development costs are similarly capitalized after the product has reached a certain degree of technological feasibility. However, certain non-software related development costs capitalized under IFRS are not capitalizable under US GAAP and therefore are expensed.

Under IFRS, whenever there is an indication that capitalized development costs may be impaired the recoverable amount of the asset is estimated. An asset is impaired when the carrying amount of the asset exceeds its recoverable amount. Recoverable amount is defined as the higher of an asset's net selling price and value in use. Value in use is the present value of estimated discounted future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Under US GAAP, the unamortized capitalized costs of a software product are compared at each balance sheet date to the net realizable value of that product with any excess written off. Net realizable value is defined as the estimated future gross revenues from that product reduced by the estimated future costs of completing and disposing of that product, including the costs of performing maintenance and customer support required to satisfy the enterprise's responsibility set forth at the time of sale.

The amount of unamortized capitalized software development costs under US GAAP is EUR 213 million in 2005 (EUR 210 million in 2004).

The US GAAP development cost adjustment reflects the reversal of capitalized non-software related development costs under US GAAP net of the reversal of associated amortization expense and impairments under IFRS. The adjustment also reflects differences in impairment methodologies under IFRS and US GAAP for the determination of the recoverable amount and net realizable value of software related development costs.

Marketable securities and unlisted investments

Under IFRS, all available-for-sale investments, which includes all publicly listed and non-listed marketable securities, are measured at fair value and gains and losses are recognized within shareholders' equity until realized in the profit and loss account upon sale or disposal.

Under US GAAP, the Group's listed marketable securities are classified as available-for-sale and carried at aggregate fair value with gross unrealized holding gains and losses reported as a component of other comprehensive income (+)/loss (–). Investments in equity securities that are not traded on a public market are carried at historical cost, giving rise to an adjustment between IFRS and US GAAP.

Social security cost on share-based payments

Under IFRS, the Group recognizes a provision for social security costs on unvested equity instruments based upon local statutory law, net of deferred compensation, which is recorded as a component of total equity. The provision is considered as a cash-settled share-based payment and is measured by reference to the fair value of the equity benefits provided and the amount of the provision is adjusted to reflect the changes in Nokia's share price.

Under US GAAP, a liability for social security costs on unvested equity instruments is recognized on the date of the event triggering the measurement and payment of the tax to the taxing authority. Accordingly, no expense is recorded until stock options are exercised or unvested shares are fully vested.

The US GAAP social security costs adjustment reflects the reversal of social security costs recorded under IFRS for outstanding options and unvested performance and restricted shares.

Share-based compensation

The Group maintains several share-based employee compensation plans, which are described more fully in Note 24. As of January 1, 2005 the Group adopted IFRS 2. Prior to the adoption of IFRS 2, the Group did not recognize the financial effect of share-based payments until such payments were settled. In accordance with the transitional provisions of IFRS 2, the Standard has been applied retrospectively to all grants of shares, share options or other equity instruments that were granted after November 7, 2002 and that were not yet vested at the effective date of the standard.

Through December 31, 2004, the Group accounted for its employee share-based compensation programs under US GAAP using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related interpretations to measure employee stock compensation. Under APB 25, compensation expense was recognized under the Group's option programs when options were awarded at an exercise price below the market price of the Group's shares on the grant date and under the Group's performance and restricted share programs as they were accounted for as variable award plans. Under APB 25, compensation arising from stock option programs, restricted shares and performance shares was recorded as

deferred compensation within shareholders' equity and recognized in the profit and loss account over the vesting period of the underlying equity instruments.

Effective January 1, 2005, the Group adopted Statement of Financial Accounting Standards No. 123 (R), Share-based Payment ("FAS 123R") using the modified prospective method. Under the modified prospective method, all new equity-based compensation awards granted to employees and existing awards modified on or after January 1, 2005, are measured based on the fair value of the award and are recognized in the statement of income over the required service period. Prior periods have not been revised.

The retrospective transition provision of IFRS 2 and the modified prospective transition provision of FAS 123(R) give rise to differences in the historical income statement for share-based compensation. Further, associated differences surrounding the effective date of application of the standards to unvested shares give rise to both current and historical income statement differences in share-based compensation. Share issue premium reflects the cumulative difference between the amount of share-based compensation recorded under US GAAP and IFRS and the amount of deferred compensation previously recorded in accordance with APB 25.

Total share-based compensation expense under US GAAP was EUR 134 million in 2005. Total share-based compensation expense in 2005 would have been EUR 110 million under APB 25. The increase in share-based compensation expense resulting from the adoption of FAS 123R reduced basic and diluted earnings per share under US GAAP by 0.01 EUR in 2005.

Cash flow hedges

Under IFRS, the Group adopted IAS 39(R) as of January 1, 2005, which supersedes IAS 39 (revised 2000). The changes, which are retrospective, under IAS 39(R) are that hedge accounting is no longer allowed under Treasury Center foreign exchange netting.

Under US GAAP, the Group applies FAS 133, Accounting for Derivative Instruments and Hedging Activities.

The US GAAP difference arises when a subsidiary's reporting currency is different from Treasury Center's reporting currency and external and internal hedge maturities are different more than 31 days. For those hedges not qualifying under US GAAP, the unrealized spot foreign exchange gains and losses from those hedges are released to the income statement. The US GAAP adjustment for prior years has been adjusted for the adoption for IAS 39(R).

Sale and leaseback transaction

In 2005, the Group entered into a sale and leaseback transaction. Under the agreement, the Group has a potential liability related to a pending zoning change scheduled to be final in 2006. Under IFRS, the transaction qualified as a sale and leaseback as the potential liability related to the zoning change is considered to be remote. Accordingly, the Group recorded a gain on the sale of the property and rental expense associated with the subsequent leaseback.

Under US GAAP, the transaction did not qualify for sale and leaseback accounting as the clause is deemed to create continuing involvement by the Group. Accordingly, the transaction is accounted for as a capital lease until the potential obligation lapses with the zoning change expected in 2006. Once the potential obligation lapses and continuing involvement ceases, the transaction can be accounted for as a sale and the corresponding gain can be realized. Until that time, the amount of the asset will remain on the US GAAP balance sheet and rental payments are recorded as a reduction of the principal amount of the obligation and as interest expense.

The US GAAP sale and leaseback adjustment reflects the reversal of the gain on sale of the property and rental expense recorded under IFRS net of interest expense recorded under US GAAP.

Acquisition purchase price

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

Under US GAAP, the measurement date for shares of the acquirer is the date the acquisition is announced or, if the number of shares is uncertain on such date, the first day on which both the number of acquirer shares and the amount of other consideration becomes fixed. The average share price for a reasonable period before and after the measurement date is then used to value the shares.

The US GAAP acquisition purchase price adjustment reflects the different measurement dates used under IFRS and US GAAP in the valuation of shares issued in connection with a business combination.

Amortization and impairment of identifiable intangible assets acquired

Under IFRS, prior to April 1, 2004, unpatented technology acquired was not separately recognized upon acquisition as an identifiable intangible asset but was included within goodwill.

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

During 2004 the carrying value of Amber Network unpatented technology was impaired since Nokia no longer developed nor used the technology acquired and its carrying amount was deemed not recoverable through estimated future cash flows. The total impact on net income in 2004 amounted to EUR 58 million of which the impairment recognized under US GAAP was EUR 47 million.

The net carrying amount of other intangible assets under US GAAP is EUR 425 million in 2005 (EUR 419 million in 2004) and consists of capitalized development costs of EUR 213 million (EUR 210 million) and acquired patents, trademarks and licenses of EUR 212 million (EUR 209 million). The Group does not have any indefinite lived intangible assets. Amortization expense under US GAAP of other intangible assets as of December 31, 2005, is expected to be as follows:

	EURm
2006	164
2007	79
2008	27
2009	13
2010	6
Thereafter	136
	425

Amortization of goodwill

Under IFRS, the Group adopted the provisions of IFRS 3 on January 1, 2005. As a result, goodwill recognized relating to purchase acquisitions and acquisitions of associated companies is no longer subject to amortization. Under the transitional provisions of IFRS 3, this change in accounting policy was effective immediately for acquisitions made after March 31, 2004.

Under US GAAP, the Group records goodwill in accordance with FAS 142, Goodwill and Other Intangible Assets, (FAS 142). The Group adopted the provisions of FAS 142 on January 1, 2002 and as a result, goodwill relating to purchase acquisitions and acquisitions of associated companies is no longer subject to amortization subsequent to the date of adoption.

The US GAAP adjustment reverses amortization expense and the associated movement in accumulated amortization recorded under IFRS prior to the adoption of IFRS 3.

Impairment of goodwill

Under IFRS, goodwill is allocated to "cash-generating units", which are the smallest group of identifiable assets that include the goodwill under review for impairment and generate cash inflows from continuing use that are largely independent of the cash inflows from other assets. Under IFRS, the Group recorded an impairment of goodwill of EUR 151 million related to Amber Networks in 2003 as the carrying amount of the cash-generating unit exceeded the recoverable amount of the unit.

Under US GAAP, goodwill is allocated to "reporting units", which are operating segments or one level below an operating segment (as defined in FAS 131, Disclosures about Segments of an Enterprise and Related Information). The goodwill impairment test under FAS 142 compares the carrying value for each reporting unit to its fair value based on discounted cash flows.

The US GAAP impairment of goodwill adjustment reflects the cumulative reversal of impairments recorded under IFRS that did not qualify as impairments under US GAAP.

Upon completion of the 2003 annual impairment test, the Group determined that the impairment recorded for Amber Networks should be reversed under US GAAP as the fair value of the reporting unit in which Amber Networks resides exceeded the book value of the reporting unit. The annual impairment tests performed subsequent to 2003 continue to support the reversal of this impairment.

The Group recorded no goodwill impairments during 2005 and 2004.

Below is a roll forward of US GAAP goodwill during 2005 and 2004:

EURm	Mobile Phones	Multimedia	Enterprise Solutions	Networks	Common Group Functions	Group
Balance as of January 1, 2004	**129**	**22**	**40**	**271**	**9**	**471**
Translation adjustment	−1	–	−3	−22	–	−26
Balance as of December 31, 2004	**128**	**22**	**37**	**249**	**9**	**445**
Goodwill disposed	–	–	–	–	−9	−9
Translation adjustment	45	–	4	28	–	77
Balance as of December 31, 2005	**173**	**22**	**41**	**277**	**–**	**513**

Loss on disposal

In 2005, the Group divested the remaining holdings in a Group company resulting in a loss on disposal. Under IFRS, the goodwill related to the original acquisition had been fully amortized.

Under US GAAP, the goodwill related to the acquisition of the Group company was written off upon disposal resulting in an additional loss.

The US GAAP loss on disposal adjustment reflects the write-off of goodwill under US GAAP that was fully amortized under IFRS.

Translation of goodwill

Under IFRS, the Group has historically translated goodwill arising on the acquisition of foreign subsidiaries at historical rates. Subsequent to the adoption of IAS 21 (revised 2004) as of January 1, 2005, the Group translates goodwill arising on prospective acquisitions of foreign companies at balance sheet date closing rates.

Under US GAAP, goodwill is translated at the closing rate on the balance sheet date with gains and losses recorded as a component of other comprehensive income.

The US GAAP translation of goodwill adjustment reflects cumulative translation differences between historical and current rates on goodwill arising from acquisitions of foreign subsidiaries.

Critical accounting policies

Our accounting policies affecting our financial condition and results of operations are more fully described in Note 1 to our consolidated financial statements. Certain of Nokia's accounting policies require the application of judgment by management in selecting appropriate assumptions for calculating financial estimates, which inherently contain some degree of uncertainty. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported carrying values of assets and liabilities and the reported amounts of revenues and expenses that may not be readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Nokia believes the following are the critical accounting policies and related judgments and estimates used in the preparation of its consolidated financial statements. We have discussed the application of these critical accounting estimates with our Board of Directors and Audit Committee.

Revenue recognition

Revenue from the majority of the Group is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable. The remainder of revenue is recorded under the percentage of completion method.

Mobile Phones, Multimedia and Enterprise Solutions, and certain Networks' revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable. This requires us to assess at the point of delivery whether these criteria have been met. When management determines that such criteria have been met, revenue is recognized. Nokia records estimated reductions to revenue for special pricing agreements, price protection and other volume based discounts at the time of sale, mainly in the mobile device business. Sales adjustments for volume based discount programs are estimated based largely on historical activity under similar programs. Price protection adjustments are based on estimates of future price reductions and certain agreed customer inventories at the date of the price adjustment. An immaterial part of the revenue from products sold through distribution channels is recognized when the reseller or distributor sells the product to the end user.

Networks' revenue and cost of sales from contracts involving solutions achieved through modification of complex telecommunications equipment is recognized on the percentage of completion basis when the outcome of the contract can be estimated reliably. This occurs when total contract revenue and the cost to complete the contract can be estimated reliably, it is probable that economic benefits associated with the contract will flow to the Group, and the stage of contract completion can be measured. When we are not able to meet those conditions, the policy is to recognize revenues only equal to costs incurred to date, to the extent that such costs are expected to be recovered. Completion is measured by reference to costs incurred to date as a percentage of estimated total project costs, the cost-to-cost method.

The percentage of completion method relies on estimates of total expected contract revenue and costs, as well as the dependable measurement of the progress made towards completing the particular project. Recognized revenues and profit are subject to revisions during the project in the event that the assumptions regarding the overall project outcome are revised. The cumulative impact of a revision in estimates is recorded in the period such revisions become likely and estimable. Losses on projects in progress are recognized in the period they become likely and estimable.

