

Weathering the coming storm

■ Lowering 2009E forecasts

In conjunction with our economists lowering GDP forecasts such that UBS now expects a global recession (<2% GDP growth), we have lowered our global device forecasts and subsequently reduce our Nokia forecasts. We now forecast 3% device growth in 2009E (from 6% previously).

■ Nokia not alone in suffering

We have left our market share assumptions for Nokia unchanged as we believe that there is increasing evidence that Nokia's sell through volume market share has held up and that other vendors are suffering also. While Samsung and Motorola are likely to have gained some low end share in Q3 this is likely to have come at the cost of weaker ASP/gross margin. In addition we believe LG and Apple have lowered orders to suppliers and SEMC continues to struggle.

■ Nokia well-placed to weather storm....but it might be worse for all

Nokia gained market share (680bp) the last time the device market was in recession (200-2002) and we believe the company's strong balance sheet, logistics, product breadth and management will see the company weather the storm better than many peers. However, our work shows that device market growth could be worse for all participants in 2009E than currently modelled by ourselves and moreover consensus.

■ Valuation – lowered to €14.5

We have lowered our FY '09E diluted EPS to €1.33 (€1.35 basic) from €1.45 reflecting lower volume and hence gross margin as well as a step down in our buy back forecast which has been in evidence recently. We have lowered our multiple based (11x '09E) price target to €14.5 (from €15.5) and remain Neutral.

Highlights (€m)	12/06	12/07	12/08E	12/09E	12/10E
Revenues	41,121	51,058	53,751	53,266	53,032
EBIT (UBS)	5,401	7,127	7,716	6,515	6,390
Net Income (UBS)	4,141	5,952	5,778	4,877	4,513
EPS (UBS, €)	1.02	1.53	1.54	1.35	1.26
Net DPS (UBS, €)	0.43	0.53	0.52	0.45	0.44

Profitability & Valuation	5-yr hist av.	12/07	12/08E	12/09E	12/10E
EBIT margin %	15.4	14.0	14.4	12.2	12.0
ROIC (EBIT) %	163.2	199.1	94.5	54.4	53.3
EV/EBITDA (core) x	10.2	9.5	5.9	7.2	7.1
PE (UBS) x	18.0	13.9	8.4	9.7	10.3
Net dividend yield %	2.0	2.5	4.0	3.4	3.4

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of €13.03 on 03 Oct 2008 21:42 BST

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12-month rating **Neutral**
Unchanged

12m price target €14.50/US\$20.05
Prior: €15.50/US\$21.43

Price €13.03/US\$18.10 (ADR)

RIC: NOK1V.HE BBG: NOK1V.FH

5 October 2008

Trading data (local/US\$)

52-wk range	€28.60-12.65/US\$41.41-17.40
Market cap.	€51.1bn/US\$71.1bn
Shares o/s	3,926m (ORD)/3,926m (ADR)
ADR ratio	1 ADR:1 ORD
Free float	100%
Avg. daily volume ('000)	26,392/3,046
Avg. daily value (€m)	411.7/67.8

Balance sheet data 12/08E

Shareholders' equity	€14.8bn
P/BV (UBS)	3.2x
Net Cash (debt)	€3.16bn

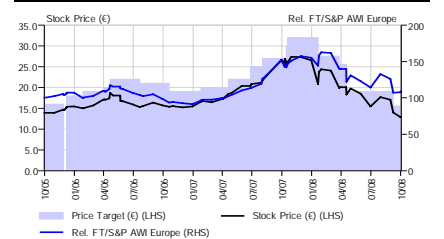
Forecast returns

Forecast price appreciation	+11.3%
Forecast dividend yield	4.0%
Forecast stock return	+15.3%
Market return assumption	10.5%
Forecast excess return	+4.8%

EPS (UBS, €)

	12/08E		12/07	
	From	To	Cons.	Actual
Q1	0.39	0.39	0.38	0.27
Q2E	0.38	0.38	0.36	0.33
Q3E	0.33	0.33	0.34	0.42
Q4E	0.45	0.44	0.43	0.49
12/08E	1.56	1.54	1.57	
12/09E	1.46	1.35	1.54	

Performance (€)



Source: UBS

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This report has been prepared by UBS Limited

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 14.

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Device Market Cuts...could get worse

We now look for 2008 volume growth of 11% y-o-y (was 12%). We have only lowered our Q3 estimates slightly (<1%) but we have lowered Q4 more significantly (3%). Our q-o-q growth for Q4 (+12%) is now well below typical seasonality (+17-22%) as the major downgrades in our modelling are in Europe. We now look for 3% growth in 2009 in unit volumes reflecting UBS' changes in GDP assumptions as well as weakness in Europe and N. America.

