International Journal of Finance Education 1(1): 85-112.
© 2005, Senate Hall Academic Publishing.

Nokia's Growing Cash Mountain

Ahmad Rahnema[1]
IESE Business School, University of Navarra

Abstract. As of mid-November 2002, Jorma Ollila, CEO of Nokia must decide a course of action for his company's growing 'cash pile' of eight billion euros. The company does not have any immediate acquisitions on the horizon and boasts a low debt load – €450 million in long-term debt and €2.6 billion in customer financing exposure. Ollila has recently ruled out a share buy-back after credit agencies like Moody's threatened to downgrade the company from its current A1 credit rating. Ollila needs to come up with a plan for the cash within two weeks that will suit shareholders and Nokia's future investment needs.

Keywords: dividend policy, cash dividend, share-buy-back, financial policy, cash pile, mobile telecommunication.

1. Introduction

On November 12th, 2002, Jorma Ollila, Chairman and CEO of Nokia Corporation glanced at the Wall Street Journal Europe which read:

> What should Nokia do with its cash pile? The Finnish mobile-phone giant doesn't seem interested in buying companies. What's more, unlike most technology companies, it already pays out 30 per cent to 40 per cent of its annual earnings as a dividend. Nokia's board has approval to buy back 5 per cent of the company's shares, valued at €3.5 billion at current prices. But last week, Chief Executive Jorma Ollila appeared to rule out an early buyback, fearful of how credit-rating agencies would respond.[2]

As of November 2002, Nokia had over €8 billion[3] and was generating approximately €1 billion in cash per quarter.[4] With long-term debt hovering around €450 million and accounts payable at €2.6 billion[5], Nokia had to decide

---

1. Research assistance from Jordan Mitchell is highly acknowledged. The author would like to thank The Research Department at IESE, Business School for providing financial assistance. This case was prepared from published sources. The author remains responsible for any errors of omission or commission.
2. Dixon, Hugo, "Nokia Must Decide on a Plan for Cash – Shareholders May Benefit From a Special Dividend Rather Than a Buyback", *The Wall Street Journal Europe*, Page M8, 12 November 2002.
3. "Nokia Corp.: Buyback is weighted, but risk of downgrade is deterrent", *The Wall Street Journal*, 8 November 2002.
4. *Nokia Analyst Report*, SchroderSalomonSmithBarney, Page 18, 29 November 2002.
5. *Nokia Annual Report*, www.nokia.com, 31 December 2002, Accessed 16 July 2004.

on whether it should maintain its current cash level, pay out more dividends or buy back shares. Ollila, along with the senior executives of Nokia had to be mindful not only of the company's dividend policy, but also of future investment needs. Ollila needed to reach a decision to present his recommendation to the management team before the company's scheduled year-end strategy day on December 3rd.[6]

2. History of Nokia

Nokia was founded in 1865 as a manufacturer of paper. Over 100 years later, in 1967, it merged with Finnish Rubber Works and Finnish Cable Works, to form a diversified conglomerate manufacturing a wide range of products from rubber boots through to telephone cables. In 1981, Nokia developed an important first – a cellular phone for automobiles. The company followed with a number of new innovations throughout the 1980s and early 1990s, which included Europe's first digital exchange in 1982, the first hand portable phone in 1987 (the Nokia Cityman), the first mobile search text pager in 1990 and the first hand portable digital phone in 1992 (the previous models were analogue).

These innovations spurred the development of its telecommunications arm and by 1992, the then-recently appointed Jorma Ollila led the company to make telecommunications its core business. It divested of activities outside its core such as its original paper manufacturing business as well as divisions producing rubber, footwear, chemicals, cable, personal computers and televisions. Exhibit 1 opposite shows the company's major acquisitions and divestures.

3. Mobile Telecommunications Industry

The mobile and wireless telecommunications industry was in a time of flux. It had not experienced growth in neither telephone headsets nor infrastructure since 2000.[7] The overall market for mobile phones remained relatively flat in 2002 estimated between 380 and 400 million units. The number of replacement phones had grown to be half of all of the phones sold. Competitors fostered replacement sales by adding new multimedia features, increased connectivity with the Internet and colour. The total number of mobile subscribers was estimated to be over 1 billion in 2002, with predicted growth to reach 1.5 billion by 2005.[8] Exhibit 2 below shows some key industry statistics.

6. *Nokia Analyst Report*, SchroderSalomonSmithBarney, Page 3, 29 November 2002.
7. *Nokia Analyst Report*, SchroderSalomonSmithBarney, Page 11, 26 March 2003.

Exhibit 1: Nokia's Acquisitions and Divestitures

Date	Acquisition Target	Nokia Business Division	Cash Paid Out (EUR millions)
22-May-02	Redback Networks Inc.	Nokia Networks	
25-Jul-01	Amber Networks Inc.	Nokia Networks	408
28-Jun-01	F5 Networks Inc.	Nokia Internet Communications	
7-Dec-00	Ramp Networks Inc.	Nokia Internet Communications	147
20-Oct-00	NGI Industrial (NGI)	Nokia Mobile Phones	492
9-Aug-00	DiscoveryCom Inc.	Nokia Networks	223
1-Feb-00	Network Alchemy Inc.	Nokia Internet Communications	336
13-Dec-99	Security software business from TeamWARE Group	Nokia Wireless Network Solutions	
22-Oct-99	Telekol Group	Nokia Internet Communications	
2-Sep-99	Rooftop Communications Corp	Nokia Networks	
30-Jun-99	Aircom International	Nokia Networks	
14-May-99	R&D units from TeamWARE Group	Nokia Mobile Phones	
18-Feb-99	InTalk Corp	Nokia Wireless Business Communications	
16-Feb-99	Diamond Lane Communications	Nokia Networks	
18-Dec-98	Vienna Systems Corp	Nokia Internet Communications	
17-Sep-98	NE-Products Oy	Nokia Mobile Phones	
20-Aug-98	User Interface Design	Nokia Communications Products	
25-Jun-98	Matra Nortel Communications	Nokia Mobile Phones	
9-Dec-97	Ipsilon Networks Inc	Nokia Networks	

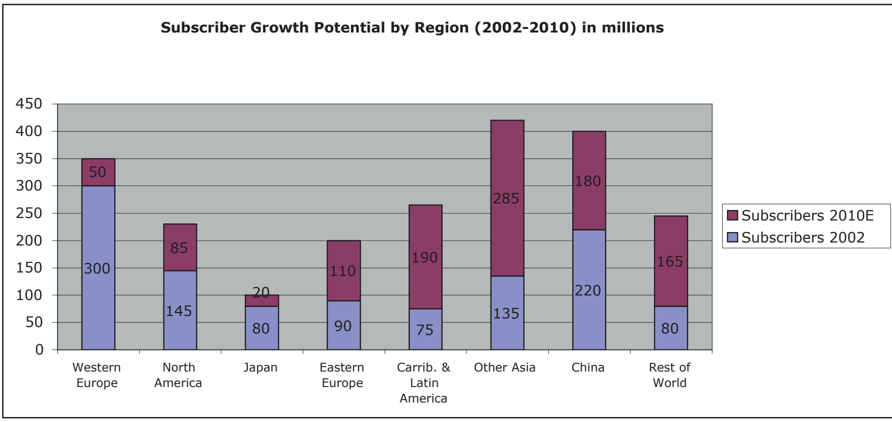
Nokia's Divestitures

Date	Divestiture Target	Nokia Business Division
30-Aug-01	Part of mobile core related R&D	Nokia Networks
13-Mar-01	Narrowband access products	Nokia Networks
13-Jun-00	Cabling and electromechanical units	Nokia Networks
17-Jan-00	Nokia Display Products' branded business	Nokia Display Products
10-Jan-00	Monitor manufacturing unit in Hungary	Nokia Display Products
1-Nov-99	SHD/DWDM business	Nokia Networks
1-Oct-99	Salcomp Oy	Nokia Communications Products
9-Sep-98	Mobile radios and printed circuit boards	Nokia Networks
7-Aug-98	LK-Products Oy	Nokia Mobile Phones
3-Mar-98	Autoliv Nokia AB	Nokia Industrial Electronics
23-Dec-97	Loudspeaker Operations	Nokia Industrial Electronics
7-Feb-97	Tuner Operations	Nokia Multimedia Network Terminals
17-Jul-96	Television production	Nokia General Communications Products
18-Mar-96	Cable Business / NKF Holding NV	Nokia Communications Products

Source: Nokia Website, www.nokia.com, Accessed 15 July 2004

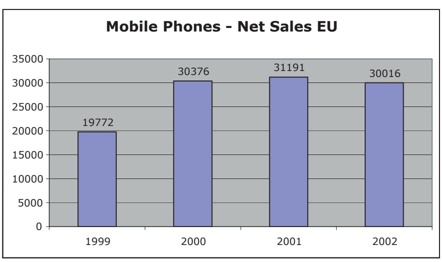
8. *Nokia Annual Report*, www.nokia.com, 31 December 2002, Page 23, Accessed 16 July 2004.