Networks' customer contracts may include the provision of separately identifiable components of a single transaction, for example the construction of a network solution and subsequent network maintenance services. Accordingly, for these arrangements, revenue recognition requires proper identification of the components of the transaction and evaluation of their commercial effect in order to reflect the substance of the transaction. If the components are considered separable, revenue is allocated across the identifiable components based upon relative fair values.

Networks' current sales and profit estimates for projects may change due to the early stage of a long-term project, new technology, changes in the project scope, changes in costs, changes in timing, changes in customers' plans, realization of penalties, and other corresponding factors.

Customer financing

We have provided a limited amount of customer financing and agreed extended payment terms with selected customers in our Networks business. In establishing credit arrangements, management must assess the creditworthiness of the customer and the timing of cash flows expected to be received under the arrangement. However, should the actual financial position of our customers or general economic conditions differ from our assumptions, we may be required to re-assess the ultimate collectibility of such financings and trade credits, which could result in a write-off of these balances in future periods and thus negatively impact our profits in future periods. Our assessment of the net recoverable value considers the collateral and security arrangements of the receivable as well as the likelihood and timing of estimated collections. See also Note 38(b) to our consolidated financial statements for a further discussion of long-term loans to customers and other parties.

Allowances for doubtful accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the subsequent inability of our customers to make required payments. If the financial conditions of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required in future periods. Management specifically analyzes accounts receivables and analyzes historical bad debt, customer concentrations, customer creditworthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts.

Inventory-related allowances

We periodically review our inventory for excess, obsolescence and declines in market value below cost and record an allowance against the inventory balance for any such declines. These reviews require management to estimate future demand for our products. Possible changes in these estimates could result in revisions to the valuation of inventory in future periods.

Warranty provisions

We provide for the estimated cost of product warranties at the time revenue is recognized. Nokia's

products are covered by product warranty plans of varying periods, depending on local practices and regulations. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, our warranty obligations are affected by actual product failure rates (field failure rates) and by material usage and service delivery costs incurred in correcting a product failure. Our warranty provision is established based upon our best estimates of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. As we continuously introduce new products, which incorporate complex technology, and as local laws, regulations and practices may change, it will be increasingly difficult to anticipate our failure rates, the length of warranty periods and repair costs. While we believe that our warranty provisions are adequate and that the judgments applied are appropriate, the ultimate cost of product warranty could differ materially from our estimates. When the actual cost of quality of our products is lower than we originally anticipated, we release an appropriate proportion of the provision, and if the cost of quality is higher than anticipated, we increase the provision.

Provision for intellectual property rights, or IPR, infringements

We provide for the estimated future settlements related to asserted and unasserted IPR infringements based on the probable outcome of each infringement.

Our products and solutions include increasingly complex technologies involving numerous patented and other proprietary technologies. Although we proactively try to ensure that we are aware of any patents and other intellectual property rights related to our products and solutions under development and thereby avoid inadvertent infringement of proprietary technologies, the nature of our business is such that patent and other intellectual property right infringements may and do occur. Through contact with parties claiming infringement of their patented or otherwise exclusive technology, or through our own monitoring of developments in patent and other intellectual property right cases involving our competitors, we identify potential IPR infringements.

We estimate the outcome of all potential IPR infringements made known to us through assertion by third parties, or through our own monitoring of patent- and other IPR-related cases in the relevant legal systems. To the extent that we determine that an identified potential infringement will result in a probable outflow of resources, we record a liability based on our best estimate of the expenditure required to settle infringement proceedings.

Our experience with claims of IPR infringement is that there is typically a discussion period with the accusing party, which can last from several months to years. In cases where a settlement is not reached, the discovery and ensuing legal process typically lasts a minimum of one year. For this reason, IPR infringement claims can last for varying periods of time, resulting in irregular movements in the IPR infringement provision. In addition, the ultimate outcome or actual cost of settling an individual infringement may materially vary from our estimates.

Legal contingencies

As discussed in Note 32 to the consolidated financial statements, legal proceedings covering a wide range of matters are pending or threatened in various jurisdictions against the Group. We record provisions for pending litigation when we determine that an unfavorable outcome is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of settlement may materially vary from estimates.

Capitalized development costs

We capitalize certain development costs when it is probable that a development project will be a success and certain criteria, including commercial and technical feasibility, have been met. These costs are then amortized on a systematic basis over their expected useful lives, which due to the constant development of new technologies is between two to five years. During the development stage, management must estimate the commercial and technical feasibility of these projects as well as their expected useful lives. Should a product fail to substantiate its estimated feasibility or life cycle, we may be required to write off excess development costs in future periods.

Whenever there is an indicator that development costs capitalized for a specific project may be impaired, the recoverable amount of the asset is estimated. An asset is impaired when the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is defined as the higher of an asset's net selling price and value in use. Value in use is the present value of discounted estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. For projects still in development, these estimates include the future cash outflows that are expected to occur before the asset is ready for use. See Note 9 to our consolidated financial statements.

Impairment reviews are based upon our projections of anticipated future cash flows. The most significant variables in determining cash flows are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of products and forecasted life cycle and forecasted cash flows over that period. While we believe that our assumptions are appropriate, such amounts estimated could differ materially from what will actually occur in the future. For IFRS, discounted estimated cash flows are used to identify the existence of an impairment while for US GAAP undiscounted future cash flows are used. Consequently, an impairment could be required under IFRS but not under US GAAP.

Valuation of long-lived and intangible assets and goodwill

We assess the carrying value of identifiable intangible assets, long-lived assets and goodwill annually, or more frequently if events or changes in circumstances indicate that such carrying value may not be recoverable. Factors we consider important, which could trigger an impairment review, include the following:

» significant underperformance relative to historical or projected future results;

» significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and

» significantly negative industry or economic trends.

When we determine that the carrying value of intangible assets, long-lived assets or goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on discounted projected cash flows.

This review is based upon our projections of anticipated future cash flows. The most significant variables in determining cash flows are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of products and forecasted life cycle and forecasted cash flows over that period. While we believe that our assumptions are appropriate, such amounts estimated could differ materially from what will actually occur in the future. In assessing goodwill, for IFRS these discounted cash flows are prepared at a cash generating unit level, and for US GAAP these cash flows are prepared at a reporting unit level. Consequently, an impairment could be required under IFRS and not US GAAP or vice versa. Amounts estimated could differ materially from what will actually occur in the future.

Fair value of derivatives and other financial instruments

Our investments consist primarily of derivative financial instruments associated with underlying hedged positions and equity investments. The fair value of financial instruments that are not traded in an active market (for example, unlisted equities, currency options and embedded derivatives) are determined using valuation techniques. We use judgment to select an appropriate valuation methodology and underlying assumptions based principally on existing market conditions. While we believe our valuation estimates are appropriate, changes in the performance of equity and derivative markets may cause the Group to recognize material impairments or losses in future periods.

Deferred taxes

Management judgment is required in determining our provision for income taxes, deferred tax assets and liabilities and the extent to which deferred tax assets can be recognized. We recognize deferred tax assets if it is probable that sufficient taxable income will be available in the future against which the temporary differences and unused tax losses can be utilized. We have considered future taxable income and tax planning strategies in assessing whether deferred tax assets should be recognized. If the final outcome of these matters differs from the amounts initially recorded, differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Pensions

The determination of our pension benefit obligation and expense for defined benefit pension plans is dependent on our selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 6 to our consolidated financial statements and include, among others, the discount rate, expected long-term rate of return on plan assets and annual rate of increase in future compensation levels. A portion of our plan assets is invested in equity securities. The equity markets have experienced volatility, which has affected the value of our pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. Actual results that differ from our assumptions are accumulated and amortized over future periods and therefore generally affect our recognized expense and recorded obligation in such future periods. Our assumptions are based on actual historical experience and external data regarding compensation and discount rate trends. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our pension obligation and our future expense.

Share-based compensation

We have various types of equity settled share-based compensation schemes for employees. Employee services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments as at the date of grant, excluding the impact of any non-market vesting conditions. Fair value of stock options is estimated by using the Black Scholes model on the date of grant based on certain assumptions. Those assumptions are described in Note 24 to the consolidated financial statements and include, among others, the dividend yield, expected volatility and expected life of the options. The expected life of options is estimated by observing general option holder behavior and actual historical terms of Nokia stock option programs, whereas the assumption of the expected volatility has been set by reference to the implied volatility of options available on Nokia shares in the open market and in light of historical patterns of volatility. These variables make estimation of fair value of stock options difficult.

Non-market vesting conditions attached to the performance shares are included in assumptions about the number of shares that the employee will ultimately receive relating to projections of sales and earnings per share. On a regular basis we review the assumptions made and revise the estimates of the number of performance shares that are expected to be settled, where necessary. At the date of grant the number of performance shares granted to employees that are expected to be settled is assumed to be the target amount. Any subsequent revisions to the estimates of the number of performance shares expected to be settled may increase or decrease total compensation expense. Such increase or decrease adjusts the prior period compensation expense in the period of the review on a cumulative basis for unvested performance shares for which compensation expense has already been recognized in the profit and loss account, and in subsequent periods for unvested performance shares for which the expense has not yet been recognized in the profit and loss account. Significant differences in employee option activity, equity market performance and our projected and actual sales and earnings per share performance, may materially affect future expense. In addition, the value, if any, an employee ultimately receives from share-based payment awards may not correspond to the expense amounts recorded by the Group.

Group Executive Board

January 1, 2006

According to our articles of association, we have a Group Executive Board, which is responsible for the operative management of the Group. The Chairman and members of the Group Executive Board are appointed by the Board of Directors. Only the Chairman of the Group Executive Board can be a member of both the Board of Directors and the Group Executive Board.

The Board of Directors has released Jorma Ollila, Chairman and CEO, upon his request from his duties as the CEO and Chairman of the Group Executive Board effective June 1, 2006. The Board of Directors has appointed Olli-Pekka Kallasvuo President and COO with effect from October 1, 2005 until May 31, 2006. From June 1, 2006, Mr. Kallasvuo will become President and CEO and Chairman of the Group Executive Board.

During 2005, we announced the following changes in the members of the Group Executive Board:

» Tero Ojanperä was appointed Chief Strategy Officer and member of the Group Executive Board effective January 1, 2005.

» Sari Baldauf, formerly Executive Vice President and General Manager of Networks, resigned effective January 31, 2005.

» J.T. Bergqvist, formerly Senior Vice President and General Manager of Business Units of Networks, resigned effective January 31, 2005.

» Simon Beresford-Wylie was appointed Executive Vice President and General Manager of Networks and member of the Group Executive Board effective February 1, 2005.

» Pekka Ala-Pietilä, formerly President of Nokia and Head of Customer and Market Operations resigned from the Group Executive Board effective October 1, 2005. Thereafter, Mr. Ala-Pietilä served as an Executive Advisor for Nokia until January 31, 2006.

» Yrjö Neuvo, formerly Senior Vice President and Technology Advisor, resigned from the Group Executive Board effective October 1, 2005.

» Robert Andersson was appointed Executive Vice President of Customer and Market Operations and member of the Group Executive Board effective October 1, 2005.

» Kai Öistämö was appointed Executive Vice President and General Manager of Mobile Phones and member of the Group Executive Board effective October 1, 2005.

The current members of our Group Executive Board are set forth below.

Chairman Jorma Ollila, b. 1950
Chairman and CEO of Nokia Corporation.
Group Executive Board member since 1986.
Group Executive Board Chairman since 1992.
Joined Nokia 1985.

Master of Political Science (University of Helsinki), Master of Science (Econ.) (London School of Economics), Master of Science (Eng.) (Helsinki University of Technology).

President and CEO, and Chairman of the Group Executive Board of Nokia Corporation 1992–1999, President of Nokia Mobile Phones 1990–1992, Senior Vice President, Finance of Nokia 1986–1989. Holder of various managerial positions at Citibank within corporate banking 1978–1985.

Member of the Board of Directors of Ford Motor Company, Vice Chairman of the Board of Directors of UPM-Kymmene Corporation and Vice Chairman of the Board of Directors of Otava Books and Magazines Group Ltd. Chairman of the Board of Directors of Royal Dutch Shell Plc from June 1, 2006. Chairman of the Boards of Directors and the Supervisory Boards of Finnish Business and Policy Forum EVA and The Research Institute of the Finnish Economy ETLA. Chairman of The European Round Table of Industrialists.

Robert Andersson, b. 1960
Executive Vice President
of Customer and Market Operations.
Group Executive Board member since Oct. 1, 2005.
Joined Nokia in 1985.

Master of Business Administration (George Washington University), Master of Science (Econ.) (Swedish School of Economics and Business Administration in Helsinki).

Senior Vice President for Customer and Market Operations, Europe, Middle East and Africa 2004–2005, Senior Vice President of Nokia Mobile Phones in Asia-Pacific 2001–2004, Vice President of Sales for Nokia Mobile Phones in Europe and Africa 1998–2001.

Simon Beresford-Wylie, b. 1958
Executive Vice President
and General Manager of Networks.
Group Executive Board member since Feb. 1, 2005.
Joined Nokia 1998.

Bachelor of Arts (Economic Geography and History) (Australian National University).