We set out below our assumptions for the global device market. As shown, we have made few changes to our subscriber base assumptions globally and as such our changes have been driven by a lengthened replacement cycle (ie lower churn). Investors wishing to see our full estimates changes and reasoning should refer to our Global Device I/O published in conjunction with this note.

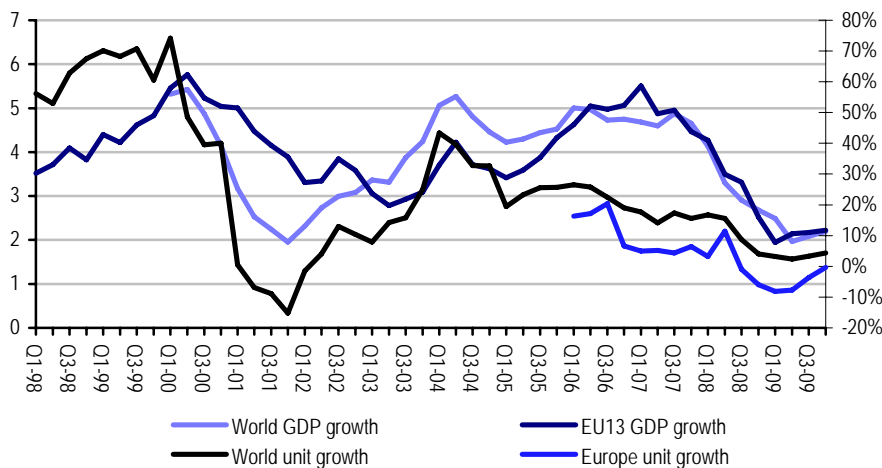
Table 1: Changes to global device market model

Subscribers	New			Old			Change		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Europe	1,135	1,215	1,280	1,135	1,215	1,280	0.0%	0.0%	0.0%
MEA	404	515	616	404	515	616	0.0%	0.0%	0.0%
Asia-Pac	1,656	1,926	2,143	1,656	1,918	2,160	0.0%	0.4%	-0.8%
N.America	312	329	343	312	329	347	0.0%	0.0%	-1.1%
Latam	483	538	573	483	538	573	0.0%	0.0%	0.0%
Total	3,989	4,523	4,955	3,989	4,515	4,976	0.0%	0.2%	-0.4%
Handsets	2008E	2009E	2010E	2008E	2009E	2010E	Change		
Europe	288	275	275	295	298	319	-2.4%	-7.9%	-13.9%
MEA	150	161	171	150	164	178	0.0%	-1.9%	-3.8%
Asia-Pac	498	540	577	501	554	619	-0.7%	-2.5%	-6.8%
N.America	176	175	182	178	186	211	-1.2%	-5.7%	-13.7%
Latam	146	149	154	148	151	161	-1.1%	-1.4%	-4.6%
Total	1,258	1,300	1,359	1,273	1,353	1,489	-1.1%	-3.9%	-8.7%

Source: UBS

We continue to show (in the chart below) that there has been a tight relationship between real world GDP and global device unit growth. Indeed in historic time periods, the relationship has been demonstrably closely aligned (R-squared of 0.75).

Chart 1: GDP growth (LHS) vs. device unit growth (RHS)



Source: UBS, company data

Using an R-squared of 0.75, we have used a regression analysis to see whether our new handset market growth forecasts are correctly aligned to our new global GDP forecasts. From the chart above, it is clear that we aligned in terms of the trends but arguably we could see a more problematic device market in Q1/Q2 '09 than we currently model. The regression analysis bears this out and based on UBS' revised estimates for world real GDP growth in 2009, global device unit growth in 2009 should be closer to negative 6%. Why have we not put this in model for 2009? At this juncture, we can see a couple of structural drivers in 2009 which should add both provide support to the device market relatively. We would highlight in particular: 1. Consumers in Europe/US typically do not pay for the devices themselves (and not on credit) as the operator bears the brunt of the handset cost. It would therefore take a material deterioration in the operators' business model (namely lower ARPU) for this to feed through to lower subsidies. There is some evidence of this occurring but our colleagues in the operator team recently showed through consumer survey that telecom operator revenue should prove reasonably defensive in the economic down turn. 2. China (15% of the world device market) will witness the entrance of a third operator in earnest in 2009. We believe this will be combined with both higher subsidies and churn as competition between the operators heats up.

Forecast changes - Nokia

We have lowered our 2009E forecasts by 8% and our 2010E forecasts by 14% which primarily reflects changes in total device volumes in Europe/North America and we have therefore lowered our gross margin assumptions also.