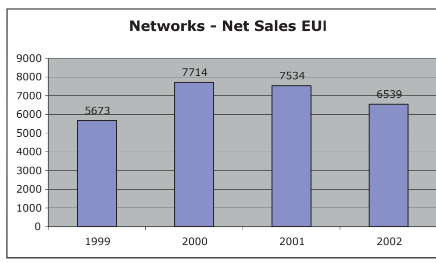
Exhibit 2: Key Industry Statistics

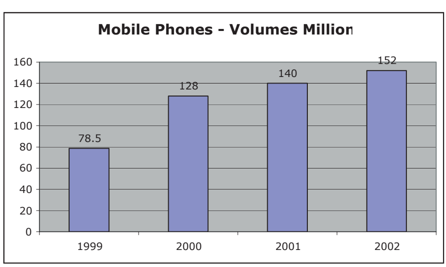


Source: Nokia Analyst Report, SchroderSalomonSmithBarney, Page 3, 26 March 2003

Nokia's Net Sales in Mobile Phones and Networks







Source: Nokia Fact Sheet, www.nokia.com, Accessed 28 July 2004

One of the major initiatives in the industry was the formation of the Open Mobile Alliance in November 2001, which attempted to define open standards for the mobile industry to increase consistency across platforms, operators, terminals and geographic locations. The industry was also in the midst of moving from second generation (2G) to third generation (3G) mobile telecommunications. Third generation (3G) allowed the transfer of more data, making it easier to send and receive images, video or larger bits of information. At the same time, mobiles were increasingly becoming a commodity. Downward price pressure came from low-cost producers in Asia, while upward price movements originated from enhanced features.

The mobile network infrastructure was estimated to have declined by 20 per cent for 2002. The contraction in the mobile telecommunications network industry was related to the economic slowdown and companies scaling back on making capital investments in mobile network infrastructure. Part of the cash crunch for mobile network operators arose from the increase in third generation (3G) license costs. As of the latter part of 2002, 112 network operators had been granted 3G licenses. The multimedia messaging services (MMS) launched in March 2002 with approximately 100 operators jumping on board to offer MMS services. Networks were increasingly becoming more complex due to the variety of services being introduced. The challenge was integrating several elements such as Internet capabilities with imaging to provide a smooth functioning network service.

4. Dividend Payments in the Mobile Telecommunications Industry

Many players in the mobile telecommunications sector had opted to reduce or cut dividend payments to shareholders. The opinion of how technology companies should use cash varied. Some analysts believed that having less cash on hand forced smart acquisitions by imposing restraint and scarcity on the company's management.[9] Others felt that dividend payments belonged to large organisations outside of the technology industry; companies that experienced modest year-on-year growth. Analysts supporting this view felt paying a dividend was a signal of slowing market growth.[10]

Other investors argued that paying dividends was important to distribute the wealth of the company to shareholders. For example, the UK mobile telecommunications company Vodafone had just announced a doubling of its dividend in order to "appease shareholders".[11] A month earlier when the company was considering purchasing a French mobile operator, Vodafone's chief executive, Sir Christopher Gent emphasized that he would favour a share buy-back instead of a special dividend if the acquisition did not come to fruition.[12] He commented, "If [the deal does not happen] we will seriously look at whether the time is right to do a share buy-back. We have share buy-

---

9. Baker, David, "Tech Firms Taking Stock of Dividend Tax Cut Plan", *San Francisco Chronicle*, 8 January 2003.
10. McGee, Suzanne, "Are Dividends in your Tech fund's future?", *Standard & Poor's*, 14 March 2003.
11. "Vodaphone to double dividend growth", *Dow Jones International News*, 10 November 2002.

backs envisaged in our long-term plans. There is an optimal gearing level we should get to for our shareholders."[13]

5. Key Competitors: Financial Results and Dividend Payments

Nokia's key competitors were Motorola, SonyEricsson, Samsung and Siemens in the mobile phone market. Other competitors, specifically from Asia, were threatening the position of all of the established competitors. In mobile networks, Nokia fought for market share against Siemens, Alcatel, Nortel as well as Ericsson and Motorola. Exhibit 3 opposite shows the key financial information of each competitor.

12. Budden, Robert, "Vodafone mulls buy-back if Cegetel bid fails," *Financial Times*, 19 October 2002, Page 14.
13. Budden, Robert, "Vodafone mulls buy-back if Cegetel bid fails," *Financial Times*, 19 October 2002, Page 14.

Exhibit 3: Competitor's Key Financial Information

in USD $ (millions)	Motorola	Ericsson	Siemens	Alcatel	Nortel	Nokia
Income Statement	**Dec 2001**	**Dec 2001**	**Sep 2001**	**Dec 2001**	**Dec 2001**	**Dec 2001**
Revenue	30,004.0	22,117.0	86,208.0	22,597.0	17,511.0	27,801.0
Cost of Goods Sold	21,250.0	15,851.0	57,107.0	15,858.0	13,423.0	16,630.0
Gross Profit	8,754.0	6,266.0	29,101.0	6,739.0	4,088.0	11,171.0
Gross Profit Margin	29.2%	28.3%	33.8%	29.8%	23.3%	40.2%
SG&A Expense	8,021.0	8,826.0	23,209.0	5,918.0	9,244.0	5,730.0
Depreciation & Amortization	2,552.0	739.0	6,207.0	2,866.0	5,699.0	1,275.0
Operating Income	(1,819.0)	(3,299.0)	(315.0)	(2,045.0)	(10,855.0)	4,166.0
Operating Margin	--	--	--	--	--	15.0%
Nonoperating Income	(1,149.0)	1,071.0	2,999.0	(204.0)	(597.0)	174.0
Nonoperating Expenses	645.0	552.0	32.0	1,398.0	311.0	73.0
Income Before Taxes	(5,511.0)	(2,780.0)	2,652.0	(5,544.0)	(27,559.0)	3,098.0
Income Taxes	(1,574.0)	(863.0)	774.0	(1,124.0)	(3,252.0)	1,062.0
Net Income After Taxes	(3,937.0)	(1,917.0)	1,878.0	(4,420.0)	(24,307.0)	2,036.0
Diluted EPS from ContinuingC	(1.78)	(2.57)	2.34	(3.86)	(7.62)	0.41
Diluted EPS from Discontinued	0.00	0.00	0.00	0.00	(0.94)	0.00
Diluted EPS from Total Operati	(1.78)	(2.57)	2.34	(3.86)	(8.56)	0.41
Diluted EPS from Total Net Inc	(1.78)	(2.57)	2.34	(3.86)	(8.56)	0.41
Dividends per Share	0.16	0.50	0.00	0.43	0.04	0.25
Balance Sheet						
Assets						
Cash	6,082.0	3,128.0	7,731.0	3,877.0	3,513.0	1,652.0
Net Receivables	4,583.0	9,693.0	18,756.0	9,814.0	2,923.0	5,456.0
Inventories	2,756.0	2,376.0	13,284.0	4,172.0	1,579.0	1,594.0
Other Current Assets	3,728.0	3,439.0	10,778.0	4,107.0	3,747.0	5,126.0
Total Current Assets	17,149.0	18,637.0	50,549.0	21,971.0	11,762.0	13,829.0
Net Fixed Assets	8,913.0	1,534.0	17,641.0	3,745.0	2,571.0	2,241.0
Other Noncurrent Assets	7,336.0	3,685.0	21,108.0	6,860.0	6,804.0	3,920.0
Total Assets	33,398.0	23,855.0	89,298.0	32,576.0	21,137.0	19,989.0
Liabilities and Shareholders' Equity						
Accounts Payable	2,434.0	1,865.0	10,282.0	4,528.0	1,988.0	2,740.0
Short-Term Debt	870.0	1,939.0	2,613.0	2,189.0	810.0	741.0
Other Current Liabilities	6,394.0	4,938.0	31,224.0	7,139.0	6,659.0	5,046.0
Total Current Liabilities	9,698.0	8,742.0	44,119.0	13,857.0	9,457.0	8,526.0
Long-Term Debt	8,372.0	7,234.0	9,882.0	5,240.0	4,094.0	184.0
Other Noncurrent Liabilities	1,152.0	1,000.0	7,608.0	4,701.0	1,607.0	68.0
Total Liabilities	19,707.0	17,313.0	65,702.0	23,992.0	16,313.0	9,112.0
Preferred Stock Equity	0.0	0.0	0.0	0.0	0.0	0.0
Common Stock Equity	13,691.0	6,543.0	23,595.0	8,583.0	4,824.0	10,878.0
Total Equity	13,691.0	6,543.0	23,595.0	8,583.0	4,824.0	10,878.0
Shares Outstanding (mil.)	2,254.0	80.7	888.2	1,240.8	3,213.7	4,736.3
Cash Flow Statement						
Net Operating Cash Flow	1,976.0	(65.0)	6,952.0	486.0	(276.0)	5,835.0
Net Investing Cash Flow	2,477.0	464.0	(5,832.0)	1,377.0	(801.0)	(2,388.0
Net Financing Cash Flow	(1,820.0)	2,701.0	(94.0)	(193.0)	2,956.0	(1,689.0
Net Change in Cash	2,781.0	3,170.0	931.0	1,677.0	1,869.0	1,720.0
Depreciation & Amortization	2,552.0	739.0	6,207.0	2,866.0	5,699.0	1,275.0
Capital Expenditures	(1,833.0)	(792.0)	(10,847.0)	(2,220.0)	(1,379.0)	(1,045.0
Cash Dividends Paid	(356.0)	(410.0)	(1,694.0)	(505.0)	(123.0)	(1,244.0