Senior Vice President of Nokia Networks, Asia Pacific 2003–2004, Senior Vice President, Customer Operations of Nokia Networks, 2002–2003, Vice President, Customer Operations of Nokia Networks 2000–2002, Managing Director of Nokia Networks in India and Area General Manager, South Asia 1999–2000, Regional Director of Business Development, Project and Trade Finance of Nokia Networks, Asia Pacific 1998–1999, Chief Executive Officer of Modi Testra, India 1995–1998, General Manager, Banking and Finance, Corporate and Government business unit of Telstra Corporation 1993–1995, holder of executive positions in the Corporate and Government business units of Telstra Corporation 1989–1993, holder of executive, managerial and clerical positions in the Australian Commonwealth Public Service 1982–1989.

Member of the Board of Directors of The Vitec Group plc.

Olli-Pekka Kallasvuo, b. 1953
President and COO.
President and CEO as from June 1, 2006.
Group Executive Board member since 1990.
With Nokia 1980–81, rejoined 1982

LL.M. (University of Helsinki).

Executive Vice President and General Manager of Mobile Phones 2004–2005, Executive Vice President, CFO of Nokia 1999–2003, Executive Vice President of Nokia Americas and President of Nokia Inc. 1997–1998, Executive Vice President, CFO of Nokia 1992–1996, Senior Vice President, Finance of Nokia 1990–1991.

Chairman of the Board of Directors of Sampo plc (until March 2006) and member of the Board of Directors of EMC Corporation.

Pertti Korhonen, b. 1961
Executive Vice President, Chief Technology Officer.
Group Executive Board member since 2002.
Joined Nokia 1986.

Master of Science (Electronics Eng.) (University of Oulu).

Executive Vice President of Nokia Mobile Software 2001–2003, Senior Vice President, Global Operations, Logistics and Sourcing of Nokia Mobile Phones 1999–2001, Senior Vice President, Global Operations and Logistics of Nokia Mobile Phones 1998–1999, Vice President, Logistics of Nokia Mobile Phones 1996–1998, Vice President, Manufacturing Europe of Nokia Mobile Phones 1993–1996, Project Executive of Nokia Mobile Phones UK Ltd 1991–1993, Vice President, R&D of Nokia Mobile Phones, Oulu 1990–1991.

Mary T. McDowell, b. 1964
Executive Vice President
and General Manager of Enterprise Solutions.
Group Executive Board member since 2004.
Joined Nokia 2004.

Bachelor of Science (Computer Science) (College of Engineering at the University of Illinois).

Senior Vice President, Strategy and Corporate Development of Hewlett-Packard Company 2003, Senior Vice President & General Manager, Industry-Standard Servers of Hewlett-Packard Company 2002–2003, Senior Vice President & General Manager, Industry-Standard Servers of Compaq Computer Corporation 1998–2002, Vice President, Marketing, Server Products Division of Compaq Computer Corporation 1996–1998. Holder of executive, managerial and other positions at Compaq Computer Corporation 1986–1996.

Member of the Board of Visitors for the College of Engineering at the University of Illinois.

Hallstein Moerk, b. 1953
Executive Vice President, Human Resources.
Group Executive Board member since 2004.
Joined Nokia 1999.

Diplomøkonom (Econ.) (Norwegian School of Management). Holder of various positions at Hewlett-Packard Corporation 1977–1999.

Member of the Board of Advisors for Center for HR Strategy, Rutgers University.

Dr. Tero Ojanperä, b. 1966
Executive Vice President, Chief Strategy Officer.
Group Executive Board member since Jan. 1, 2005.
Joined Nokia 1990.

Master of Science (University of Oulu), Ph.D. (Delft University of Technology, The Netherlands).

Senior Vice President, Head of Nokia Research Center 2002–2004. Vice President, Research, Standardization and Technology of IP Mobility Networks, Nokia Networks 1999–2001. Vice President, Radio Access Systems Research and General Manager of Nokia Networks in Korea, 1999. Head of Radio Access Systems Research, Nokia Networks 1998–1999, Principal Engineer, Nokia Research Center, 1997–1998.

Chairman of Nokia Foundation. Vice Chairman of the Center for Wireless Communications, Oulu University. Member of the Board of Technomedicum Research Institute. Member of IST Advisory Group (ISTAG) for the European Commission. Member of the Board of the Foundation of Finnish Institute in Japan. Member of the Industrial Advisory Council of Center for TeleIn-Frastruktur (CTIF), Aalborg University. Member of the Institute of Electrical and Electronics Engineers, Inc. (IEEE).

Richard A. Simonson, b. 1958
Executive Vice President, Chief Financial Officer.
Group Executive Board member since 2004.
Joined Nokia 2001.

Bachelor of Science (Mining Eng.) (Colorado School of Mines), Master of Business Administration (Finance) (Wharton School of Business at University of Pennsylvania).

Vice President & Head of Customer Finance of Nokia Corporation 2001–2003, Managing Director of Telecom & Media Group of Barclays 2001, Head of Global Project Finance and other various positions at Bank of America Securities 1985–2001.

Member of the Board of Trustees of International House – New York.

Veli Sundbäck, b. 1946
Executive Vice President, Corporate Relations
and Responsibility of Nokia Corporation.
Group Executive Board member since 1996.
Joined Nokia 1996.

LL.M. (University of Helsinki).

Executive Vice President, Corporate Relations and Trade Policy of Nokia Corporation 1996-. Secretary of State at the Ministry for Foreign Affairs 1993–1995, Under-Secretary of State for External Economic Relations at the Ministry for Foreign Affairs 1990–1993.

Member of the Board of Directors of Finnair Oyj. Member of the Board and its executive committee, Confederation of Finnish Industries (EK), Vice Chairman of the Board, Technology Industries of Finland, Vice Chairman of the Board of the International Chamber of Commerce, Finnish Section, Chairman of the Board of the Finland-China Trade Association.

Anssi Vanjoki, b. 1956
Executive Vice President
and General Manager of Multimedia.
Group Executive Board member since 1998.
Joined Nokia 1991.

Master of Science (Econ.) (Helsinki School of Economics and Business Administration).

Executive Vice President of Nokia Mobile Phones 1998–2003, Senior Vice President, Europe and Africa of Nokia Mobile Phones 1994–1998, Vice President, Sales of Nokia Mobile Phones 1991–1994, 3M Corporation 1980–1991.

Member of the Board of Directors of Amer Group Plc.

Dr. Kai Öistämö, b. 1964
Executive Vice President
and General Manager of Mobile Phones.
Group Executive Board Member since Oct. 1, 2005.
Joined Nokia in 1991.

Doctor of Technology (Signal Processing), Master of Science (Engineering) (Tampere University of Technology).

Senior Vice President, Business Line Management of Mobile Phones 2004–2005, Senior Vice President, Mobile Phones Business Unit of Nokia Mobile Phones 2002–2003, Vice President, TDMA/GSM 1900 Product Line of Nokia Mobile Phones 1999–2002, Vice President, TDMA Product Line 1997–1999, various technical and managerial positions in Nokia Consumer Electronics and Nokia Mobile Phones 1991–1997.

Changes in the Nokia Group Executive Board

On February 15, 2006 the Group announced that Pertti Korhonen, Chief Technology Officer and Executive Vice President, Technology Platforms, and a member of the Group Executive Board will resign from the Group Executive Board as of April 1, 2006. He will also resign from Nokia. Niklas Savander has been appointed as Executive Vice President, Technology Platforms and a member of the Group Executive Board as of April 1, 2006.

Board of Directors January 1, 2006

Pursuant to the provisions of the Finnish Companies Act and our articles of association, the control and management of Nokia is divided among the shareholders at a general meeting, the Board of Directors and the Group Executive Board. The current members of the Board of Directors were elected at the Annual General Meeting on April 7, 2005, in accordance with the proposal of the Corporate Governance and Nomination Committee of the Board of Directors. On the same date, the Chairman and Vice Chairman were elected by the members of the Board of Directors. On August 1, 2005, we announced that the Board of Directors has released Jorma Ollila, Chairman and CEO, upon his request, from his duties as CEO effective June 1, 2006. The Corporate Governance and Nomination Committee of the Board of Directors will propose to the Annual General Meeting convening on March 30, 2006 that Jorma Ollila continues after June 1, 2006 as Non-Executive Chairman. The Committee has received Mr. Ollila's confirmation that he is available for this position.

Certain information with respect to the members of the Board of Directors is set forth below.

Chairman Jorma Ollila, b. 1950
Chairman and CEO
and Chairman of the Group Executive Board
of Nokia Corporation.
Board member since 1995. Chairman since 1999.

Master of Political Science (University of Helsinki), Master of Science (Econ.) (London School of Economics), Master of Science (Eng.) (Helsinki University of Technology).

President and CEO, Chairman of the Group Executive Board of Nokia Corporation 1992–1999, President of Nokia Mobile Phones 1990–1992, Senior Vice President, Finance of Nokia 1986–1989. Holder of various managerial positions at Citibank within corporate banking 1978–1985.

Member of the Board of Directors of Ford Motor Company, Vice Chairman of the Board of Directors of UPM-Kymmene Corporation, Vice Chairman of the Board of Directors of Otava Books and Magazines Group Ltd. Chairman of the Board of Directors of Royal Dutch Shell Plc from June 1, 2006. Chairman of the Boards of Directors and the Supervisory Boards of Finnish Business and Policy Forum EVA and The Research Institute of the Finnish Economy ETLA. Chairman of The European Round Table of Industrialists.

Vice Chairman Paul J. Collins, b. 1936
Board member since 1998.
Vice Chairman since 2000.

BBA (University of Wisconsin), MBA (Harvard Business School).

Vice Chairman of Citigroup Inc. 1998–2000, Vice Chairman and member of the Board of Directors of Citicorp and Citibank N.A. 1988–2000. Holder of various executive positions at Citibank within investment management, investment banking, corporate planning as well as finance and administration 1961–1988.

Member of the Board of Directors of BG Group and The Enstar Group, Inc. Member of the Supervisory Board of Actis Capital LLP.

Georg Ehrnrooth, b. 1940
Board member since 2000.

Master of Science (Eng.) (Helsinki University of Technology).

President and CEO of Metra Corporation 1991–2000, President and CEO of Lohja Corporation 1979–1991. Holder of various executive positions at Wärtsilä-Corporation within production and management 1965–1979.

Chairman of the Board of Directors of Assa Abloy AB (publ) and Vice Chairman of the Board of Directors of Rautaruukki Corporation, member of the Board of Directors of Oy Karl Fazer Ab, Sandvik AB (publ) and Sampo plc. Vice Chairman of the Boards of Directors of The Research Institute of the Finnish Economy ETLA and Finnish Business and Policy Forum EVA.

Daniel R. Hesse, b. 1953
CEO of Sprint Communication,
Local Telecommunications Division.
Board member since 2005.

A.B. (University of Notre Dame), M.B.A. (Cornell University), M.S. (Massachusetts Institute of Technology).

Chairman, President and CEO of Terabeam 2000–2004, President and CEO of AT&T Wireless Services 1997–2000, Executive Vice President of AT&T 1997–2000, General Manager for the AT&T Online Services Group 1996, President and CEO of AT&T Network Systems International 1991–1995. Various managerial positions in AT&T, including network operations, strategic planning and sales 1977–1991.

Member of the Board of Directors of VF Corporation. Member of the National Board of Governors of the Boys & Girls Clubs of America.

Dr. Bengt Holmström, b. 1949
Paul A. Samuelson Professor of Economics at MIT, joint appointment at the MIT Sloan School of Management.
Board member since 1999.

Bachelor of Science (Helsinki University), Master of Science (Stanford University), Doctor of Philosophy (Stanford University).

Edwin J. Beinecke Professor of Management Studies at Yale University 1985–1994.

Member of the Board of Directors of Kuusakoski Oy. Member of the American Academy of Arts and Sciences and Foreign Member of The Royal Swedish Academy of Sciences.

Per Karlsson, b. 1955
Independent Corporate Advisor.
Board member since 2002.

Degree in Economics and Business Administration (Stockholm School of Economics).

Executive Director, with mergers and acquisitions advisory responsibilities, at Enskilda M&A, Enskilda Securities (London) 1986–1992. Corporate strategy consultant at the Boston Consulting Group (London) 1979–1986.

Board member of IKANO Holdings S.A.

Edouard Michelin, b. 1963
Managing Partner and CEO of Michelin Group.
Board member since 2005.

Engineering graduate (Ecole Centrale de Paris)

Head of Michelin Manufacturing Facilities and Michelin Truck Business in North America 1990–1993, various managerial positions at Michelin, including research, manufacturing, marketing and sales 1988–1990.

Member of the World Business Council for Sustainable Development (WBCSD).

Dame Marjorie Scardino, b. 1947
Chief Executive and member of the Board of Directors of Pearson plc.
Board member since 2001.

BA (Baylor), JD (University of San Francisco).

Chief Executive of The Economist Group 1993–1997, President of the North American Operations of The Economist Group 1985–1993, lawyer 1976–1985 and publisher of The Georgia Gazette newspaper 1978–1985.

Vesa Vainio, b. 1942
Board member since 1993.

LL.M. (University of Helsinki).

Chairman 1998–1999 and 2000–2002 and Vice Chairman 1999–2000 of the Board of Directors of Nordea AB (publ). Chairman of the Executive Board and CEO of Merita Bank Ltd and CEO of Merita Ltd 1992–1997. President of Kymmene Corporation 1991–1992. Holder of various other executive positions in Finnish industry 1972–1991.

Chairman of the Board of Directors of UPM-Kymmene Corporation.