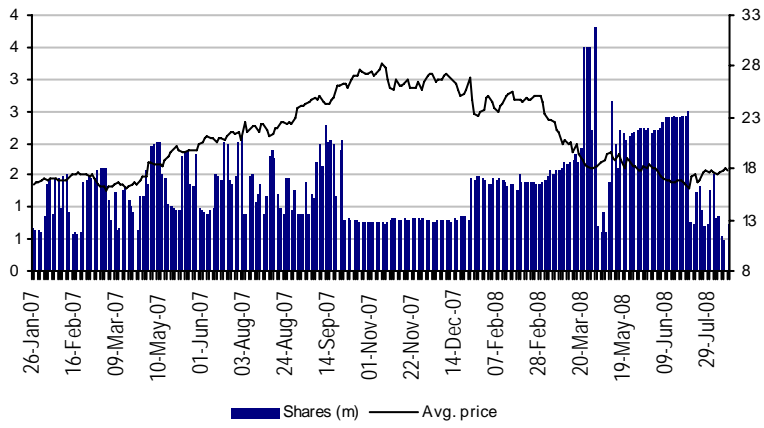
Chart 2: UBS forecast changes – Nokia

	New			Old			Change %			
	2008E	2009E	2010E	2008E	2009E	2010E	2007	2008E	2009E	2010E
Devices	37,029	35,696	35,093	37,494	36,371	37,284	0.0	-1.2	-1.9	-5.9
Navteq	372	882	1041	347	809	955				
NSN	15,921	16,170	16,326	16,043	16,295	16,451	0.0	-0.8	-0.8	-0.8
% change	18.9	1.6	1.0	19.8	1.6	1.0				
Eliminations	-24	-26	-26	-24	-26	-27	0.0	-1.2	-1.5	-4.3
% of gross revs	0%	0%	0%	0%	0%	0%				
Total Net Sales	53,751	53,266	53,032	54,230	53,894	55,153	0.0	-0.9	-1.2	-3.8
% change	5.3	-0.9	-0.4	6.2	-0.6	2.3				
Total EBIT	6,323	6,515	6,390	6,463	7,265	7,421	0.0	-2.2	-10.3	-13.9
margin %	11.8	12.2	12.1	11.9	13.5	13.5				
EBIT pre specifics	7,716	6,515	6,390	7,855	7,265	7,421	0.0	-1.8	-10.3	-13.9
margin %	14.4	12.2	12.1	14.5	13.5	13.5				
PBT pre specifics	7,775	6,485	6,345	7,914	7,235	7,376	0.0	-1.8	-10.4	-14.0
Tax	-1,658	-1,718	-1,650	-1,695	-1,917	-1,918	0.0	-2.1	-10.4	-14.0
Net profit ex specific	5,867	4,766	4,696	5,970	5,318	5,458	0.0	-1.7	-10.4	-14.0
EPS - basic reported	1.29	1.27	1.26	1.30	1.39	1.47	0.0	-1.0	-8.4	-14.2
EPS - diluted reported	1.28	1.26	1.25	1.29	1.37	1.46	0.0	-1.0	-8.4	-14.2
EPS - basic pre spec	1.48	1.27	1.26	1.50	1.39	1.47	0.0	-0.8	-8.4	-14.2
EPS - diluted pre spec	1.47	1.26	1.25	1.48	1.37	1.46	0.0	-0.8	-8.4	-14.2
EPS - diluted pre spec	1.53	1.33	1.32	1.54	1.45	1.53	0.0	-0.7	-8.0	-13.5
DPS - proposed not	0.52	0.45	0.44	0.52	0.49	0.52	0.0	-0.8	-8.4	-14.2
Avg basic shares	3,742	3,619	3,572	3,768	3,615	3,540	0.0	-0.7	0.1	0.9
Avg diluted shares	3,780	3,659	3,613	3,807	3,656	3,581	0.0	-0.7	0.1	0.9
Cashflow from ops	6,776	6,743	7,761	6,910	7,766	8,856	0.0	-1.9	-13.2	-12.4
margin %	8.6	7.1	9.2	9.4	8.3	10.2				
FCF-pre NWC	6,250	4,513	4,863	6,861	5,094	5,738	0.0	-8.9	-11.4	-15.3
margin %	11.6	8.5	9.2	12.7	9.5	10.4				
Net cash (debt)	3,156	4,151	7,553	1,877	1,595	5,653	0.0	68.1	160.3	33.6

Source: UBS

Our net cash forecasts change significantly to reflect a smaller buyback being modelled. Post Navteq and the dividend paid, we model Nokia's net cash position to fall as low as €2.5bn at the end of Q3. It is perhaps unsurprising given the current financing environment that Nokia intends to build-up more of a cash buffer and since early August the buyback has been stopped. We believe Nokia will continue to buyback stock but forecast this to occur at a lower level.

Chart 3: Nokia buyback



Source: OMX, UBS

UBS versus consensus and guidance

As shown in the tables below, we remain well below consensus for 2009 (for H2 we are broadly in-line with consensus). We are now well below management's guidance for medium term margin targets and it will be interesting to see what new guidance is forthcoming at the Capital Markets Day in December.

