

Q2 2024 Investor Video Transcript

18 July 2024

David Mulholland, Head of Investor Relations

Hi everyone, and welcome to this quick introduction to Nokia's second quarter 2024 financial results.

I'm David Mulholland, Head of Investor Relations and with me is Pekka Lundmark, our President and CEO.

As a quick note in today's discussion where we refer to growth rates it will be on a constant currency basis and where we refer to margins it will be on a comparable basis. Please note that there is a full report on Nokia's Investor Relations website that also provides full reconciliation between these terms and our IFRS reporting.

With that – let's get started.

Pekka – before we get to the results themselves Nokia made a few significant announcements a couple of weeks ago – could you please give a quick recap of those announcements?

Pekka Lundmark – President and CEO

Thanks David.

Yes, that's right. 'Actively managing our portfolio' is an important part of our corporate strategy and these announcements show our commitment to that.

We announced an agreement to sell our Submarine Networks business to the French state along with our intention to acquire Infinera. The Infinera acquisition will significantly increase the scale and profitability of our Optical Networks business.

It will enable us to deliver faster innovation and expand our position with webscale customers and regionally in North America.

These transactions will focus and strengthen our Network Infrastructure business with its future built on three market-leading units, Fixed Networks, IP Networks and Optical Networks.

We are allocating capital towards our Network Infrastructure business as we see a compelling opportunity to continue to build on the strong progress made in recent years. We are positioning the business to be able to sustain mid-single digit net sales growth and to improve our profitability to mid-to-high teens operating margin over time.

David Mulholland, Head of Investor Relations

And if we switch gears back to the second quarter - in recent quarters you have been talking about improving order intake, how has that momentum progressed in the second quarter?

Pekka Lundmark – President and CEO

Well I'm pleased to confirm that the improving order intake momentum continued in the second quarter. This was the case across the group but again most notably in Network Infrastructure. This means our backlog further increased during Q2 and we are looking forward to a meaningful improvement in net sales in the second half of the year.

However, while the market dynamic is improving, the net sales recovery is happening somewhat later than we previously expected, impacting our business groups' net sales assumptions for 2024.

David Mulholland, Head of Investor Relations

So with the improving order intake momentum that you are seeing do you think you're clearly in a cyclical upturn now?

Pekka Lundmark – President and CEO

All I can say at this point is that the signals are encouraging but we will not get ahead of ourselves. Customer spending trends are gradually improving, and I do believe the industry dynamic is showing signs of recovery, but we are not taking anything for granted and we will continue to prudently manage our cost base as we navigate this challenging environment.

David Mulholland, Head of Investor Relations

And if we then turn back to the financial performance how did the business do in the second quarter?

Pekka Lundmark – President and CEO

Our net sales in the quarter declined by 18% year-on-year although three quarters of the decline was related to the challenging comparison in India as Q2 last year was the peak of India's rapid 5G deployment.

In the quarter there was also a benefit of 150 million euros to both net sales and operating profit related to a portion of a contract resolution with AT&T.

Our comparable operating margin was 9.5% compared to the 11.4% last year.

David Mulholland, Head of Investor Relations

And one of the bright spots we've seen so far this year has been cash generation – how was that in the second quarter?

Pekka Lundmark – President and CEO

Yes, Q2 was another strong quarter for cash generation with free cash flow of 394 million euros and bringing our year-to-date free cash flow generation to 1.35 billion. With the strength we have seen

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recently, the Board intends to accelerate our on-going 600 million euro buyback program. We now target to complete the buyback by the end of this year rather than the end of 2025 we originally targeted.

You mentioned earlier the need to manage our cost base – can you give us an update on how Nokia is progressing with our cost reduction program?

Pekka Lundmark – President and CEO

Yes, I am pleased to say that we have already achieved annualized run-rate savings of 400 million euros by the end of Q2 out of our targeted 800 million to 1.2 billion gross cost savings. This is thanks to the quick action we have taken on reducing headcount after the announcement of the program last October. At that time, we had approximately 86 thousand employees and we ended Q2 with under 80 thousand employees.

So we are well on-track to achieve the are well on-track to achieve the gross

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Were there any highlights in each of the Business Groups this quarter?

Pekka Lundmark – President and CEO

Yes – we have continued to make good progress in each of our business groups this quarter.

In Network Infrastructure we won several important fiber deals, including in the US, and received orders from a US distributor for both Fixed and IP products as we gear up to supply operators under the BEAD program. I was also pleased to see Network Infrastructure return to growth in North America after several quarters of decline.

In Mobile Networks there has been significant customer tendering activity. We have won a number of deals recently including new customers such as MEO in Portugal and also increased our footprint with several existing customers. This demonstrates the strength of our product offering.

Also in Cloud and Network Services we continue to make good progress and winning deals. Our organic investment into bringing new API capabilities to operators is showing good progress and we now have a total of 16 agreements signed, including with operators such as Orange, Telefónica and Turkcell along with ecosystem players such as Google and Infobip.

And finally on Nokia Technologies, it was a quieter quarter after the strong start we had in Q1 concluding our smart-phone renewal cycle. We did however sign an agreement with a video streaming platform covering the use of Nokia’s multimedia technology. This is an early step in what can be a meaningful opportunity for Nokia in the future as we work to grow our annual net sales run-rate from the current 1.3 billion euros to our next target of 1.4 to 1.5 billion euros.

David Mulholland, Head of Investor Relations

And finally Pekka – if we look forward, how do you see the outlook for Nokia?

Pekka Lundmark – President and CEO

As I mentioned earlier, we continue to see a stabilising and improving dynamic in the industry. Our order backlog has further increased in Q2 which supports our expectation of a significant acceleration in net sales growth in the second half.

While the order intake dynamic is improving it is taking somewhat longer than we expected to translate into net sales which is impacting our business groups' full year net sales assumptions.

Despite this, and supported by our quick action on cost, we remain solidly on track to achieve our full year outlook.

We are currently tracking towards the mid-point or slightly below the mid-point of our comparable operating profit guidance of 2.3 to 2.9 billion euros and towards the higher end of our free cash flow conversion guidance of 30 to 60%.

David Mulholland, Head of Investor Relations

Thank you Pekka and thank you everyone for joining us today.

During this video, we have made forward-looking statements, and these statements are predictions that involve risks and uncertainties. Actual results may therefore differ materially from the results we currently expect. Factors that could cause such differences can be both external as well as internal operating factors. We have identified such risks in more detail in the Risk Factors section of our 2023 annual report on Form 20-F.