Source: Company Profiles, Hoovers, www.hoovers.com, Accessed 21 July 2004

5.1. Motorola

Motorola was focussed on providing integrated communications and electronic solutions by producing products for the worldwide market from mobile phones sets through to microprocessors for computing devices. The company generated sales of $30 billion, posting $1.8 billion in operating losses in 2001.

In late 2001, when the company was plagued with operating profit losses, it elected to raise over one billion in cash through the mandatory convertibles market.[14] For the first three years, investors were guaranteed a dividend of seven per cent and at the third anniversary, the investment would convert into Motorola stock valued 22 per cent above the stock price at the date that the convertible was issued.[15] Motorola likely believed that their stock price was depressed. The transaction allowed Motorola to keep their debt in line, while not having to go to equity markets to raise more cash. As one industry expert stated, "Motorola has a historically conservative financial profile. This is a way of gaining access to long-term funds without leveraging the balance sheet."[16]

Recovering from 2001, where the company experienced their first full-year loss in 45 years, Motorola had returned to operating profitability in 2002.[17] Motorola had paid quarterly dividends for 222 consecutive quarters (55 years). The last quarterly dividend was four cents on each share.[18]

5.2. Ericsson

Founded in 1876, Ericsson offered the complete range of mobile solutions and was the market leader in mobile infrastructure with approximately 30 per cent of the market. Ericsson had experienced two years of extreme difficulty, posting the largest loss in Swedish[19] corporate history in 2001. It was the first loss the company had experienced in its 127-year history.[20] The company's chief executive, Kurt Hellstrom commented on Ericsson's performance, "We

---

14. Mandatory convertibles are offered initially as a debt instrument and are converted to equity at a specified date.
15. Etzel, Barbara, "Helping the Debt Load Telecoms tap manadotories to avoid leveraging the balance sheet", *Investment Dealers Digest*, 5 November 2001.
16. Etzel, Barbara, "Helping the Debt Load Telecoms tap manadotories to avoid leveraging the balance sheet", *Investment Dealers Digest*, 5 November 2001.
17. Etzel, Barbara, "Helping the Debt Load Telecoms tap manadotories to avoid leveraging the balance sheet", *Investment Dealers Digest*, 5 November 2001.
18. "Motorola Declares Quarterly Dividend", *PR Newswire*, 4 February 2003.
19. Ericsson was based in Sweden, whereas SonyEricsson was based in London, UK.
20. Milner, Mark, "Red line Ericsson makes first loss since second world war", *The Guardian*, 26 January 2002, Page 25.

are not talking about growth. We are talking about who is declining least right now."[21]

In 2001, Ericsson made the decision to merge its handset business with Japanese electronics powerhouse, Sony. The two companies established an equally owned mobile communications company called SonyEricsson. Based in London, UK, the company had 3,500 employees with research and development in five countries.[22] The purpose of the company was to leverage the expertise of both companies to compete in the evolving mobile handset market.

In response to the downturn in 2001, the company eliminated 22,000 jobs and suspended its dividend, which it had paid since the Second World War.[23] The company's decision in mid-2002 to pay bonuses to executives based on cash flow was controversial in light of the company's layoffs and the fact that it had yet to return to profitability.[24]

5.3. Samsung

Samsung was the world's largest memory chipmaker and operated four separate divisions including semiconductors, information technology, digital media and home appliances.[25] Samsung had managed to increase its profits and cash position during a soft technological market. Samsung's revenues grew from $24.7 billion in 2001 to an estimated figure of $37 billion for 2002 year-end. Similarly, profits rose from $21.5 million in 2001 to an estimated $77 million in year-end profits.[26] The company planned on investing $4.8 billion in capital expenditures and 7.5 per cent of sales into research and development.[27]

Despite its strong performance, some industry observers felt that the company's chairman Lee Kun-hee maintained tight control through a complicated ownership structure.[28] A fund manager in Korea watching Samsung's stock commented, "Investors tag a low price to Samsung as they are still grumbling about its low dividend policy and opaque corporate management system."[29] While other analysts called for Samsung to reorganize

---

21. Brown-Humes, "Ericsson scraps dividend after record loss", *Financial Times*, 26 January 2002.
22. Sony Ericsson Website, www.sonyericsson.com, Accessed 19 July 2004.
23. Milner, Mark, "Red line Ericsson makes first loss since second world war", *The Guardian*, 26 January 2002, Page 25.
24. "Observer – Bonus points", *Financial Times*, 1 August 2002, Page 11.
25. "Samsung Sales, Profit hit record high last year", *Chosun Ilbo*, 16 January 2003.
26. Samsung Company Profile, www.hoovers.com, Accessed 15 July 2004.
27. "Samsung Sales, Profit hit record high last year", *Chosun Ilbo*, 16 January 2003.
28. Miyoung, Kim, "Samsung pressed to return cash, simplify management", *Reuters News*, 17 March 2003.

its corporate structure to best reflect shareholders interests by business unit, others recognized that the company was trying to keep its shareholders satisfied through share buy-backs and all time high dividends.[30] In 2002, the company was likely to pay out its highest dividend ever of $734 USD million (over $4.42 per share) and buy back over $1.2 USD billion in shares.[31] Even though the dividend was considered large for Korea, an analyst observed, "Unfortunately, Korea's [dividend] payout ratio is by far the lowest in Asia."[32] Other analysts believed that Korean shareholders not only wanted higher dividends but also a better standard of corporate governance. One commented:

> Shareholders will put hard pressure on top managers to pay out high dividends. They want compensations for their losses… Shareholders want more clear plans of how to boost the sagging stock prices from corporations, including stock buyback schemes and stock retirements.[33]

5.4. Siemens

Siemens competed in several sectors including information and telecommunications, industrial automation and control, lighting, medical and transportation. The company was a world leader in the manufacturing of mobile phones and mobile network equipment.[34] The company had just delivered a strong year of profitable results with $82.9 billion in sales and operating profits of $1.5 billion in September 2002. Although sales had fallen from 2001 levels at $86.2 billion, operating profits improved from operating losses of $315 million in 2001.

In 1999, the company had increased its dividend by 30 per cent after posting net income results 37 per cent above its forecasts.[35] Siemens aimed on linking dividends closely with their earnings performance. After the positive lift in earnings in 1999, some analysts hinted that the company should grant bonus shares to which the CFO, Heinz-Joachim Neubuerger said, "Bonus shares are a non-issue."[36]

---

29. Miyoung, Kim, "Samsung pressed to return cash, simplify management", *Reuters News*, 17 March 2003.
30. Miyoung, Kim, "Samsung pressed to return cash, simplify management", *Reuters News*, 17 March 2003.
31. Miyoung, Kim, "Samsung pressed to return cash, simplify management", *Reuters News*, 17 March 2003.
32. Miyoung, Kim, "Samsung pressed to return cash, simplify management", *Reuters News*, 17 March 2003.
33. Sang-soo, Park, "Firms brace for tough shareholders meetings", *The Korea Herald*, 11 February 2003.
34. Siemens Company Profile, www.hoovers.com, Accessed 15 July 2004.
35. Althaus, Sarah, "Siemens lifts dividends after restructuring", *Financial Times*, 4 November 1999.