Arne Wessberg, b. 1943
President of the European Broadcasting Union (EBU).
Board member since 2001.

Studies in economics in the University of Tampere 1963–1966.

Chairman of the Board of Directors and Chief Executive Officer of Yleisradio Oy (Finnish Broadcasting Company) 1994–2005, Director of TV 1 and TV 2 1980–1994, reporter and editor 1971–1976 of Yleisradio Oy.

Chairman of the Board of Eurosport Consortium 1998–2000, member 1989–1997. President of the International Institute of Communications, member of the Board of Directors of the International Academy of Television Arts & Sciences and member of the Trilateral Commission (Europe). Member of the Board of Arcada Polytechnic.

Proposal of the Corporate Governance and Nomination Committee of the Board

On January 26, 2006, the Corporate Governance and Nomination Committee announced its proposal to the Annual General Meeting convening on March 30, 2006 regarding the election of the members of the Board of Directors. The Corporate Governance and Nomination Committee will propose to the Annual General Meeting that the number of Board members remains at ten, and that the following current Board members: Paul J. Collins, Georg Ehrnrooth, Daniel R. Hesse, Bengt Holmström, Per Karlsson, Edouard Michelin, Jorma Ollila, Marjorie Scardino and Vesa Vainio, be re-elected for a term of one year. Arne Wessberg, member of the Nokia Board since 2001, will not stand for re-election to the Board of Directors. In addition, the Committee proposes that Keijo Suila be elected as a new member of the Board of Directors for the next one-year term. Keijo Suila, 60, acted as President and CEO of Finnair Oyj, the major Finnish aviation company, from 1999 until his retirement in 2005. Prior to this, Mr. Suila held various senior executive positions, including Vice Chairman and Executive Vice President, at Huhtamäki Oy, Leaf Group and Leaf Europe during 1985–1998.

Risk factors

March 2, 2006

Set forth below is a description of factors that may affect our business, results of operations and share price from time to time.

» Our sales and profitability depend on the continued growth of the mobile communications industry as well as the growth and profitability of the new market segments within that industry which we target. If the mobile communications industry does not grow as we expect, or if the new market segments which we target grow less or are less profitable than expected, or if new faster growing market segments emerge in which we have not invested, our sales and profitability may be materially adversely affected.

» We need to understand the different markets in which we operate, and meet the needs of our customers, which include mobile network operators, distributors, independent retailers, corporate customers and end-users. We need to have a competitive product portfolio and to work together with our operator customers to address their needs. Our failure to identify key market trends and to respond timely and successfully to the needs of our customers may have a material adverse impact on our market share, business and results of operations.

» We must develop or otherwise acquire complex, evolving technologies to use in our business. If we fail to develop or otherwise acquire these complex technologies as required by the market, with full rights needed to use in our business, or to successfully commercialize such technologies as new advanced products and solutions that meet customer demand, or fail to do so on a timely basis, this may have a material adverse effect on our business, our ability to meet our targets and our results of operations.

» Our results of operations, particularly our profitability, may be materially adversely affected if we do not successfully manage price erosion and are not able to manage costs related to our products and operations.

» Competition in our industry is intense. Our failure to maintain or improve our market position and respond successfully to changes in the competitive landscape may have a material adverse impact on our business and results of operations.

» Our sales and results of operations could be materially adversely affected if we fail to efficiently manage our manufacturing and logistics without interruption, or fail to ensure that our products and solutions meet our and our customers' quality, safety, security and other requirements and are delivered on time.

» We depend on a limited number of suppliers for the timely delivery of components and for their compliance with our supplier requirements, such as our and our customers' product quality, safety, security and other standards. Their failure to do so could materially adversely affect our ability to deliver our products and solutions successfully and on time.

» We are developing a number of our new products and solutions together with other companies. If any of these companies were to fail to perform, we may not be able to bring our products and solutions to market successfully or in a timely way and this could have a material adverse impact on our sales and profitability.

» Our operations rely on complex and highly centralized information technology systems and networks. If any system or network disruption occurs, this reliance could have a material adverse impact on our operations, sales and operating results.

» Our products and solutions include increasingly complex technology involving numerous new Nokia patented and other proprietary technologies, as well as some developed 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 increasingly complex technology may also result in increased licensing costs for us, restrictions on our ability to use certain technologies in our products and solution offerings, and/or costly and time-consuming litigation. Third parties may also commence actions seeking to establish the invalidity of intellectual property rights on which we depend.

» The global networks business relies on a limited number of customers and large multi-year contracts. Unfavorable developments under such a contract or in relation to a major customer may adversely and materially affect our sales, our results of operations and cash flow.

» Our sales derived from, and assets located in, emerging market countries may be materially adversely affected by economic, regulatory and political developments in those countries or by other countries imposing regulations against imports to such countries. As sales from these countries represent a significant portion of our total sales, economic or political turmoil in these countries could adversely affect our sales and results of operations. Our investments in emerging market countries may also be subject to other risks and uncertainties.

» Our sales, costs and results are affected by exchange rate fluctuations, particularly between the euro, which is our reporting currency, and the US dollar, the Chinese yuan, the UK pound sterling and the Japanese yen, as well as certain other currencies.

- Customer financing to network operators can be a competitive requirement and could adversely and materially affect our sales, results of operations, balance sheet and cash flow.

- Allegations of health risks from the electromagnetic fields generated by base stations and mobile devices, and the lawsuits and publicity relating to them, regardless of merit, could negatively affect our operations by leading consumers to reduce their use of mobile devices or by causing us to allocate monetary and personnel resources to these issues.

- An unfavorable outcome of litigation could materially impact our business, financial condition or results of operations.

- If we are unable to recruit, retain and develop appropriately skilled employees, our ability to implement our strategies may be hampered and, consequently, our results of operations may be materially harmed.

- Changes in various types of regulation in countries around the world could have a material adverse effect on our business.

- Our share price may be volatile in response to conditions in the global securities markets generally and in the communications and technology sectors in particular.

We file an annual report on Form 20-F with the US Securities and Exchange Commission, which report also includes a description of risk factors that may affect us. Nokia filed its Form 20-F annual report for the year ended December 31, 2005 on March 2, 2006. For further information please refer to our Form 20-F annual report.

Corporate governance

Pursuant to the provisions of the Finnish Companies Act and our articles of association, the control and management of Nokia is divided among the shareholders in a general meeting, the Board of Directors and the Group Executive Board. Our articles of association provide for a Group Executive Board, which is responsible for the operative management of Nokia. The Chairman and the members of the Group Executive Board are elected by the Board of Directors. Only the Chairman of the Group Executive Board can be a member of both the Board of Directors and the Group Executive Board.

The Board of Directors

The operations of the company are managed under the direction of the Board of Directors, within the framework set by the Finnish Companies Act and our articles of association and the complementary Corporate Governance Guidelines and related charters as adopted by the Board.

The responsibilities of the Board of Directors

The Board represents and is accountable to the shareholders of the company. The Board's responsibilities are active and not passive and include the responsibility to regularly evaluate the strategic direction of the company, management policies and the effectiveness with which management implements its policies. The Board's responsibilities further include overseeing the structure and composition of the company's top management and monitoring legal compliance and the management of risks related to the company's operations. In doing so the Board may set out annual ranges and/or individual limits for capital expenditures, investments and divestitures and financial commitments not to be exceeded without Board approval.

The Board has the responsibility for appointing and discharging the Chief Executive Officer and the President and the other members of the Group Executive Board. Subject to the requirements of Finnish law, the independent directors of the Board will confirm the compensation and the employment conditions of the Chief Executive Officer and the President upon the recommendation of the Personnel Committee. The compensation and employment conditions of the other members of the Group Executive Board are approved by the Personnel Committee.

The basic responsibility of the members of the Board is to act in good faith and with due care so as to exercise their business judgment on an informed basis in what they reasonably and honestly believe to be the best interests of the company and its shareholders. In discharging that obligation, the directors must inform themselves of all relevant information reasonably available to them.

Election, composition and meetings of the Board of Directors

Pursuant to the articles of association, Nokia Corporation has a Board of Directors composed of a minimum of seven and a maximum of ten members. The members of the Board are elected for a term of one year at each Annual General Meeting, which convenes each March, April or May. Since the Annual General Meeting held on April 7, 2005, the Board has consisted of ten members. Nokia's CEO, Jorma Ollila, also serves as the Chairman of the Board. The other members of the Board are all non-executive and independent as defined under Finnish rules and regulations. In January 2006, the Board determined that eight members of the Board are independent, as defined in the New York Stock Exchange's corporate governance listing standards, as amended in November 2004. In addition to the Chairman, Bengt Holmström was determined to be non-independent due to a family relationship with an executive officer of a Nokia supplier of whose consolidated gross revenues Nokia accounts for an amount that exceeds the limit provided in the NYSE listing standards, but that is less than 10%. The Board convened thirteen times during 2005, five of the meetings were held by using technical equipment and the average ratio of attendance at the meetings was 98%. The non-executive directors meet without executive directors twice a year, or more often as they deem appropriate. Such sessions are presided over by the Vice Chairman of the Board or, in his absence, the most senior non-executive member of the Board. In addition, the independent directors meet separately at least once annually. The Board and each committee also has the power to hire independent legal, financial or other advisors as it deems necessary.

The Board elects a Chairman and a Vice Chairman from among its members for one term at a time. On April 7, 2005 the Board resolved that Jorma Ollila should continue to act as Chairman and that Paul J. Collins should continue to act as Vice Chairman. The Board also appoints the members and the chairmen for its committees from among its non-executive, independent members for one term at a time.

Under Finnish law, if the roles of the Chairman and the Chief Executive Officer are combined, the company must have a President. The responsibilities of the President are defined in the Finnish Companies Act and other relevant legislation along with any additional guidance and instructions given from time to time by the Board and the Chief Executive Officer. The responsibilities of the Chief Executive Officer are determined by the Board.

The Board conducts annual performance self-evaluations, which also include evaluations of the committees' work, the results of which are discussed by the Board. The Corporate Governance Guidelines concerning the directors' responsibilities, the composition and selection of the Board, Board committees and certain other matters relating to corporate governance are available on our website, www.nokia.com.

Committees of the Board of Directors

The Audit Committee consists of a minimum of three members of the Board, who meet all applicable independence, financial literacy and other requirements of Finnish law and the rules of the stock exchanges where Nokia shares are listed, including the Helsinki Stock Exchange and the New York Stock Exchange. Since April 7, 2005, the Committee has consisted of the following four members of the Board: Per Karlsson (Chairman), Georg Ehrnrooth, Vesa Vainio and Arne Wessberg. The Board of Directors has determined that Per Karlsson is an "audit committee financial expert" within the meaning of the US federal securities laws.

The Audit Committee is established by the Board primarily for the purpose of overseeing the accounting and financial reporting processes of the company and audits of the financial statements of the company. The Committee is responsible for assisting the Board's oversight of (1) the quality and integrity of the company's financial statements and related

disclosure, (2) the external auditor's qualifications and independence, (3) the performance of the external auditor subject to the requirements of Finnish law, (4) the performance of the company's internal controls and risk management and assurance function, and (5) the company's compliance with legal and regulatory requirements. The Committee also maintains procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal controls, or auditing matters and for the confidential, anonymous submission by employees of the company of concerns regarding accounting or auditing matters. Under Finnish law, our external auditor is elected by our shareholders at the Annual General Meeting. The Committee makes a recommendation to the shareholders in respect of the appointment of the external auditor based upon its evaluation of the qualifications and independence of the auditor to be proposed for election or re-election. The Committee meets at least four times per year based upon a schedule established at the first meeting following the appointment of the Committee. The Committee meets separately with the representatives of Nokia's management and the external auditor at least twice a year. The Audit Committee convened five times in 2005.

The Personnel Committee consists of a minimum of three members of the Board, who meet all applicable independence requirements of Finnish law and the rules of the stock exchanges where Nokia shares are listed, including the Helsinki Stock Exchange and the New York Stock Exchange. Since April 7, 2005, the Personnel Committee has consisted of the following four members of the Board: Paul J. Collins (Chairman), Daniel R. Hesse, Marjorie Scardino and Vesa Vainio.

The primary purpose of the Personnel Committee is to oversee the personnel policies and practices of the company. It assists the Board in discharging its responsibilities relating to all compensation, including equity compensation, of the company's executives and the terms of employment of the same. The Committee has overall responsibility for evaluating, resolving and making recommendations to the Board regarding (1) compensation of the company's top executives and their employment conditions, (2) all equity-based plans, (3) incentive compensation plans, policies and programs of the company affecting executives, and (4) other significant incentive plans. The Committee is responsible for ensuring the above compensation programs are performance-based, properly motivate management, support overall corporate strategies and are aligned with shareholders' interests. The Committee is responsible for the review of senior management development and succession plans. The Personnel Committee convened three times in 2005.

The Corporate Governance and Nomination Committee consists of three to five members of the Board, who meet all applicable independence requirements of Finnish law and the rules of the stock exchanges where Nokia shares are listed, including the Helsinki Stock Exchange and the New York Stock Exchange. Since April 7, 2005, the Corporate Governance and Nomination Committee has consisted of the following three members of the Board: Marjorie Scardino (Chairman), Paul J. Collins and Vesa Vainio.

The Corporate Governance and Nomination Committee's purpose is (1) to prepare the proposals for the general meetings in respect of the composition of the Board along with the director remuneration to be approved by the shareholders, and (2) to monitor issues and practices related to corporate governance and to propose necessary actions in respect thereof.