The company’s stock split into two in April 2001, and for 2001, the company paid a dividend of one euro per share for a total of €888 million ($781 USD million), which was in line with the payout in 2000.[37]

5.5. Alcatel

Alcatel was involved in the manufacturing of equipment for the telecommunications sector like network switching and transmissions. In addition, it made mobile phones, and was involved in other businesses such as satellites, automation equipment, motors, power converters and semiconductor equipment. The company was predicted to post sales of $17.4 billion and net operating losses of $1.4 billion in 2002.[38]

Like many of its peers, Alcatel had grown rapidly in the late 1990s. For instance, when its net profit climbed by 918 per cent from €711 million to €2.34 billion in 1998, it hiked its dividend payout by 14 per cent from €1.75 per share to €2.00.[39] At the time, the Chairman Serge Tchuruk said, “I am happy that the board has restated its confidence in Alcatel’s future by proposing a significant increase in the dividends paid to our shareholders.”[40]

In the summer of 2000, Alcatel announced plans to offer a “tracking” share which would pay their shareholders dividends based on the performance of a particular business unit. The biggest difference from regular shares were that[41] By late 2002, it was one of the only “tracking” shares in Europe and it looked as though Alcatel was[42]

5.6. Nortel

Nortel produced a wide variety of switching equipment, wireless and optical systems, selling its products to communication carriers of all scales and sizes. The company had shrunk considerably from $17.5 billion in revenues to $10.6 billion in 2002. Nortel experienced dramatic operating losses of nearly $11 billion in 2001. The company reacted by cancelling its quarterly dividend and cutting 30,000 jobs. John Roth, the Chief Executive commented, “Led by the

36. “Siemens says no plans for bonus zares”, *Reuters News*, 18 February 1999.
37. “Siemens proposes dividend of one euro per share”, *Reuters News*, 14 November 2001.
38. Alcatel Company Profile, www.hoovers.com, Accessed 15 July 2004.
39. “Alcatel ups dividend, stays optimistic”, *Reuters News*, 11 March 1999.
40. “Alcatel ups dividend, stays optimistic”, *Reuters News*, 11 March 1999.
41. “The fashion for ‘tracking stocks’”, *The Economist*, 5 August 2000.
42. Basar, Shanny, “Europe’s only tracking stock forced to convert”, *Financial News*, 9 February 2003.

United States, the global telecom industry is undergoing a significant adjustment. After several years of capital expansion exceeding the pace of business performance, the capital markets have significantly reduced the flow of funds to service providers."[43] The company predicted they would stem the lost to $1.5 billion for full-year 2002 results.[44] Throughout the later half of 2002, Nortel declared dividends on outstanding classes of preferred shares at the average prime rates offered from Canadian national banks.[45]

6. Nokia Corporation in 2002

As of late 2002, Nokia had two primary businesses – Nokia Mobile Phones and Nokia Networks. Nokia Mobile Phones accounted for 78 per cent of revenues and 107 per cent of operating profits, while Nokia Networks generated 21 [46] The per company also operated Nokia Ventures Organization, which was focussed on developing new ideas and providing the capital for new businesses to become sustainable enterprises.[47] This division contributed 1.7 per cent to revenues and cost the company four per cent in operating profits.[48]

Nokia was the world's leader in mobile phones, accounting for 38 per cent of the marketplace.[49] For 2002, the company had sold approximately 152 million units, an increase of 9 per cent over the prior year. The company produced almost twice as many units as Motorola, its closest competitor.[50] Nokia strove to dominate in each demographic market segment and each geographical area by selling in over 130 countries.[51] In 2002, the company released 34 products, featuring such options as colour screens, imaging, multimedia capabilities, games, music and distinctive ring tones.[52] The company was vertically integrated with research and development in 14 countries, 10 regional manufacturing facilities and eight distribution centres

43. Meyerson, Bruce, "Nortel cuts work force, elminates its dividend", *The San Diego Union-Tribune*, 16 June 2001, Page C-1.
44. Nortel Company Profile, www.hoovers.com, Accessed 15 July 2004.
45. "Nortel Networks Corp – Nortel declares dividend", *Canada Stockwatch*, 26 September 2002.
46. Nokia Q3 Press Release, www.nokia.com, 17 October 2002, Accessed 16 July 2004.
47. *Nokia Annual Report*, www.nokia.com, 31 December 2002, Page 22, Accessed 16 July 2004.
48. Nokia Q3 Press Release, www.nokia.com, 17 October 2002, Accessed 16 July 2004.
49. *Nokia Annual Report*, www.nokia.com, 31 December 2002, Accessed 16 July 2004.
50. Walkley, T. Michael and Amit Kapur, Nokia Analyst Report, RBC Capital Markets, Page 3, 8 November 2002.
51. *Nokia Annual Report*, www.nokia.com, 31 December 2002, Page 27, Accessed 16 July 2004.
52. *Nokia Annual Report*, www.nokia.com, 31 December 2002, Page 27, Accessed 16 July 2004.

around the world. While the company was a leader in the GSM (Global System for Mobiles) protocol, industry observers felt that the company had still yet to crack the market for the CDMA (Code Division Multiple Access)[53] protocol.

Ollila talked about his view of how Nokia was positioned relative to competition and the low-cost competitors from Asia:

> …the commoditisation, it's really an extension of something we have seen in the last 12 years already when I'd been in the business. The threat from Asia. The way in which it's easy to manufacture low cost components, low cost manufacturing.... and bring down prices... with our sourcing capability in Asia, our manufacturing capability in Asia, we are the cost leader in making those [GSM and CDMA] phones. We can make a basic product at the lowest cost compared to anybody in the business. That is something that was always our very clear corporate goal: that there will be nobody who can come in and say manufacture in any country, source components in any way, have any kind of horizontalisation solution or whatever. We are very happy with the situation and that's partly the reason why we are getting such tremendous healthy margins in our handset business because we earn money in all the segments. There are many of our competitors who either are not present in the low-end or make a loss in the low-end because they feel that they need to take
> up the shelf space... So I think the commoditisation, that issue we've been able to handle very, very well. We have the volume benefits, we have the capability to design more features also so we have the variability vis-a-vis a single manufacturer in Asia.[54]

[55] An analyst watching Nokia disagreed:

> Adjusting for currency changes, we are unable to point to a single period where Nokia has seen a year-on-year increase in ASPs [average selling prices], either annually from 1996 or quarterly from 1999. On a reported basis, Nokia's ASP in 2000 shows a 1.5% increase and in 2001 just a 3.1% decline. These could be seen as useful indicators of potentially modestly declining or even rising ASPs in the future. But adjusted for currency changes, 2000 and 2001 ASPs show about a 5% decline for both years, the same as 2002.[56]

Nokia Networks developed products and services catering to network operators and service providers for Internet Protocol (IP) mobility core, radio and broadband access.[57] The division built mobile networks on several technologies such as GSM, WLAN (wireless local area network) and MMS

---

53. CDMA was ….
54. "Transcript of the FT's interview with Jorma Ollila", *Financial Times*, 17 November 2002.
55. Brown-Humes, Christopher, Robert Budden and Andrew Gowers, "Nokia forecasts rise in handset market", *Financial Times*, 18 November 2002.
56. *Nokia Analyst Report*, Morgan Stanley, Page 2, 13 February 2003.

(Multimedia Messaging Service). The company predicted that it held 25 per cent worldwide market share in the GSM network and maintained between 15-20 per cent of the total mobile network infrastructure.[58] The division experienced a sales decline of 13 per cent in 2002.

In order to sell networks, it was common that Nokia provided customers with financing. In 2002, Nokia was forced to write down its customer loan of €265 million to a German operator, MobilCom, who could not pay back the loan for reasons of financial difficulties.[59] The year previously, Nokia incurred a €714 million charge when two other customers defaulted on loans from Nokia's networks division.[60]

7. Nokia's Financial Position

Nokia's sales were predicted to fall four per cent from €31.2 billion in 2001 to €30.0 billion in 2002 due to declines in the company's network division. The company was able to improve its gross margin throughout 2002 and was estimating a 42 per cent improvement in operating profits from €3.4 billion in 2001 to €4.8 billion in 2002. Nokia stayed steadfast in investing in research and development by increasing from 9.6 per cent to 10.2 per cent as a percentage of net sales.[61]

Nokia's stock prices had fallen considerably from their high in late 1999 and early 2000, due to the general downturn in the economy. Since 1995, Nokia's stock had split four times on both the Helsinki and New York Stock exchanges. As of November 12th, 2002, the share price was $16.70 USD on the New York Stock exchange. The stock had traded at $22.38 USD on November 12th, 2001, $37.56 on November 12th, 2000 and $122.25 on November 12th, 1999.[62] Exhibit 4 below shows the company's historical share prices.

57. *Nokia Annual Report*, www.nokia.com, 31 December 2002, Pages 29-30, Accessed 16 July 2004.
58. *Nokia Annual Report*, www.nokia.com, 31 December 2002, Page 30, Accessed 16 July 2004.
59. *Nokia Annual Report*, www.nokia.com, 31 December 2002, Page 49, Accessed 16 July 2004.

60. Nokia Annual Report, www.nokia.com, 31 December 2002, Page 52, Accessed 16 July 2004.
61. *Nokia Annual Report*, www.nokia.com, 31 December 2002, Accessed 16 July 2004.
62. *Nokia Historical Stock Quote*, www.bigcharts.com, Accessed 29 July 2004.

Exhibit 4: Nokia Dividend and Stock Split History

Nokia dividend history, at the Helsinki Exchanges

Ex-Date	Record Date	Payable Date in Finland	Amount
22.3.02	26.3.02	9.4.02	0.270
22.3.01	26.3.01	3.4.01	0.280
23.3.00	27.3.00	4.4.00	0.200
18.3.99	22.3.99	30.3.99	0.121
25.3.98	27.3.98	3.5.98	0.079
26.3.97	2.4.97	7.4.97	0.037
3.4.96	9.4.96	16.4.96	0.032
31.3.95	5.4.95	10.4.95	0.026
18.4.94	13.4.94	18.4.94	0.007
19.4.93	7.4.93	19.4.93	0.005
3.4.92	3.4.92	3.4.92	0.005
5.4.91	5.4.91	5.4.91	0.007
3.4.90	3.4.90	3.4.90	0.007
5.4.89	5.4.89	5.4.89	0.008

Dividend amounts split adjusted and converted to Euro
using fixed exchange rate of 1 Euro = 5.94573 FIM

Stock Splits, Helsinki Exchanges

Date of Effectiveness in Public Trading	Amount
10.4.00	4 for 1
12.4.99	2 for 1
16.4.98	2 for 1
24.4.95	4 for 1
28.6.86	5 for 1

Nokia dividend history, at the New York Stock Exchange

US Ex-Date	Record Date	Payable Date in the U.S.	Amount
3/22/02	3/26/02	4/16/02	0.237
3/22/01	3/26/01	4/10/01	0.248
3/23/00	3/27/00	4/10/00	0.192
3/18/99	3/22/99	4/7/99	0.129
3/25/98	3/27/98	4/10/98	0.083
3/27/97	4/1/97	15/4/97	0.043
4/4/96	4/9/96	4/23/96	0.040
3/30/95	4/5/95	4/17/95	0.036

Dividend amounts split adjusted

Stock Splits, New York Stock Exchange

US Ex-Date	Record Date	Payable Date	Amount
4/11/00	4/7/00	4/10/00	4 for 1
4/12/99	4/8/99	4/9/99	2 for 1
4/16/98	4/14/98	4/15/98	2 for 1
4/25/95	4/21/95	4/24/95	2 for 1

Source: Nokia Website, www.nokia.com, Accessed 28 July 2004

Source: Nokia Stock Chart, New York Stock Exchange, www.bigcharts.com, Accessed 29 July 2004

8. Nokia's Cash Pile

Nokia's cash position was extremely strong. By year-end 2002, the company estimated that it would approximately have €9.4 billion in cash, which was an increase of 52.7 per cent over the previous year's cash balance. Part of the increase in cash was due to the company's decline in investing activities – a result of fewer long-term loans made to customers, a reduction of more than half in capital expenditures and a less aggressive acquisition plan.

An analyst commented on Nokia's cash position as a strategic advantage:

> Over the past 12 months, we would argue that Nokia has built up a balance sheet that will afford it a significant strategic lead over rivals. We believe that the potential advantages from this are two-fold. First, in terms of potential acquisitions, assets can be picked up relatively cheaply at current levels, and second, many equipment suppliers within mobile systems will not be able to compete from a customer-financing perspective. We would highlight here management commentary from Ericsson stating that part of the cash proceeds from its recent rights issue will be required to fund working capital when the infrastructure market recovers. The fact remains that financing demands on the part of network operators are likely to continue, especially in the longer term, and Nokia's cash pile would clearly differentiate it from rivals.[63]

Another analyst saw it differently:

> What has been a competitive advantage is becoming a strategic concern. With high returns on capital in its core business, and modest returns on the cash, investors will not wish to see the cash pile continue to grow indefinitely…Like other leading tech companies (Cisco, Microsoft), Nokia has the challenge of finding ways to redeploy capital productively – which in effect means finding businesses outside its core area of focus in which it can invest successfully. The alternative is to find efficient means to return excess capital to shareholders. Given the risks inherent in diversification, and the limited scope for deploying capital in the core activity, this may well be the preferred outcome. Nokia has flirted with share buybacks for some time… – but there has been little by way of follow up. Jorma Ollila, …was quoted recently as suggesting that the company was concerned about the reaction of the ratings agencies to a buyback, and the risk of a downgrade. Given Nokia's market position, cash generation and absence of debt, this makes little sense to us. We believe that the possibility of a material buyback or some form of special dividend will remain firmly in focus at the strategy day and beyond. We believe that it is desirable that Nokia looks to return cash to shareholders – and would argue that if the company remains reluctant to move on this, it should explain its thinking.[64]

---

63. *Nokia Analyst Report*, Credit Suisse First Boston Equity Research, Page 20, 26 November 2002.
64. *Nokia Analyst Report*, SchroderSalomonSmithBarney, Pages 18-19, 29 November 2002.

9. Nokia's Considerations: Dividend Policy and Future Needs

Ollila and his management had to consider how it was going to address its cash pile. Nokia on average spent between 30 and 40 per cent of its annual after-tax earnings on a dividend payout. Throughout the last 15 years, Nokia had experienced financial downturns and growth, but had consistently maintained its policy of paying a dividend. For example, in 1989, the company cut its dividend by 20 per cent after its net profit was deemed 'dreadful' by dropping 66 per cent from the prior year.[65] In the following two preceding years, the company experienced pre-tax losses, but maintained its dividend payout amount.[66]

By early 1995 after having sold off its non-core businesses, the company was growing rapidly with mobile phones and proposed a dividend increase of 260 per cent (from 2.8 markka or 62 US cents to 10 markka or $2.21 US per share) as well as a stock split into four.[67] The 1994 dividend was the largest in the company's history and represented 22.8 per cent of net earnings per share.[68]

The following year in early 1996, Nokia paid its 1995 dividend at a 70 per cent decrease from the previous year (excluding the stock split factor from 1995). Smaller shareholders expressed dissatisfaction with the low dividend payment, but the company's chairman refused to put the matter to a vote.[69] At the annual general meeting, Ollila defended the dividend by saying:

> In my view, this dividend is moderate compared to the level of payouts by our international competitors… Nothing unexpected or surprising has happened in the beginning of the year. The price trend on the markets has been in line with expectations.[70]

The proposed 1995 dividends represented 20.1 per cent of the company's EPS, while Ericsson had just proposed a dividend equal to 29.2 per cent of its EPS.[71] Nokia shareholders ended up approving the dividend. The following year, for the payout of the 1996 dividend, Nokia management increased the dividend even though the company's profits decreased due to the prediction that 1997 would be a strong year.[72] Their predictions were correct, and in

---

65. "Nokia Corporation results for 1988-1990 reveal 66% slump in net profits", *Factiva Press Release Service*, 19 May 1990.
66. Dahl, Fredrik, "Nokia expected to post smaller 1992 loss", *Reuters News*, 25 February 1993.
67. Dahl, Fredrik, "Nokia says 94 profit soared, but stock falls", *Reuters News*, 28 February 1995.
68. "Hackman pays most Generous Dividend in 1994", *Kauppalehti*, 27 March 1995.
69. "Nokia AGM unhappy with dividend", *Hensingin Sanomat*, 3 April 1996, Page 9.
70. "Nokia's Ollila defends 1995 dividend", *Reuters News*, 2 April 1996.
71. "Nokia's Ollila defends 1995 dividend", *Reuters News*, 2 April 1996.
72. Henley, Sara, "Nokia confident after 96 results", *Reuters News*, 13 February 1997.

1997, Nokia posted record results with a 34 per cent increase in sales and a 98 per cent increase in operating profits. This led to a dividend increase of 150 per cent over the previous year. One analyst commented on how this affected stock price, "These [year-end] results were really good, and the sharp increase in the dividend was a surprise and also helped push the share higher."[73]

By 1999, Nokia was heralded as being the best company for giving a return on investment better than any other company in the last five years within Europe.[74] The study, which was conducted by the *Financial Times* measured the percentage change in the value of the company's share price and the dividend over the time period.[75] Year-end 1999 results set another record, with sales climbing 48 per cent and operating profit increasing 47 per cent. The company's dividend grew to $0.77 USD per share (excluding the stock split factor).[76]

For the 2000 and 2001 dividends, Nokia maintained a consistent amount paying out at 28 euro cents and 27 euro cents respectively. By early 2002, the size of Nokia was impressive, accounting for 60 per cent of the Helsinki stock market. The company's worldwide sales were on par with the annual operating budget of Finland's government.[77] Exhibit 4 shows Nokia's dividend history on the Helsinki and New York Stock Exchanges.