The Committee fulfills its responsibilities by (i) actively identifying individuals qualified to become members of the Board, (ii) recommending to the shareholders the director nominees for election at the Annual General Meetings, (iii) monitoring significant developments in the law and practice of corporate governance and of the duties and responsibilities of directors of public companies, (iv) assisting the Board and each committee of the Board in its annual performance self-evaluations, including establishing criteria to be used in connection with such evaluations, and (v) developing and recommending to the Board and administering the Corporate Governance Guidelines of the company. The Corporate Governance and Nomination Committee convened three times in 2005.

The charters of each of the committees are available on our website, www.nokia.com.

Management and corporate governance practices

We have a company Code of Conduct which is equally applicable to all of our employees, directors and management and is accessible at our website, www.nokia.com. As well, we have a Code of Ethics for the Principal Executive Officers and the Senior Financial Officers. For more information about our Code of Ethics, please see www.nokia.com.

Nokia's corporate governance practices comply with the Corporate Governance Recommendation for Listed Companies approved by the Helsinki Exchanges in December 2003, effective as of July 1, 2004. The Recommendation recommends a company to describe the manner in which the internal audit function of the company is organized. As Nokia has comprehensive risk management and internal control processes in place, there is no separate internal audit function at Nokia.

Compensation of the members of the Board of Directors and the Group Executive Board

Board of Directors

For the year ended December 31, 2005, the aggregate compensation of the nine non-executive members of the Board of Directors was approximately EUR 1 097 500. Non-executive members of the Board of Directors do not receive stock options or other variable compensation. The remuneration for members of our Board of Directors for each term expiring at the close of the next Annual General Meeting is resolved annually by our Annual General Meeting, after being proposed by the Corporate Governance and Nomination Committee of our Board.

The following table depicts the total annual remuneration paid to the members of our Board of Directors, as resolved by the Annual General Meetings in the respective years. Since the fiscal year 1999, approximately 60% of each Board member's annual fee has been paid in cash, with the balance in Nokia Corporation shares acquired from the market.

Compensation of the Board of Directors 2003–2005

	Chairman		Vice Chairman		Other Members		
Year	Gross annual fee EUR	Shares received [1]	Gross annual fee EUR	Shares received [1]	Gross annual fee EUR	Shares received [1]	Additional annual fees
2003	150 000	4 032	125 000 [2]	3 360	100 000	2 688	Chairman of the Audit Committee and Personnel Committee, each EUR 25 000
2004	150 000	4 834	125 000 [2]	4 028	100 000 [3]	3 223	Chairman of the Audit Committee and Personnel Committee, each EUR 25 000
2005	165 000	5 011	137 500 [4]	4 175	110 000 [5, 6]	3 340	Chairman of the Audit Committee and Personnel Committee, each EUR 25 000; Each other member of the Audit Committee, EUR 10 000

1 As part of the gross annual fee for that year.

2 The 2003 and 2004 fees of Paul Collins amounted to totals of EUR 150 000 per year, consisting of a fee of EUR 125 000 for services as Vice Chairman of the Board and EUR 25 000 for services as Chairman of the Personnel Committee. As part of the total remuneration, Mr. Collins has received a total of 4 032 Nokia shares in 2003, and 4 834 Nokia shares in 2004.

3 The 2004 fee of Per Karlsson amounted to a total of EUR 125 000, consisting of a fee of EUR 100 000 for services as member of the Board and EUR 25 000 for services as Chairman of the Audit Committee. As part of the total remuneration, Mr. Karlsson has received a total of 4 029 Nokia shares.

4 The 2005 fee of Paul Collins amounts to a total of EUR 162 500, consisting of a fee of EUR 137 500 for services as Vice Chairman of the Board and EUR 25 000 for services as Chairman of the Personnel Committee. As part of the total remuneration, Mr. Collins has received a total of 4 935 Nokia shares.

5 The 2005 fee of Per Karlsson amounts to a total of EUR 135 000, consisting of a fee of EUR 110 000 for services as member of the Board and EUR 25 000 for services as Chairman of the Audit Committee. As part of the total remuneration, Mr. Karlsson has received a total of 4 100 Nokia shares.

6 The 2005 fee of each of Georg Ehrnrooth, Vesa Vainio and Arne Wessberg amounts to a total of EUR 120 000 consisting of a fee of EUR 110 000 for services as a member of the Board and EUR 10 000 for services as a member of the Audit Committee. As part of the total remuneration, each of them has received a total of 3 644 Nokia shares.

Proposal of the Corporate Governance and Nomination Committee of the Board

On February 13, 2006, the Nokia Board Corporate Governance and Nomination Committee announced its proposal to the Annual General Meeting on March 30, 2006 that the annual fee payable to members of the Board of Directors to be elected at the Annual General Meeting for the term expiring at the close of the Annual General Meeting in 2007 be as follows: EUR 375 000 for Chairman, EUR 137 500 for Vice Chairman, and EUR 110 000 for each member. In addition, the Committee will propose that Chairman of the Audit Committee and Chairman of the Personnel Committee will each receive an additional annual fee of EUR 25 000, and each member of the Audit Committee an additional annual fee of EUR 10 000. Further, the Corporate Governance and Nomination Committee proposes that approximately 40% of the remuneration be paid in Nokia Corporation shares purchased from the market, in accordance with the practice since 1999.

As background to the proposal, the Nokia Board Corporate Governance and Nomination Committee notes that the proposed remuneration is on the same level than the remuneration approved by the Annual General Meeting in 2005, except for the remuneration payable to the Chairman of the Board. The Committee proposes that Jorma Ollila continues after June 1, 2006 as a Non-Executive Chairman of the Nokia Board of Directors, and the Committee has received Mr. Ollila's confirmation that he is available for this position. As from June 1, 2006, Mr. Ollila will no longer be a Nokia employee and his service contract will terminate as of that date without any severance or other payments by Nokia. Thereafter, he will no longer be eligible for incentives, bonuses, stock options or other equity grants from Nokia. He will be entitled to retain all vested and unvested stock options and other equity compensation granted to him prior to June 1, 2006. Further, following his current contract, he will not be eligible to receive any additional retirement benefits from Nokia after June 1, 2006. In addition to the proposed annual remuneration as the Chairman of the Board of Directors he will be entitled to secretarial and office services as well as reimbursement of reasonable expenses directly related to his duties as the Non-Executive Chairman of Nokia Board of Directors.

Group Executive Board

At December 31, 2005, Nokia had a Group Executive Board consisting of 12 members. Of the Group Executive Board members, Sari Baldauf and J.T. Bergqvist ceased employment with us and resigned as members of the Group Executive Board with effect from January 31, 2005. Pekka Ala-Pietilä and Yrjö Neuvo resigned as members of the Group Executive Board with effect from October 1, 2005, and their employment ceased with us on December 31, 2005 for Dr. Neuvo, and January 31, 2006 for Mr. Ala-Pietilä.

The following persons were appointed as new members to the Group Executive Board effective in 2005: Tero Ojanperä was appointed a member effective January 1, 2005, Simon Beresford-Wylie from February 1, 2005, Robert Andersson and Kai Öistämö were appointed members with effect from October 1, 2005.

The following tables summarize the aggregate cash compensation paid and the long-term equity-based incentives granted to the members of the Group Executive Board, including Jorma Ollila, Chairman and CEO, for the year 2005. It also shows the long-term equity-based incentives granted in the aggregate under our equity plans in 2005.

During 2005, there were no gains realized upon exercise of stock options to report, nor were any share-based incentive grants settled for the members of the Group Executive Board.

Cash compensation to the Group Executive Board for 2005

Year	Number of members Dec. 31, 2005	Base salaries EUR	Cash incentive payments [1, 2] EUR
2005	12	6 153 422 [3]	8 531 180 [3]

1 Includes payments pursuant to cash incentive arrangements for the 2005 calendar year. The cash incentives are paid as a percentage of annual base salary based on Nokia's short-term cash incentive plan.

2 Excluding any gains realized upon exercise of stock options.

3 Includes base pay and bonuses to Sari Baldauf and J.T. Bergqvist for the period until January 31, 2005, and to Pekka Ala-Pietilä and Yrjö Neuvo until September 30, 2005. The new members entering the Group Executive Board, in 2005, Simon Beresford-Wylie, Kai Öistämö and Robert Andersson, are included for the period of their service in 2005. Tero Ojanperä joined the Group Executive Board effective January 1, 2005, so his cash compensation is fully included.

Long-term equity-based incentives granted in 2005 [1]

	Group Executive Board	Other employees	Total	Total number of participants
Performance shares at threshold [2] (number)	241 000	4 228 000	4 469 000	12 600
Stock options (number)	1 121 000	7 431 000	8 552 000	4 200
Restricted shares (number)	508 000	2 509 000	3 017 000	300

1 The equity-based incentive grants are generally forfeited, if the employment relationship terminates with Nokia, and they are conditional upon such performance and other conditions, as determined in the relevant plan rules. For a description of our equity plans, see Note 24 "Share-based payments" to the Consolidated Financial Statements on page 25.

2 At maximum performance, the settlement amounts to four times the number of performance shares originally granted (at threshold).

Summary Compensation Table 2005

The annual compensation of our five most highly paid executive officers for 2005 is detailed in the following table. The sums include cash incentive payments awarded for the fiscal year 2005 although they will be partially paid in 2006.

		Cash compensation			
Name and principal position in 2005	**Year**	**Base salary EUR**	**Cash incentive payments [2] EUR**	**Other annual compensation EUR**	**All other compensation EUR**
Jorma Ollila, Chairman and CEO	2005	1 500 000	3 212 037	*	165 000 [6]
	2004	1 475 238	1 936 221	*	150 000
	2003	1 400 000	2 253 192	*	150 000
Pekka Ala-Pietilä [7]					
Until October 1, 2005, President of Nokia	2005	717 000	946 332	*	–
Corporation and Head of Customer and Market Operations	2004	717 000	479 509	*	–
	2003	711 279	520 143	*	–
Olli-Pekka Kallasvuo					
As of October 1, 2005, President and COO	2005	623 524	947 742	*	–
Until September 30, 2005, EVP and General Manager of Mobile Phones	2004	584 000	454 150	*	–
	2003	575 083	505 724	*	–
Anssi Vanjoki					
EVP and General Manager of Multimedia	2005	476 000	718 896	*	–
Richard Simonson					
EVP, Chief Financial Officer	2005	461 526	634 516	*	358 786 [8]

1 The equity-based incentive grants are generally forfeited, if the employment relationship terminates with Nokia, and they are conditional upon such performance and other conditions, as determined in the relevant plan rules. For a description of our equity plans, see Note 24 to the Consolidated Financial Statements "Share-based payment" on page 25.

2 Cash incentive payments are based on the performance of the Group and the individual for the fiscal year 2005, and were paid under Nokia's short-term incentive plan.

3 For the performance share plans 2004 and 2005, the number of performance shares at threshold represents the number of performance shares granted. This number shall vest as shares, should the pre-determined threshold performance levels of the company be met. The maximum number of performance shares shall vest as shares, should the predetermined maximum performance levels be met. The maximum number of performance shares equals four times the number originally granted.

4 The fair value of performance shares equals the estimated fair value on the grant date. The estimated fair value is based on the grant date market price of the company's share less expected dividends. The value is presented for the target number of shares which is two times the number at threshold. The target number is used for expensing the instruments in the company's accounting.

5 The fair values of stock options and restricted shares equal the estimated fair value on the grant date. For stock options it is calculated using the Black Scholes model. For restricted shares it is based on the grant date market price of the company's share less expected dividends.

6 The amount includes EUR 165 000 for his services as Chairman of the Board, of which EUR 99 005 was paid in cash and the balance paid in 5 011 Nokia shares.

7 Pekka Ala-Pietilä served as the President of the company and member of the Group Executive Board until he resigned from these positions effective October 1, 2005. As of this date Mr. Ala-Pietilä held the role of Executive Advisor until January 31, 2006, when he ceased employment with us. For 2006, based on these advisory services, Mr. Ala-Pietilä received a total payment of EUR 101 717. Based on the service contract, Mr. Ala-Pietilä is entitled to receive a payment of EUR 956 000 in 2006 for his commitments during 2006.

8 The amount includes EUR 9 646 company contribution to 401(k), EUR 4 816 company contribution to Restoration and Deferral Plan and EUR 344 324 provided as benefits under Nokia relocation policy.

* Each executive listed received benefits and perquisites in 2005 not exceeding the lesser of EUR 50 000 or 10% of the executives total compensation.

Long-term equity-based incentives granted [1]						
Performance shares at threshold [3] number	Performance shares at maximum [3] number	Fair value at grant [4] EUR	Stock options number	Fair value at grant [5] EUR	Restricted shares number	Fair value at grant [5] EUR
100 000	400 000	2 370 000	400 000	982 675	100 000	1 205 000
100 000	400 000	2 116 000	400 000	1 035 775	100 000	1 570 000
–	–	–	800 000	2 773 442	–	–
15 000	60 000	355 500	60 000	147 401	35 000	421 750
20 000	80 000	423 200	80 000	207 155	35 000	549 500
–	–	–	170 000	589 356	–	–
15 000	60 000	355 500	160 000	407 197	70 000	932 050
15 000	60 000	317 400	60 000	155 366	35 000	549 500
–	–	–	120 000	416 016	–	–
15 000	60 000	355 500	60 000	147 401	35 000	421 750
15 000	60 000	355 500	60 000	147 401	35 000	421 750

Pension arrangements for the members of the Group Executive Board

The members the Group Executive Board in 2005 participate in the local retirement programs applicable to employees in the country where they reside. Executives in Finland participate in the Finnish TEL pension system, which provides for a retirement benefit based on years of service and earnings according to the prescribed statutory system. Under the Finnish TEL pension system, base pay, incentives and other taxable fringe benefits are included in the definition of earnings, although gains realized from equity are not. The Finnish TEL pension scheme provides for early retirement benefits at age 62. Standard retirement benefits are available from ages 63 through 68, according to an increasing scale.