9.1. Other Considerations

As an alternative to a special dividend, Nokia had considered a share buy-back for five per cent of the stock at a proposed cost of €3.5 billion. However, Ollila put the buy-back on hold, citing that credit agencies may lower the rating of Nokia. Nokia was rated as an A1 by Moody's.[78] (In contrast, Ericsson's rating had been downgraded to junk status in mid-2002.)[79] Moody's Senior Vice-President, Wolfgang Draack commented, "We have a negative outlook on those ratings. And cash is very important in our analysis of those ratings…You can't yet assume that WCDMA will be the dominant standard in the world. There is at least a challenge coming from CDMA2000. The question is how Nokia will deal with that."[80]

---

73. Lindroth, Jan, "Finland Nokia Zares Climb 4.9% on 'Really Good' '97 Results", *Dow Jones News Service*, 12 February 1998.
74. "Nokia gives best return on investment in Europe", *Kauppalehti*, 22 June 1999.
75. "Nokia gives best return on investment in Europe", *Kauppalehti*, 22 June 1999.
76. Nokia gives best return on investment in Europe", *Kauppalehti*, 22 June 1999.
77. Bloom, Jonty, "The corridors of power", *Accountancy Age*, 28 March 2002, Page 15.
78. "Nokia cash pile is an important asset – Moody's", *Dow Jones International News*, 27 November 2002.
79. "Shares move slightliy higher despite tech-sector worries", *The Asian Wall Street Journal*, 29 July 2002, Page M7.

The company had to consider its future financing and investing needs. In financing customers, Nokia had an exposure of €2.6 billion. To offset this risk the company had pledged its available-for-sale investments of over €9 billion as well as its inventories at three billion. It had already written off the €265 million for MobilCom in 2002 and had let go of €714 million for two other customers who were unable to pay back the debt in 2001. In 2002, the company had reduced its customer financing by over €2 billion as a result of writing off unpaid loans or collecting the outstanding amounts paid. As the company stated in its annual report:

> We expect operators to continue to look for customer financing, and we expect this type of financing to continue to be an important means of competing in the communications networks market, but to a lesser extent and with lower importance than during past years…Our intent is to further mitigate our total customer financing exposure, market conditions permitting. We are seeking to make further arrangements with financial institutions and investors to transfer credit risk we have incurred from the commitments and outstanding loans we have made as well as from the financial guarantees we have given.[81]

In addition to customer financing risk, the company was also provisioned for bad debts, inventory obsolescence, warranty provisions, foreign exchange risk and pensions.

9.2. Nokia's Shareholders

Nokia's shareholders were made up of several investment funds and institutional investors, employees and private investors. There were no investors that held over five per cent of Nokia's stock as of 2002.[82] Exhibit 5 shows a list of Nokia's major shareholders and Exhibit 6 shows tax rates of various countries.

---

80. "Nokia cash pile is an important asset – Moody's", *Dow Jones International News*, 27 November 2002.
81. *Nokia Annual Report*, www.nokia.com, Page 141, Accessed 15 July 2004, 31 December 2002.
82. *Nokia Annual Report*, www.nokia.com, 31 December 2002, Page 75, Accessed 16 July 2004.

Exhibit 5: Shareholders

Breakdown of share ownership, year-end 2002 (registered shareholders only)

Largest registered shareholders, December 31, 2002 (excluding nominee registered shares)	Total number of shares (1 000)	Per cent of all the shares and voting rights
Svenska Litteratursällskapet i Finland r.f.	20 610	0.43
Juselius Sigrid stiftelse	16 800	0.35
UPM-Kymmene Corporation	11 798	0.24
The Local Government Pensions Institution	9 429	0.20
Ilmarinen Mutual Pension Insurance Company	9 027	0.19
The Pension Foundation of Nokia Corporation	8 229	0.17
The Finnish Cultural Foundation	7 549	0.16
Finnish National Fund for Research an development (Sitra)	7 085	0.15
Suomi Mutual Life Assurance Company	7 020	0.15
Varma-Sampo Mutual Pension Insurance Company	5 804	0.12

Breakdown of share ownership, year-end 2002 (by number of shares owned)

By number of shares owned	Number of shareholders *	Per cent of shareholders	Total number shares	Per cent of share capital	Average holding
1 - 100	48 892	37.75	2 958 488	0.06	0.06
101 - 1 000	56 607	43.71	21 558 828	0.45	0.45
1 001 - 10 000	19 440	15.01	62 894 681	1.31	1.31
10 001 - 100 000	4 168	3.22	110 735 586	2.31	2.31
100 001 - 500 000	327	0.25	62 719 741	1.31	1.31
500 001 - 1 000 000	39	0.03	27 183 827	0.57	0.57
1 000 001 - 5 000 000	17	0.02	66 769 326	1.39	1.39
Over 5 000 000	18	0.01	4 433 046 435	92.59	92.59
Total	**129 508**	**100.00**	**4 787 907 141**	**100.00**	**100.00**

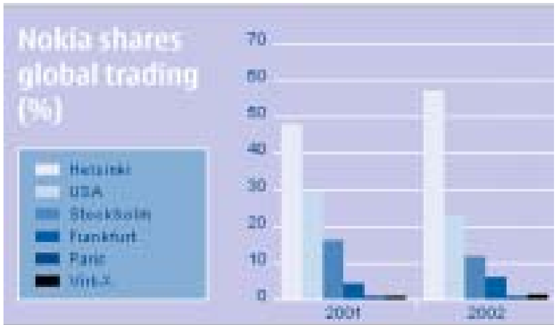
Breakdown of share ownership, year-end 2002 (by nationality)

By nationality, per cent	Shares
Non-Finnish shareholders	90.90
Finnish shareholders	9.10
Total	**100.00**

Breakdown of share ownership, year-end 2002 (by category)

By shareholder category (Finnish shareholders)	Shares
Corporations	0.93
Households	4.09
Financial and insurance institutions	0.73
Non-profit organizations	2.18
General government	1.17
Total	**9.10**

Nokia shares global trading



Source: Nokia Annual Report, www.nokia.com, 31 December 2002, Accessed 21 July 2004

Exhibit 6: Tax Information

Country	**Corporate**	**Individual**	**VAT**
Belgium	33.99%	25-55%	21%
Canada	36.60%	31%	7%
China	33%	5-45%	17%
Denmark	30%	41-60%	25%
Finland	29%	12-35%	22%
France	34.33%	10-54%	20.60%
Germany	25%	0-45%	16%
Greece	35%	0-40%	18%
Hong kong	17.50%	15%	-
India	36.75%	20-40%	-
Ireland	12.50%	20-42%	21%
Israel	36%	10-49%	17%
Italy	33%	23-45%	20%
Japan	30%	10-37%	-
Luxemburg	30%	6-46%	15%
Netherlands	29-34.5%	36-60%	17.50%
Norway	28%	28%	23%
Portugal	27.50%	15-40%	17%
Saudi Arabia	45%	2.50%	-
Singapore	22%	2%-22%	-
Spain	35%	0-56%	16%
Taiwan	25%	6-40%	5%
U.K.	30%	0-40	17.50%
U.S.A.	35%	0-35%	-

Source: Estimates taken from Worldwide Tax Website
www.worldwide-tax.com, Accessed 16 August 2004.

Note: As of late 2002, rumours existed that George W. Bush and his administration were going to propose the elimination of taxes on dividends in the U.S., as long as they had been paid from earnings that had been taxed. The proposal was deemed to be controversial with an estimated cost to the U.S. government of \$300 billion. While this had not been approved, some industry observers believe that the end result would be a lower dividend tax rate.[83]

10. Conclusion

The press was as interested as shareholders in Nokia's decision relating to cash. Ollila had explained his position in early November at a conference in Barcelona:

> To hand back the cash to shareholders in a buyback would be the first option…I will discuss a buyback with the board.[84] … However, because of the two ratings agencies, the current environment is not very favourable to handing out a lot of cash to shareholders which we would like to do in the form of a buyback.[85]

Ollila had felt that Moody's and Standard & Poor's were "overly conservative" with their decision to downgrade Nokia if it chose to do a share buy back.[86] He went on to explain:

> They think there's so much uncertainty, we should not do it and we don't want to start a negative cycle from a potential cut in our credit rating…We don't have any plans to use that [cash] for any acquisitions and we do not have a project under way. With our technological know-how, we don't think that is how you best serve your shareholders by moving on to a different track and becoming a consolidator.[87]

In other paper he was quoted as saying, "We might look opportunistically what is available, but there is nothing in the works."[88] One newspaper even went as far to say that Ollila's position on share buy-backs had not changed in the last 18 months.[89] Should it change now? Was it best to pay out a special dividend? Would it be better to proceed with a 5 per cent share buy back? Or, was it prudent to wait in light of the company's future investment needs?