Executives in the United States participate in Nokia's Retirement Savings and Investment Plan. Under this 401(k) plan, participants elect to make voluntary pre-tax contributions that are 100% matched by the company up to 6% of eligible earnings. The company makes an additional annual discretionary contribution of up to 2% of eligible earnings. In addition for participants earning in excess of the eligible earning limit, the company offers an additional Restoration and Deferral Plan. This plan allows employees to defer up to 50% of their salary and 100% of their bonus into a non-qualified plan. The company also makes an annual discretionary contribution to this non-qualified plan of up to 2% of the earnings above 401(k) eligibility limits.

Simon Beresford-Wylie participates in the Nokia International Employee Benefit Plan (NIEBP). The NIEBP is a defined contribution retirement arrangement provided to some Nokia employees on international assignments. The contributions to NIEBP are funded two-thirds by Nokia and one-third by the employee. Because Mr. Beresford-Wylie also participates in the Finnish TEL system, the company contribution to NIEBP is 1.3% of annual earnings.

Jorma Ollila and Olli-Pekka Kallasvuo can as part of their service contract retire at the age of 60 with full retirement benefit, should they be employed by Nokia at the time. The full retirement benefit is calculated as if the executive had continued his service with Nokia through the statutory retirement age of 65. Mr. Ollila's service contract will terminate as of June 1, 2006. Following the current contract, he will not be eligible to receive any additional retirement benefits from Nokia after that date. Pekka Ala-Pietilä had an equal retirement arrangement during his employment at Nokia and he will not receive any additional retirement benefits from Nokia after termination of employment.

Hallstein Moerk, following his arrangement with a previous employer, has a retirement benefit of 65% of his pensionable salary beginning at the age of 62. Early retirement is possible at the age of 55 with reductions in benefits.

Service Contract of the Chairman and CEO, of the President and COO, and of the former President

We have a service contract with each of Jorma Ollila and Olli-Pekka Kallasvuo.

Jorma Ollila's contract covers his current position as Chairman and CEO, and Chairman of the Group Executive Board. Mr. Ollila's employment will come to an end on June 1, 2006 based on his request as a result of which the Board of Directors has released him from his duties as CEO and Chairman of the Group Executive Board from that date. As of June 1, 2006, his service contract will terminate without any severance or other payments by Nokia. Thereafter, he will no longer be eligible for incentives, bonuses, stock options or other equity grants from Nokia. He will be entitled to retain all vested and unvested stock options and other equity compensation granted to him prior to June 1, 2006. Further, following his current contract, he will not be eligible to receive any additional retirement benefits from Nokia.

Olli-Pekka Kallasvuo's contract covers his current position as President and COO, and his future position as President and CEO, and Chairman of the Group Executive Board, as from June 1, 2006. Mr. Kallasvuo's annual total gross base salary, which is subject to an annual review by the Board of Directors, is EUR 750 000 starting from October 1, 2005, and will be EUR 1 000 000 from June 1, 2006. His incentive targets under the Nokia short-term incentive plan are 125% starting from October 1, 2005 and will be 150% from June 1, 2006. In case of termination by Nokia for reasons other than cause, including a change of control, Mr. Kallasvuo is entitled to a severance payment of up to 18 months of compensation (both annual total gross base salary and target incentive). In case of termination by Mr. Kallasvuo, the notice period is 6 months and he is entitled to a payment for such notice period (both annual total gross base salary and target incentive for 6 months). Mr. Kallasvuo is subject to a 12-month non-competition obligation after termination of the contract. Unless the contract is terminated for cause, Mr. Kallasvuo may be entitled to compensation during the non-competition period or a part of it. Such compensation amounts to the annual total gross base salary and target incentive for the respective period during which no severance payment is paid. Mr. Kallasvuo is entitled to a full statutory pension from the date he turns 60 years of age, instead of the statutory age of 65.

During 2005, we also had a service contract with Pekka Ala-Pietilä, who acted as President until October 1, 2005. Thereafter he acted as Executive Advisor until termination of employment on January 31, 2006. Mr. Ala-Pietilä's contract had provisions for severance payments for up to 18 months of compensation (both base compensation and bonus) in the event of termination of employment for reasons other than cause. For compensation paid to Mr. Ala-Pietilä pursuant to his service contract, which has been terminated, see page 72.

Equity-based compensation programs

General

Nokia has today three global stock option plans outstanding, two performance share plans and three restricted share plans. After using broad-based employee stock option plans since 1997, we introduced in 2004 performance shares as the main element to our broad-based equity compensation program, to further emphasize the performance element in employees' long-term incentives. As part of this change, the number of stock options granted has been significantly reduced since then. From 2003 we have also granted restricted shares to very few selected employees each year.

The broad-based equity compensation program in 2005, approved by the Board of Directors, followed the same structure adopted in 2004. The target group

for the 2005 equity-based incentive program continued to be broad with a wide number of employees in many levels of the organization eligible to participate. The rationale for using a combination of both performance shares and stock options for employees in higher job grades is to build an optimal and balanced combination of equity-based incentives. The program aligns the potential value received by participants directly with the performance of the company.

The equity-based incentive grants are conditional upon continued employment with Nokia, as well as the fulfillment of the performance related and other conditions, as determined in the relevant plan rules.

The aggregate number of participants in all of our equity-based programs in 2005 was approximately 34 000, which is similar as to the number in 2004.

For a more detailed description of all of our equity-based incentive plans, see Note 24 to the Consolidated Financial Statements "Share-based payment" on page 25.

Performance Shares

We have granted performance shares under the 2004 and 2005 plans, which have been approved by the Board of Directors. The performance shares represent a commitment by the company to deliver Nokia shares to employees at a future point in time, subject to the company's fulfillment of pre-defined performance criteria. No performance shares will vest unless the company performance reaches at least one of the threshold levels measured by two independent, predefined performance criteria: the company's average annual net sales growth and earnings per share ("EPS") growth (basic) for the four year performance period of the plan. For the 2004 plan the performance period consists of the fiscal years 2004 through 2007, with an interim payout possible after 2005, and for the 2005 plan the years 2005 through 2008, with an interim payout possible after 2006.

For both the 2004 and 2005 plans, if the required performance level is achieved, the first payout will take place after a two-year interim measurement period. The second and final payout, if any, will be after the close of the four-year performance period.

Stock Options

Nokia's outstanding global stock option plans have been approved by the Annual General Meetings in the year when the plan was launched, i.e. in 2001, 2003 and 2005.

Each stock option entitles the holder to subscribe for one new Nokia share with a par value of EUR 0.06. Under the 2001 stock option plan the stock options are transferable by the participants. Under the 2003 and 2005 plans the stock options are non-transferable. All of the stock options have a quarterly staggered vesting schedule, which has been Nokia's policy since 2001. The subcategories of stock options under the plans have a life of approximately five years.

The exercise prices are determined at the time of the grant, on a quarterly basis equaling the trade volume weighted average price of the Nokia share on the Helsinki Stock Exchange during the trading days of the first whole week of the second month (i.e. February, May, August or November) of the respective calendar quarter.

Restricted Shares

Since 2003 we have granted restricted shares to recruit, retain, reward and motivate selected high potential employees, who are critical to the future success of Nokia. It is the Personnel Committee's philosophy that restricted shares will be used only for key management positions and other critical resources. The 2003, 2004 and 2005 restricted share plans have been approved by the Board of Directors.

All of our restricted share plans have a restriction period of three years after grant. As the shares vest, they will be transferred and delivered to the recipients. Until the shares are transferred and delivered, the recipients will not have any shareholder rights, such as voting or dividend rights associated with these restricted shares.

Other Equity Plans for Employees

In addition to our global stock option plans described above, we have minor stock option plans for Nokia employees in the U.S. and Canada which do not result in an increase of the share capital of Nokia Corporation under which option holders receive Nokia ADSs. Also we have an Employee Share Purchase Plan in the United States, which permits all full-time Nokia employees located in the United States to acquire Nokia ADSs at a 15% discount. The ADSs to be purchased are funded through monthly payroll deductions from the salary of the participants, and the ADSs are purchased on a monthly basis. As of December 31, 2005, a total of 1 866 518 ADSs had been purchased under the plan since its inception, and there were a total of approximately 1 000 participants. For more information of these plans, see Note 24 "Share-based payment" to the Consolidated Financial Statements on page 25.

Equity-based compensation program 2006

Nokia's Equity Program 2006

The Board of Directors announced its proposed scope and design for the 2006 Equity Program on January 26, 2006. The main equity instrument in 2006 will be performance shares. In addition, stock options will be granted to a more limited population, and restricted shares will be used for a small number of high potential and critical employees.

The Performance Share Plan in 2006 will cover a performance period of three years (2006–2008) with no interim measurement period as compared with the 2004 and 2005 plans with a four-year performance periods and two-year interim measurement periods. No performance shares will vest unless the company performance reaches at least one of the threshold levels measured by two independent, pre-defined performance criteria: the company's average annual net sales growth and earnings per share ("EPS") (basic) growth for 2006 to 2008.

The performance criteria of the Performance Share Plan 2006 are:

1 Average Annual Net Sales Growth: 5% (threshold) and 20% (maximum), and

2 Annual EPS Growth: EUR 0.96 (threshold) and EUR 1.41 in 2008 (maximum).

EPS growth is calculated based on the compounded annual growth rate over the performance period (2006–2008) compared to 2005 EPS of 0.83. Average Annual Net Sales Growth is calculated as an average of

the net sales growth rates for the years 2005 through 2008. Both the EPS and Average Annual Net Sales Growth criteria are equally weighted and performance under each of the two performance criteria are calculated independent of each other.

Achievement of the maximum performance for both criteria will result in the vesting of the maximum of 32.6 million Nokia shares. Performance exceeding the maximum criteria does not increase the number of performance shares that will vest. Achievement of the threshold performance for both criteria, will result in the vesting of 8.15 million shares. If only one of the threshold levels of performance are achieved, only 4.08 million of the performance shares will vest. If none of the threshold levels are achieved, then none of the performance shares will vest. For performance between the threshold and maximum performance levels the settlement follows a linear scale. If the required performance levels are achieved, the settlement will take place in 2009. Until the shares are transferred and delivered, the recipients will not have any shareholder rights, such as voting or dividend rights associated with these performance shares.

The stock options to be granted in 2006 will be primarily out of the Stock Option Plan 2005, approved by the Annual General Meeting, on April 7, 2005. Each stock option would entitle the option holder to subscribe for one newly issued Nokia share. The share subscription price applicable upon exercise of the stock options will be determined on a quarterly or, subject to the Board's decision, a monthly basis. The intention is to determine the exercise prices at fair market value. The share subscription price for each subcategory of stock options to be issued will equal the trade volume weighted average price of Nokia shares on the Helsinki Stock Exchange for the first whole week of the second month of the calendar quarter (i.e. February, May, August or November) or, for the monthly priced stock options that are priced monthly, the first whole week of such calendar month when the subcategory of the stock option has been denominated. The stock options will have a quarterly staggered vesting schedule. The subcategories of stock options to be issued under the plan will have a life of approximately five years, with the last of the subcategories expiring as of December 31, 2011.

The restricted shares to be granted under the Restricted Share Plan 2006 will have a three-year restriction period. The restricted shares will be delivered in 2009, subject to fulfilling the restriction criteria. Shares are not eligible for any shareholder rights or voting rights during the restriction period, until transferred to plan participants.

The maximum number of planned grants under the 2006 Equity Program (i.e. performance shares, stock options and restricted shares) are depicted in the table below. The planned amounts for 2006 are in line with the total amounts approved and disclosed in 2005.

Number of planned grants in 2006 (number, millions)

Plan type	Annual grants 2006	Recruitment and special retention needs	Total
Stock Options	8.90	7.90	16.80
Restricted Shares	2.30	7.20	9.50
Performance Shares at Threshold [1]	4.50	3.65	8.15

1 The maximum number of shares to be delivered at maximum performance is four times the number originally granted (at threshold).

As of December 31, 2005, the total dilution effect of Nokia's stock options, performance shares and restricted shares currently outstanding, assuming full dilution, is approximately 4.2% in the aggregate. The potential maximum effect of the proposed new program, including the impact of the equity grants in connection with the acquisition of Intellisync Inc., would be approximately another 1.4%.

Cash Incentive Plans

In addition to equity-based compensation programs we also provide our executives and employees with cash incentive payments through our comprehensive cash incentive plans. These performance-based cash incentives include individual, team and project/program incentive payments as well as the Nokia Connecting People bonus.

Share ownership

The following section describes the ownership, or potential ownership interest in the company of the members of our Board of Directors and the Group Executive Board, either through share ownership or through holding of equity based incentives, which may lead to a share ownership in the future. The members of the Board of Directors do not receive stock options or any other form of variable pay from the company, with the exception of Jorma Ollila, Chairman and CEO. His holdings of equity based incentives are accounted for below under the Group Executive Board, see page 78 "Management stock option ownership" and page 80 "Performance Shares and Restricted Shares".