83. "Nokia Corp.: Buyback is weighted, but risk of downgrade is deterrent", *The Wall Street Journal*, 8 November 2002.
84. Halliburton, Julian, "Nokia shuns buyback to reassure ratings agencies", *FT Investor Pulse*, 8 November 2002.
85. Hunt, Ben, "Nokia shuns buyback to reassure ratings agencies", *Financial Times*, 8 November 2002.
86. Hunt, Ben, "Nokia shuns buyback to reassure ratings agencies", *Financial Times*, 8 November 2002.
87. "Nokia prefers share buyback but its rating a worry", *Reuters News*, 7 November 2002.
88. "Nokia/Buyback: Co hasn't changed buyback view in 18 months", *Dow Jones International News*, 7 November 2002.
89. "The Bush Plan: What it means to you", CNN Money, money.cnn.com, 8 January 2003, Accessed 16 August 2004.

References:

Alcatel Company Profile, www.hoovers.com, Accessed 15 July 2004.

"Alcatel ups dividend, stays optimistic", Reuters News, 11 March 1999.

Althaus, Sarah, "Siemens lifts dividends after restructuring", *Financial Times*, 4 November 1999.

Baker, David, "Tech Firms Taking Stock of Dividend Tax Cut Plan", *San Francisco Chronicle*, 8 January 2003.

Basar, Shanny, "Europe's only tracking stock forced to convert", *Financial News*, 9 February 2003.

Bloom, Jonty, "The corridors of power", *Accountancy Age*, 28 March 2002, Page 15.

Brown-Humes, "Ericsson scraps dividend after record loss", *Financial Times*, 26 January 2002.

Brown-Humes, Christopher, Robert Budden and Andrew Gowers, "Nokia forecasts rise in handset market", *Financial Times*, 18 November 2002.

Budden, Robert, "Vodafone mulls buy-back if Cegetel bid fails", *Financial Times*, 19 October 2002, Page 14.

Dahl, Fredrik, "Nokia expected to post smaller 1992 loss", Reuters News, 25 February 1993.

Dahl, Fredrik, "Nokia says 94 profit soared, but stock falls", Reuters News, 28 February 1995.

Dixon, Hugo, "Nokia Must Decide on a Plan for Cash – Shareholders May Benefit From a Special Dividend Rather Than a Buyback", *The Wall Street Journal Europe*, Page M8, 12 November 2002.

Etzel, Barbara, "Helping the Debt Load Telecoms tap manadotories to avoid leveraging the balance sheet", *Investment Dealers Digest*, 5 November 2001.

"Hackman pays most Generous Dividend in 1994", *Kauppalehti*, 27 March 1995.

Halliburton, Julian, "Nokia shuns buyback to reassure ratings agencies", *FT Investor Pulse*, 8 November 2002.

Henley, Sara, "Nokia confident after 96 results", Reuters News, 13 February 1997.

Hunt, Ben, "Nokia shuns buyback to reassure ratings agencies", *Financial Times*, 8 November 2002.

Lindroth, Jan, "Finland Nokia Zares Climb 4.9% on 'Really Good' '97 Results", Dow Jones News Service, 12 February 1998.

Mandatory convertibles are offered initially as a debt instrument and are converted to equity at a specified date.

McGee, Suzanne, "Are Dividends in your Tech fund's future?" *Standard & Poor's*, 14 March 2003.

Meyerson, Bruce, "Nortel cuts work force, elminates its dividend", *The San Diego Union-Tribune*, 16 June 2001, Page C-1.

Milner, Mark, "Red line Ericsson makes first loss since second world war", *The Guardian*, 26 January 2002, Page 25.

Miyoung, Kim, "Samsung pressed to return cash, simplify management", Reuters News, 17 March 2003.

"Motorola Declares Quarterly Dividend", PR Newswire, 4 February 2003.

"Nokia AGM unhappy with dividend," *Hensingin Sanomat*, 3 April 1996, Page 9.

Nokia Annual Report, www.nokia.com, 31 December 2002, Page 23, Accessed 16 July 2004.

Nokia Annual Report, www.nokia.com, 31 December 2002, Page 22, Accessed 16 July 2004.

Nokia Annual Report, www.nokia.com, 31 December 2002, Page 27, Accessed 16 July 2004.

Nokia Annual Report, www.nokia.com, 31 December 2002, Page 141, Accessed 15 July 2004.

Nokia Annual Report, www.nokia.com, 31 December 2002, Page 75, Accessed 16 July 2004.

Nokia Analyst Report, Morgan Stanley, Page 2, 13 February 2003.

Nokia Analyst Report, SchroderSalomonSmithBarney, Page 3, 29 November 2002.

Nokia Analyst Report, SchroderSalomonSmithBarney, Page 11, 26 March 2003.

Nokia Analyst Report, SchroderSalomonSmithBarney, Page 18, 29 November 2002.

Nokia Analyst Report, Credit Suisse First Boston Equity Research, Page 20, 26 November 2002.

Nokia Analyst Report, SchroderSalomonSmithBarney, Pages 18-19, 29 November 2002.

"Nokia/Buyback: Co hasn't changed buyback view in 18 months", *Dow Jones International News*, 7 November 2002.
"Nokia cash pile is an important asset – Moody's", *Dow Jones International News*, 27 November 2002.
"Nokia Corp.: Buyback is weighted, but risk of downgrade is deterrent", *The Wall Street Journal*, 8 November 2002.
"Nokia Corporation results for 1988-1990 reveal 66% slump in net profits", Factiva Press Release Service, 19 May 1990.
Nokia Historical Stock Quote, www.bigcharts.com, Accessed 29 July 2004.
Nokia gives best return on investment in Europe", *Kauppalehti*, 22 June 1999.
"Nokia prefers share buyback but its rating a worry", Reuters News, 7 November 2002.
Nokia Q3 Press Release, www.nokia.com, 17 October 2002, Accessed 16 July 2004.
"Nokia's Ollila defends 1995 dividend", Reuters News, 2 April 1996.
Nortel Company Profile, www.hoovers.com, Accessed 15 July 2004.
"Nortel Networks Corp – Nortel declares dividend", *Canada Stockwatch*, 26 September 2002.
"Observer – Bonus points", *Financial Times*, 1 August 2002, Page 11.
Samsung Company Profile, www.hoovers.com, Accessed 15 July 2004.
Sang-soo, Park, "Firms brace for tough shareholders meetings", *The Korea Herald*, 11 February 2003.
"Samsung Sales, Profit hit record high last year", *Chosun Ilbo*, 16 January 2003.
"Shares move slightliy higher despite tech-sector worries", *The Asian Wall Street Journal*, 29 July 2002, Page M7.
Siemens Company Profile, www.hoovers.com, Accessed 15 July 2004.
"Siemens proposes dividend of one euro per share", Reuters News, 14 November 2001.
"Siemens says no plans for bonus zares", Reuters News, 18 February 1999.
Sony Ericsson Website, www.sonyericsson.com, Accessed 19 July 2004.
"The Bush Plan: What it means to you", CNN Money, money.cnn.com, 8 January 2003, Accessed 16 August 2004.
"The fashion for 'tracking stocks'", *The Economist*, 5 August 2000.
"Transcript of the FT's interview with Jorma Ollila", *Financial Times*, 17 November 2002.
"Vodaphone to double dividend growth", Dow Jones International News, 10 November 2002.
Walkley, T. Michael and Amit Kapur, Nokia Analyst Report, RBC Capital Markets, Page 3, 8 November 2002.