Daniel R. Hesse and Edouard Michelin were elected as new members to the Board of Directors by the Annual General Meeting on April 7, 2005.

Of the Group Executive Board members, Sari Baldauf and J.T. Bergqvist ceased employment with us and resigned from the Group Executive Board with effect from January 31, 2005. Pekka Ala-Pietilä and Yrjö Neuvo resigned from the Group Executive Board with effect from October 1, 2005. Ala-Pietilä served as Executive Advisor for Nokia from October 1, 2005 until January 31, 2006, while Yrjö Neuvo retired at the end of 2005.

The following persons were appointed as new members to the Group Executive Board effective in 2005: Tero Ojanperä was appointed a member with effect from January 1, 2005, Simon Beresford-Wylie from February 1, 2005, Robert Andersson and Kai Öistämö effective October 1, 2005.

On December 31, 2005, the members of our Board of Directors held the aggregate of 750 952 shares and ADS's in the company, which represented 0.018% of our outstanding share capital and total voting rights excluding shares held by the Group as of that date. The following table depicts the share ownership as well as other potential ownership interests in the company based on long-term equity incentives of the members of our Group Executive Board, in relation to the company's outstanding share capital and total voting rights as of December 31, 2005.

Group Executive Board, ownership of shares and equity-based incentives, December 31, 2005

	Shares	% [1]	Stock options	% [2]	Performance shares at threshold	% [2]	Restricted shares	% [2]
Group Executive Board	632 833	0.015	6 626 157	4.586	418 800	5.207	923 000	17.799
Other employees	*	*	137 869 030 [4]	95.414	7 624 017	94.793	4 262 676	82.201
Total			**144 495 187**	**100**	**8 042 817**	**100**	**5 185 676**	**100**

1 The percentage is calculated in relation to the outstanding share capital and total voting rights of the company as of December 31, 2005, excluding shares held by the Group as of that date.

2 The percentage is calculated in relation to the total outstanding equity plans, i.e. stock options, performance shares and restricted shares, as applicable, as of December 31, 2005.

3 Performance shares at threshold represent the original grant. At maximum performance, the settlement amounts to four times the number of performance shares originally granted (at threshold).

4 The number includes the total number of stock options outstanding, consisting of 128 091 354 options held by other employees and 9 777 676 options sold to the market.

* no information available.

Shares

The following two tables set forth the number of shares and ADSs beneficially held by members of the Board of Directors and the Group Executive Board as of December 31, 2005.

Board of Directors	Shares [1]	ADSs
Jorma Ollila [2]	231 433	0
Paul J. Collins	0	119 145
Georg Ehrnrooth [3]	312 426	0
Daniel R. Hesse	0	3 340
Bengt Holmström	14 250	0
Per Karlsson [3]	16 646	0
Edouard Michelin	4 870	0
Marjorie Scardino	0	11 662
Vesa Vainio	25 214	0
Arne Wessberg	11 966	0
Total	**616 805**	**134 147**

1 The number of shares includes not only shares acquired as compensation for services rendered as a member of the Board of Directors, but also shares acquired by any other means.

2 For Mr. Ollila's holdings of long-term equity-based incentives, see "Stock Options ownership of the Group Executive Board, December 31, 2005" on page 78 and "Performance Shares and Restricted Shares" on page 80.

3 Mr. Ehrnrooth's and Mr. Karlsson's holdings include both shares held personally and shares held through a company.

Group Executive Board	Shares	ADSs
Robert Andersson	15 000	0
Simon Beresford-Wylie	1 000	0
Olli-Pekka Kallasvuo	100 000	0
Pertti Korhonen	15 300	0
Mary McDowell	0	5 000
Hallstein Moerk	14 100	0
Tero Ojanperä	0	0
Richard Simonson	0	20 000
Veli Sundbäck	125 000	0
Anssi Vanjoki	106 000	0
Kai Öistämö	0	0
Group Executive Board Total [1, 2]	**376 400**	**25 000**

1 Mr. Ala-Pietilä resigned as member of the Group Executive Board effective October 1, 2005, and ceased employment with us on January 31, 2006. He held 49 600 shares as of December 31, 2005.

2 Dr. Neuvo resigned as member of the Group Executive Board effective October 1, 2005, and ceased employment with us, effective December 31, 2005. He held 74 540 shares as of December 31, 2005.

Management stock option ownership

The following tables provide certain information relating to stock options held by members of the Group Executive Board as of December 31, 2005. These stock options were issued pursuant to our Nokia Stock Option Plans 2001, 2003 and 2005. For a description of our stock option plans, including information regarding the expiration date of the options under these plans, please see the table "Outstanding stock option plans of the Group, December 31, 2005" in Note 24 to the Consolidated Financial Statements on page 25.

Stock option ownership of the Group Executive Board, December 31, 2005

			Number of stock options [1]		Total realisable value of stock options, December 31, 2005 EUR [2]	
	Stock option category	Exercise price per share EUR	Exercisable	Unexercisable	Exercisable [3]	Unexercisable
Jorma Ollila	2001 A/B	36.75	1 000 000	0	0	0
	2001 C 4Q/01	26.67	468 750	31 250	0	0
	2002 A/B	17.89	812 500	187 500	0	0
	2003 2Q	14.95	450 000	350 000	225 000	175 000
	2004 2Q	11.79	125 000	275 000	457 500	1 006 500
	2005 2Q	12.79	0	400 000	0	1 064 000
Olli-Pekka Kallasvuo	2001 A/B	36.75	100 000	0	0	0
	2001 C 4Q/01	26.67	46 875	3 125	0	0
	2002 A/B	17.89	142 183	32 817	0	0
	2003 2Q	14.95	67 500	52 500	33 750	26 250
	2004 2Q	11.79	18 750	41 250	68 625	150 975
	2005 2Q	12.79	0	60 000	0	159 600
	2005 4Q	14.48	0	100 000	0	97 000
Robert Andersson	2001 A/B	36.75	21 500	0	0	0
	2001 C 4Q/01	26.67	10 068	682	0	0
	2002 A/B	17.89	24 375	5 625	0	0
	2003 2Q	14.95	10 125	7 875	5 063	3 938
	2004 2Q	11.79	3 250	7 150	11 895	26 169
	2005 2Q	12.79	0	12 000	0	31 920
	2005 4Q	14.48	0	28 000	0	27 160
Simon Beresford-Wylie	2001 A/B	36.75	14 000	0	0	0
	2001 C 4Q/01	26.67	6 557	443	0	0
	2002 A/B	17.89	11 375	2 625	0	0
	2003 2Q	14.95	7 310	5 690	3 655	2 845
	2004 2Q	11.79	3 125	6 875	11 438	25 163
	2005 2Q	12.79	0	60 000	0	159 600
Pertti Korhonen	2001 A/B	36.75	30 000	0	0	0
	2001 C 4Q/01	26.67	14 057	943	0	0
	2002 A/B	17.89	56 875	13 125	0	0
	2003 2Q	14.95	28 125	21 875	14 063	10 938
	2004 2Q	11.79	15 625	34 375	57 188	125 813
	2005 2Q	12.79	0	60 000	0	159 600
Mary McDowell	2003 4Q	15.05	30 625	39 375	12 250	15 750
	2004 2Q	11.79	15 625	34 375	57 188	125 813
	2005 2Q	12.79	0	60 000	0	159 600

Stock option ownership of the Group Executive Board, December 31, 2005, continued

	Stock option category	Exercise price per share EUR	Number of stock options [1] Exercisable	Number of stock options [1] Unexercisable	Total realisable value of stock options, December 31, 2005 EUR [2] Exercisable [3]	Total realisable value of stock options, December 31, 2005 EUR [2] Unexercisable
Hallstein Moerk	2001 A/B	36.75	30 000	0	0	0
	2001 C 4Q/01	26.67	14 057	943	0	0
	2002 A/B	17.89	24 375	5 625	0	0
	2003 2Q	14.95	11 250	8 750	5 625	4 375
	2004 2Q	11.79	9 375	20 625	34 313	75 488
	2005 2Q	12.79	0	40 000	0	106 400
Tero Ojanperä	2001 A/B	36.75	12 500	0	0	0
	2001 C 4Q/01	26.67	5 852	398	0	0
	2002 A/B	17.89	11 779	2 721	0	0
	2003 2Q	14.95	9 000	7 000	4 500	3 500
	2004 2Q	11.79	3 125	6 875	11 438	25 163
	2005 2Q	12.79	0	40 000	0	106 400
Richard Simonson	2001 C 3Q/01	20.61	36 000	0	0	0
	2002 A/B	17.89	12 183	2 817	0	0
	2003 2Q	14.95	6 465	5 035	3 233	2 518
	2004 2Q	11.79	15 625	34 375	57 188	125 813
	2005 2Q	12.79	0	60 000	0	159 600
Veli Sundbäck	2001 A/B	36.75	40 000	0	0	0
	2001 C 4Q/01	26.67	18 750	1 250	0	0
	2002 A/B	17.89	32 500	7 500	0	0
	2003 2Q	14.95	28 125	21 875	14 063	10 938
	2004 2Q	11.79	9 375	20 625	34 313	75 488
	2005 2Q	12.79	0	40 000	0	106 400
Anssi Vanjoki	2001 A/B	36.75	70 000	0	0	0
	2001 C 4Q/01	26.67	32 807	2 193	0	0
	2002 A/B	17.89	81 250	18 750	0	0
	2003 2Q	14.95	56 250	43 750	28 125	21 875
	2004 2Q	11.79	18 750	41 250	68 625	150 975
	2005 2Q	12.79	0	60 000	0	159 600
Kai Öistämö	2001 A/B	36.75	2 695	0	0	0
	2001 C 4Q/01	26.67	2 013	682	0	0
	2002 A/B	17.89	4 029	4 038	0	0
	2003 2Q	14.95	6 465	5 035	3 233	2 518
	2004 2Q	11.79	3 125	6 875	11 438	25 163
	2005 2Q	12.79	0	12 800	0	34 048
	2005 4Q	14.48	0	28 000	0	27 160
Stock options held by the members of the Group Executive Board on December 31, 2005, Total [4]			4 141 895	2 484 262	1 233 703	4 777 050
All outstanding stock option plans, Total			110 863 400	33 631 787	15 213 285	22 249 290

1 Number of stock options equals the number of underlying shares represented by the option entitlement.

2 The realizable value of the stock options is based on the difference between the exercise price of the options and the closing market price of Nokia shares on the Helsinki Stock Exchange as of December 30, 2005 of EUR 15.45.

3 During 2005, there were no gains realized upon exercise of stock options to report, nor were any share-based incentive grants settled for the members of the Group Executive Board.

4 Mr. Ala-Pietilä resigned as member of the Group Executive Board effective October 1, 2005, and ceased employment with us on January 31, 2006. Dr. Yrjö Neuvo resigned as member of the Group Executive Board effective October 1, 2005, and retired from Nokia effective December 31, 2005. The information relating to stock options held and retained by Mr. Ala-Pietilä and Dr. Neuvo as of the date of termination of employment is represented in the table on page 80.

	Stock option category	Exercise price per share EUR	Number of stock options [a]		Total realisable value of stock options EUR [b, c]		Realized gains in 2005 on stock options exercised [d]	
			Exercisable	Unexercisable	Exercisable	Unexercisable	Number of options	Gains EUR
Pekka Ala-Pietilä (Information as per January 31, 2006)	2001 A/B	36.75	0	0	0	0	250 000	5
	2001 C 4Q/01	26.67	7 818	0	0	0	117 182	6 356
	2002 A/B	17.89	15 625	0	0	0	203 125	145 448
	2003 2Q	14.95	0	0	0	0	0	0
	2004 2Q	11.79	30 000	0	97 800	0	0	0
	2005 2Q	12.79	0	0	0	0	0	0
Yrjö Neuvo (Information as per December 31, 2005)	2001 A/B	36.75	70 000	0	0	0	0	0
	2001 C 4Q/01	26.67	32 807	2 193	0	0	0	0
	2002 A/B	17.89	56 875	13 125	0	0	0	0
	2003 2Q	14.95	22 500	17 500	11 250	8 750	0	0
	2004 2Q	11.79	6 250	13 750	22 875	50 325	0	0

a Number equals the number of underlying shares represented by the option entitlement.

b For Dr. Neuvo the realisable value of the stock options is based on the difference between the exercise price of the options and the closing market price of Nokia shares on the Helsinki Stock Exchange as of December 30, 2005, which was EUR 15.45.

c For Mr. Ala-Pietilä the realisable value of the stock options is based on the difference between the exercise price of the options and the closing market price of Nokia shares on the Helsinki Stock Exchange as of January 31, 2006, which was EUR 15.05.

d Realized gains in 2005 represent the total gross value received in 2005 in respect of options sold over the Helsinki Stock Exchange (transferable stock options).

Performance shares and restricted shares

The following table provides certain information relating to performance shares and restricted shares held by members of the Group Executive Board as of December 31, 2005. These entitlements were granted pursuant to our performance share plans 2004 and 2005 and restricted share plans 2003, 2004 and 2005. For a description of our performance share and restricted share plans, see Note 24 "Share-based payment" to the Consolidated Financial Statements on pages 25–28.

	Plan name [1]	Performance Shares			Plan name [4]	Restricted Shares	
		Performance shares at threshold [2] number	Performance shares at maximum [2] number	Value December 31, 2005 [3] EUR		Number of restricted shares	Value December 31, 2005 [5] EUR
Jorma Ollila	2004	100 000	400 000	3 090 000	2004	100 000	1 545 000
	2005	100 000	400 000	3 090 000	2005	100 000	1 545 000
Olli-Pekka Kallasvuo	2004	15 000	60 000	463 500	2004	35 000	540 750
	2005	15 000	60 000	463 500	2005	70 000	1 081 500
Robert Andersson	2004	2 600	10 400	80 340	2004	15 000	231 750
	2005	3 000	12 000	92 700	2005	28 000	432 600
Simon Beresford-Wylie					2003	22 000	339 900
	2004	2 500	10 000	77 250			
	2005	15 000	60 000	463 500	2005	35 000	540 750
Pertti Korhonen					2003	35 000	540 750
	2004	12 500	50 000	386 250	2004	25 000	386 250
	2005	15 000	60 000	463 500	2005	35 000	540 750

	Plan name [1]	Performance Shares: Performance shares at threshold [2] number	Performance shares at maximum [2] number	Value December 31, 2005 [3] EUR	Plan name [4]	Restricted Shares: Number of restricted shares	Value December 31, 2005 [5] EUR
Mary McDowell					2003	20 000	309 000
	2004	12 500	50 000	386 250			
	2005	15 000	60 000	463 500	2005	35 000	540 750
Hallstein Moerk					2003	26 000	401 700
	2004	7 500	30 000	231 750	2004	20 000	309 000
	2005	10 000	40 000	309 000	2005	25 000	386 250
Tero Ojanperä	2004	2 500	10 000	77 250	2004	15 000	231 750
	2005	10 000	40 000	309 000	2005	25 000	386 250
Richard Simonson					2003	33 250	513 713
	2004	12 500	50 000	386 250	2004	25 000	386 250
	2005	15 000	60 000	463 500	2005	35 000	540 750
Veli Sundbäck	2004	7 500	30 000	231 750	2004	20 000	309 000
	2005	10 000	40 000	309 000	2005	25 000	386 250
Anssi Vanjoki	2004	15 000	60 000	463 500	2004	35 000	540 750
	2005	15 000	60 000	463 500	2005	35 000	540 750
Kai Öistämö					2003	8 750	135 188
	2004	2 500	10 000	77 250	2004	15 000	231 750
	2005	3 200	12 800	98 880	2005	25 000	386 250
Performance shares and Restricted shares held by the Group Executive Board, Total [6, 7]		**418 800**	**1 675 200**	**12 940 920**		**923 000**	**14 260 350**
All outstanding Performance shares and Restricted shares, Total		**8 042 817**	**32 171 268**	**248 523 045**		**5 185 676**	**80 118 694**

1 The performance period for the 2004 plan is 2004–2007, with one interim measurement period for fiscal years 2004–2005.

Similarily, the performance period for the 2005 Plan is 2005–2008, with one interim measurement period for fiscal years 2005–2006.

2 For the performance share plans 2004 and 2005, the number of performance shares at threshold represents the number of performance shares granted. This number shall vest as shares, should the pre-determined threshold performance levels of the company be met. The maximum number of performance shares shall vest as shares, should the predetermined maximum performance levels be met. The maximum number of performance shares equals four times the number originally granted.

3 Value is based on the closing market price of the Nokia share on the Helsinki Stock Exchange as of December 30, 2005 of EUR 15.45. The value is presented for the target number of shares, which is two times the number at threshold. The target number is used for expensing the instruments in the company's accounting.

4 Restriction period ends for the restricted share plan 2003 on October 1, 2006 (Vesting Date). Vesting Date for the 2004 plan is October 1, 2007, and for the 2005 plan October 1, 2008.

5 Value is based on the closing market price of the Nokia share on the Helsinki Stock Exchange as of December 30, 2005 of EUR 15.45.

6 Pekka Ala-Pietilä resigned as member of the Group Executive Board as of October 1, 2005, and ceased employment with us on January 31, 2006.

As of December 31, 2005 he held 35 000 restricted shares from each of the 2004 and 2005 Restricted Share Plans, 20 000 performance shares at threshold from the 2004 Performance Share Plan and 15 000 performance shares at threshold from the 2005 Performance Share Plan. He forfeited all his performance shares and restricted shares in accordance with the relevant plan rules.

7 Yrjö Neuvo resigned as member of the Group Executive Board effective October 1, 2005, and retired from Nokia as of December 31, 2005.

As of December 31, 2005 he held 5 000 performance shares at threshold from 2004 Performance Share Plan. He was entitled to keep all his performance shares in accordance with the relevant plan rules.

Stock ownership guidelines for Executive Management

One of the goals of our long-term equity-based incentive program is to focus executives on building value for shareholders. In addition to granting them stock options, performance shares and restricted shares, we also encourage stock ownership by our top executives. In January 2001, we introduced a stock ownership commitment guidelines with minimum recommendations tied to annual base salaries. For the members of the Group Executive Board, the recommended minimum investment in our shares corresponds to two times the member's annual base salary. For Mr. Kallasvuo, who has already met this requirement as of the end of 2005, the Board of Directors has set a new recommended minimum ownership guideline of three times his annual base salary. To meet this requirement, all members are expected to retain after-tax equity gains in shares until the same minimum investment level is met.

Insiders' trading in securities

The Board of Directors has established a policy in respect of insiders' trading in Nokia securities. Under the policy, the holdings of Nokia securities by the primary insiders (as defined in the policy) are public information, which is available in the Finnish Central Securities Depositary and on the company's website. Both primary insiders and secondary insiders (as defined in the policy) are subject to a number of trading restrictions and rules, including among other things, prohibitions on trading in Nokia securities during the three-week "closed-window" period immediately preceding the disclosure of our quarterly results and the four-week "closed-window" period immediately preceding the disclosure of our annual results. In addition, Nokia may set trading restrictions based on participation in projects. We update our insider trading policy from time to time and monitor our insiders' compliance with the policy on a regular basis. Nokia's Insider Policy is in line with the Helsinki Stock Exchange Guidelines for Insiders and also sets requirements beyond these guidelines.

Auditor fees and services

PricewaterhouseCoopers Oy has served as Nokia's independent auditor for each of the fiscal years in the three-year period ended December 31, 2005. The independent auditor is elected annually by the Annual General Meeting. The Audit Committee will propose to the Annual General Meeting convening on March 30, 2006 that PricewaterhouseCoopers Oy be elected as the independent auditor for 2006.

The following table presents the aggregate fees for professional services and other services rendered by PricewaterhouseCoopers to Nokia in 2005 and 2004.

EURm	2005	2004
Audit fees [1]	5.3	4.2
Audit-related fees [2]	1.0	1.0
Tax fees [3]	5.9	5.0
All other fees [4]	0.1	0.3
Total	**12.3**	10.5

1 Audit Fees consist of fees billed for the annual audit of the company's consolidated financial statements and the statutory financial statements of the company's subsidiaries. They also include fees billed for other audit services, which are those services that only the independent auditor reasonably can provide, and include the provision of comfort letters and consents and the review of documents filed with the SEC and other capital markets or local financial reporting regulatory bodies. The fees for 2005 include EUR 1.4 million of accrued audit fees for the 2005 year-end audit that were not billed until 2006; the fees for 2004 include EUR 0.8 million of accrued audit fees for the 2004 year-end audit that were not billed until 2005.

2 Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the company's financial statements or that are traditionally performed by the independent auditor, and include consultations concerning financial accounting and reporting standards; internal control matters and services in anticipation of the company's compliance with Section 404 of the Sarbanes-Oxley Act of 2002; advice and assistance in connection with local statutory accounting requirements; due diligence related to acquisitions; and employee benefit plan audits and reviews; and miscellaneous reports in connection with grant applications.

3 Tax Fees include fees billed for tax compliance services, including the preparation of original and amended tax returns and claims for refund; tax consultations, such as assistance and representation in connection with tax audits and appeals, tax advice related to mergers and acquisitions, transfer pricing, and requests for rulings or technical advice from taxing authorities; tax planning services; and expatriate tax compliance, consultation and planning services.

4 All Other Fees include fees billed for company establishment, forensic accounting and occasional training services and, in 2004 only, for advisory services in connection with the outsourcing of an operational process and forensic accounting related to internal investigations.

Audit committee pre-approval policies and procedures

The Audit Committee of Nokia's Board of Directors is responsible, among other matters, for the oversight of the external auditor subject to the requirements of Finnish law. The Audit Committee has adopted a policy regarding pre-approval of audit and permissible non-audit services provided by our independent auditors (the "Policy").

Under the Policy, proposed services either (i) may be pre-approved by the Audit Committee without consideration of specific case-by-case services ("general pre-approval"); or (ii) require the specific pre-approval of the Audit Committee ("specific pre-approval"). The Audit Committee may delegate either type of pre-approval authority to one or more of its members. The appendices to the Policy set out the audit, audit-related, including internal control, tax and other services that have received the general pre-approval of the Audit Committee, which services are subject to annual review by the Audit Committee. All other audit, audit-related, including internal control, tax and other services must receive a specific pre-approval from the Audit Committee.

The Audit Committee establishes budgeted fee levels annually for each of the four categories of audit and non-audit services that are pre-approved under the Policy, namely, audit, audit-related, tax and other services. Requests or applications to provide services that require specific approval by the Audit Committee are submitted to the Audit Committee by both the independent auditor and the Chief Financial Officer. At each regular meeting of the Audit Committee, the independent auditor provides a report in order for the Audit Committee to review the services that the external auditor is providing, as well as the status and cost of those services.

Investor information

Information on the Internet

www.nokia.com/investor

Available on the Internet: financial reports, Nokia management's presentations, conference call and other investor related material, press releases as well as environmental and social information.

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Annual General Meeting

Date: Thursday March 30, 2006 at 3:00 pm
Address: Helsinki Fair Centre, Messuaukio 1, Helsinki, Finland

Dividend

Dividend proposed by the Board of Directors for 2005 is EUR 0.37 per share.
The dividend record date is proposed to be April 8, 2006 and pay date April 21, 2006.

Financial reporting

Nokia's quarterly reports in 2006 are planned for April 20, July 20, and October 19. The 2006 results are planned to be published in January 2007.

Information published in 2005

All Nokia's press releases published in 2005 are available on the Internet at www.nokia.com.

Stock exchanges

The shares of Nokia Corporation are quoted on the following stock exchanges:

	Symbol	Trading currency
HEX, Helsinki (quoted since 1915)	NOK1V	EUR
Stockholmsbörsen (1983)	NOKI	SEK
Frankfurter Wertpapierbörse (1988)	NOA3	EUR
New York Stock Exchange (1994)	NOK	USD

List of indices

NOK1V	NOKI	NOK
HEX HEX General Index	**OMX** Stockholm	**NYA** NYSE Composite
HEXTELE HEX Telecommunications	**GENX** Swedish General	**NNA** NYSE Utilities
HEX 25 HEX 25 Index	**GENX04** Swedish Engineer	**NN** NYSE Utilities
BE500 Bloomberg Europe	**GENX16** Swedish SX 16 Index	**CTN** CSFB Technology
BETECH BBG Europe Technology		**MLO** Merrill Lynch Tech 10
SX5E DJ Euro STOCXX 50		
SX5P DJ Europe STOXX		
SX__ Various other DJ Indices		
E300 FTSE Eurotop 300		

It should be noted that certain statements herein which are not historical facts, including, without limitation, those regarding: A) the timing of product and solution deliveries; B) our ability to develop, implement and commercialize new products, solutions and technologies; C) expectations regarding market growth, developments and structural changes; D) expectations regarding our mobile device volume growth, market share and prices, E) expectations and targets for our results of operations; F) the outcome of pending and threatened litigation; and G) statements preceded by "believe," "expect," "anticipate," "foresee," "target," "designed" 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: 1) the extent of the growth of the mobile communications industry, as well as the growth and profitability of the new market segments within that industry which we target; 2) the availability of new products and services by network operators and other market participants; 3) our ability to identify key market trends and to respond timely and successfully to the needs of our customers; 4) the impact of changes in technology and our ability to develop or otherwise acquire complex technologies as required by the market, with full rights needed to use; 5) competitiveness of our product portfolio; 6) timely and successful commercialization of new advanced products and solutions; 7) price erosion and cost management; 8) the intensity of competition in the mobile communications industry and our ability to maintain or improve our market position and respond to changes in the competitive landscape; 9) 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 solutions; 10) inventory management risks resulting from shifts in market demand; 11) our ability to source quality components without interruption and at acceptable prices; 12) our success in collaboration arrangements relating to development of technologies or new products and solutions; 13) the success, financial condition and performance of our collaboration partners, suppliers and customers; 14) any disruption to information technology systems and networks that our operations rely on; 15) our ability to protect the complex technologies that 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 solution offerings; 16) general economic conditions globally and, in particular, economic or political turmoil in emerging market countries where we do business; 17) developments under large, multi-year contracts or in relation to major customers; 18) exchange rate fluctuations, including, in particular, fluctuations between the euro, which is our reporting currency, and the US dollar, the Chinese yuan, the UK pound sterling and the Japanese yen; 19) the management of our customer financing exposure; 20) our ability to recruit, retain and develop appropriately skilled employees; and 21) the impact of changes in government policies, laws or regulations; as well as 22) the risk factors specified on pages 12–22 of the company's annual report on Form 20-F for the year ended December 31, 2005 under "Item 3.D Risk Factors."

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