APPENDIX

Exhibit 1: Nokia's Financial Statements

Profit and Loss Statement Financial Year ended December 31	EURm 2001	EURm 2000	EURm 1999
Net sales	31,191	30,376	19,772
Cost of sales	(19,787)	(19,072)	(12,227)
Research and development expenses	(2,985)	(2,584)	(1,755)
Selling, general & admin expenses	(3,443)	(2,804)	(1,811)
Customer finance impairment charges, net	(714)		
Impairment of goodwill	(518)		
Amortization of goodwill	(302)	(140)	(71)
Operating Profit	3,362	5,776	3,908
Share of results of associated companies	(12)	(16)	(5)
Financial income and expenses	125	102	(58)
Profit before tax and minority interests	3,475	5,862	3,845
Tax	(1,192)	(1,784)	(1,189)
Minority interests	(83)	(140)	(79)
Net profit	2,200	3,938	2,577
Earnings per share			
Basic	0.47	0.84	0.56
Diluted	0.46	0.82	0.54
Average number of shares (000's shares)			
Basic	4,702,852	4,673,162	4,593,761
Diluted	4,787,219	4,792,980	4,743,184

Balance Sheet	2001	2000
ASSETS		
Capitalized development costs	893	640
Goodwill	854	1,112
Other intangible assets	237	242
Property, plant and equipment	2,514	2,732
Investments in associated companies	49	61
Available-for-sale investments	399	337
Deferred tax assets	832	401
Long-term loans receivable	1,128	808
Other non-current assets	6	55
Total	6,912	6,388
Current assets		
Inventories	1,788	2,263
Accounts receivable, net of allowances for doubtful accounts	5,719	5,594
Prepaid expenses and accrued income	1,480	1,418
Other financial assets	403	44
Available-for-sale investments	4,271	2,774
Bank and cash	1,854	1,409
Total	15,515	13,502
TOTAL ASSETS	22,427	19,890
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Share capital	284	282
Share issue premium	2,060	1,695
Treasury shares, at cost	(21)	(157)
Translation differences	326	347
Fair value and other reserves	20	
Retained earnings	9,536	8,641
Total	12,205	10,808
Minority interests	196	177
Long-term interest-bearing liabilities	207	173
Deferred tax liabilities	177	69
Other long-term liabilities	76	69
Total	460	311
Current liabilities		
Short-term borrowings	831	1,069
Currrent portion of long-term debt		47
Accounts payable	3,074	2,814
Accrued expenses	3,477	2,860
Provisions	2,184	1,804
Total	9,566	8,594
Total shareholders' equity and liabilities	22,427	19,890

Source: Nokia Annual Report, 31 December 2001

Exhibit 1b: Nokia's Cash Flow Statement

	2001	2000	1999
Cash flow from operating activities			
Net profit	2,200	3,938	2,577
Adjustments, total	4,132	2,805	1,928
Net profit before change in net working capital	6,332	6,743	4,505
Change in net working capital	978	(1,377)	(21)
Cash generated from operations	7,310	5,366	4,484
Interest received	226	255	189
Interest paid	(155)	(115)	(212)
Other financial income and expenses	99	(454)	(113)
Income taxes paid	(933)	(1,543)	(1,246)
Net cash from operating activities	**6,547**	**3,509**	**3,102**
Cash flow from investing activities			
Acquisition of Group companies, net of acquired cash	(131)	(400)	(178)
Purchase of non-current available-for-sale investments	(323)	(111)	(37)
Additions to capitalized development costs	(431)	(393)	(271)
Long-term loans made to customers	(1,129)	(776)	
Proceeds from (+)/payment of (-) other long-term receivables	84		(171)
Proceeds from (+)/payment of short-term receivables	(114)	378	128
Capital expenditures	(1,041)	(1,580)	(1,302)
Proceeds from disposal of shares in Group companies, net of disposed cash		4	27
Proceeds from sale of non-current available-for-sale investments	204	75	121
Proceeds from sale of fixed assets	175	221	318
Dividends received	27	51	6
Net cash used in investing activities	**(2,679)**	**(2,531)**	**(1,359)**
Cash Flow from financing activities			
Proceeds from share issue	77	72	152
Purchase of treasury shares	(21)	(160)	(25)
Capital investment by minority shareholders	4	7	28
Proceeds from long-term borrowings	102		
Repayment of long-term borrowings	(59)	(82)	(6)
Proceeds from (+)/repayment of (-) short-term borrowings	(602)	133	(126)
Dividends paid	(1,396)	(1,004)	(597)
Net cash used in financing activities	**(1,895)**	**(1,034)**	**(574)**
Foreign exchange adjustments	(43)	80	99
Net increase in cash and cash equivalents	1,930	24	1,268
Cash and cash equivalents at beginning of period	4,183	4,159	2,891
Cash and cash eqiuivalents at end of period	6,113	4,183	4,159
Change in net fair value of current available-for-sale investments	12		
As reported on balance sheet	**6,125**	**4,183**	**4,159**

Source: Nokia Annual Report, 31 December 2001

Exhibit 2a: Nokia Q3 2002 Results by Division and Profit and Loss Statement

EUR (million)

Results by Division	**Jan-Sept 2002**	**Jan-Sept 2001**	**Change (%)**
Net Sales	21173	22403	-5
Nokia Mobile Phones	16469	16448	0
Nokia Networks	4455	5577	-20
Nokia Ventures Organization	352	443	-21
Operating Profit	3314	2509	32
Nokia Mobile Phones	3559	3064	16
Nokia Networks	33	0	
Nokia Ventures Organization	-135	-482	72
Common Group Expenses	-143	-73	
Operating Margin (%)	15.7	11.2	
Nokia Mobile Phones (%)	21.6	18.6	
Nokia Networks (%)	0.7	0	
Nokia Ventures Organization (%)	-38.4	-108.8	
Financial Income and expenses	104	80	30
Profit before tax and minority interests	3399	2580	32
Net profit	2335	1750	33
EPS, EUR			
Basic	0.49	0.37	32
Diluted	0.49	0.37	32

Q3 Year-to-date Profit and Loss	**1-9/02**	**1-9/01**
Net Sales	21,173	22,403
Cost of sales	(12,827)	(14,228)
Research and development expenses	(2,200)	(2,235)
Selling, general and administrative expenses	(2,395)	(2,502)
One-time customer finance charges	(292)	(714)
Adjustment to Dolphin write-off	13	
Amortization of goodwill	(158)	(215)
Operating profit	3,314	2,509
Share of results of associated companies	(19)	(9)
Financial income and expenses	104	80
Profit before tax and minority interests	3,399	2,580
Tax	(1,024)	(766)
Minority interests	(40)	(64)
Net profit	2,335	1,750
Earnings per share, EUR		
Basic	0.49	0.37
Diluted	0.49	0.37
Average number of shares (1,000 shares)		
Basic	4745586	4696591
Diluted	4787994	4783567
Depreciation and amortization total	965	1014

Non-recurring items
1) Non-recurring charges of EUR 14 million in 3Q 2002 and EUR 71 million from 2Q 2001.
2) In 2001, non-recurring charges of EUR 136 million, including EUR 54 million impairment of goodwill, and EUR 24 million gain from the disposal of certain production operations from 2Q 2001.
3) One-time customer finance charges (MobilCom) in 3Q 2002.
4) Positive adjustment of EUR 13 million from 2Q2002 related to the earlier Dolphin write-off in 3Q 2001.

Source: Nokia Q3 Press Release, 17 October 2002

Exhibit 2b: Nokia's Q3 2002 Balance Sheet

Q3 Balance Sheet	**30.9.2002**	**30.9.2001**	**30.12.2001**
ASSETS			
Fixed assets and other non-current assets			
Capitalized development costs	1,047	837	893
Goodwill	706	1,405	854
Other intangible assets	210	249	237
Property, plant and equipment	2,015	2,601	2,514
Investments in associated companies	64	58	49
Available-for-sale investments	378	350	399
Deferred tax assets	868	629	832
Long-term loans receivable	1,334	814	1,128
Other non-current assets	26	60	6
Total	6,648	7,003	6,912
Current assets			
Inventories	1,725	1,910	1,788
Accounts receivable	4,593	4,832	5,719
Prepaid expenses and accrued income	1,229	1,818	1,480
Short-term loans receivable	508	349	403
Available-for-sale investments	6,345	2,739	4,271
Bank and cash	1,689	1,559	1,854
Total	16,089	13,207	15,515
TOTAL ASSETS	22,737	20,210	22,427
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	286	283	284
Share issue premium	2,141	1,997	2,060
Treasury shares	(16)	(40)	(21)
Translation differences	200	287	326
Fair value and other reserves	106	(63)	20
Retained earnings	10,599	9,074	9,536
Total	13,316	11,538	12,205
Minority interests	197	193	196
Long-term liabilities			
Long-term interest-bearing liabilities	224	243	207
Deferred tax liabilities	219	81	177
Other long-term liabilities	70	64	76
Total	513	388	460
Current liabilities			
Short-term borrowings	731	782	831
Current portion of long-term debt	1	4	
Accounts payable	2,968	2,520	3,074
Accrued expenses	2,571	2,751	3,477
Provisions	2,440	2,034	2,184
Total	8,711	8,091	9,566
Total shareholders' equity and liabilities	22,737	20,210	22,427
Interest-bearing liabilities	956	1,029	1,038
Shareholders' equity per share, EUR	2.80	2.45	2.58
Number of shares (1000 shares)*	4759825	4716080	4736302

* Shares owned by Group companies are excluded

Source: Nokia Q3 Press Release, 17 October 2002