Table 2: UBS forecasts versus consensus

	Q3 - new	Q3 -old	cons.	Q4 - new	Q4 -old	cons.	2009 - new	2009 - old	2009
Device unit volumes	311	315	312	349	359	355	1,300	1,353	1,357
change q-o-q	2.5%	3.8%	3.0%	12.4%	14.2%	13.7%			
change y-o-y	8.7%	10.1%	9.2%	3.9%	6.9%	5.7%	3.3%	6.3%	7.2%
Nokia share	39.0%	39.2%	38.4%	39.5%	39.5%	39.0%	38.4%	38.4%	39.1%
Nokia volumes	121.1	123.3	119.8	137.9	141.9	138.5	499.3	519.4	530.0
ASP	71	70	73.1	75	75	73	72	70	71
y-o-y %	-13.8%	-15.2%	-10.9%	-9.3%	-9.8%	-11.9%	-3.9%	-6.2%	-4.8%
y-o-y % cons curr	-8.0%	-8.8%	-4.4%	-9.2%	-9.3%	-11.4%	-5.5%	-8.0%	-6.6%
Device & Service rev	8,653	8,740	8,833	10,476	10,772	10,233	36,240	36,816	38,218
Total rev	12,627	12,707	12,753	15,313	15,712	14,889	53,266	53,894	55,068
Group EBIT	1,841	1,865	1,812	2,435	2,550	2,313	7,245	7,995	8,399
EPS	0.33	0.33	0.33	0.44	0.45	0.43	1.33	1.45	1.60

Source: UBS, SME Direkt

Table 3: UBS versus guidance

	17/7/08	5/9/08	UBS
Forward quarter			
Industry volume	up q-o-q	up q-o-q	3%
Market share (bp change)	flat mkt share	decline in mkt share	-126bp
FY '08			
Gross margin/R&D	up y-o-y	up y-o-y	0
Gross margin/S&M	up y-o-y	up y-o-y	0
Industry volume	>1.25	>1.25	1.26
Industry device ASPs	some -ve y-o-y	some -ve y-o-y	-2.2%
Industry device revenue g	-ve y-o-y	-ve y-o-y	4.0%
Industry infrastr rev g	v.slight	v.slight	4.0%
Nokia device mkt share	100bp+	?	100bp
Nokia infra. mkt share	up y-o-y	up y-o-y	-50bp
Medium term (1-2 years)			
Devices EBIT margins	c.20%	c.20%	17.3%*
Infrastructure EBIT margin	10% by 2009	10% by 2009	5.6%*
Group margin pre specifics/PPA	16-17%	16-17%	13.6%*

Source: UBS, Nokia

Valuation

To reflect the volatility in the market, we continue to separate our multiple-based price target from our DCF-based fair value. We lower our price target (remains 11x 2009E but on lower earnings) to €14.5 from €15.5. We lower our DCF based fair value to €16.9 from €17.5, with our longer term assumptions (laid out below) unchanged.

Table 4: Nokia – DCF assumptions

	Fade start	Length	Revenue growth			EBIT margin%			Capex/sales %			WACC
			Last	End expl.	Target	Last	End expl.	Target	Last	End expl.	Target	
Total devices	2016	10	11.9%	-0.5%	3.0%	21.2%	16.5%	16.0%	1.4%	1.8%	1.7%	9%
NSN (50%)	2016	10	79.7%	1.0%	3%	-1.8%	6.0%	8%	1.4%	1.3%	0.9%	9%
Navteq	2016	10	34.1%	5.0%	4%	26.5%	27.0%	25%	11.2%	6.3%	6.0%	9%
Symbian (49%)	2016	10	16.1%	4.5%	3%	22.0%	22.0%	25%	5.5%	5.5%	5.5%	9%

Source: UBS

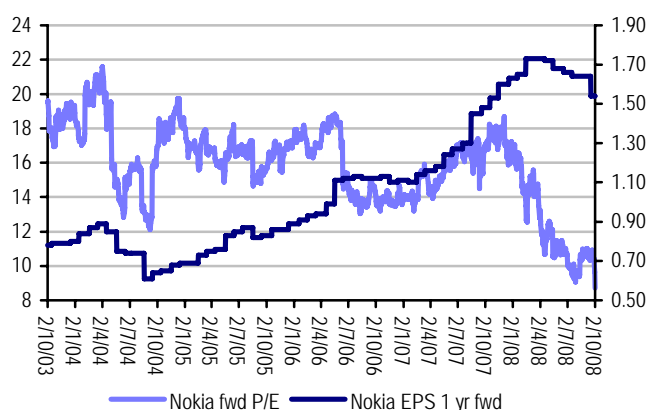
Table 5: Nokia – DCF summary

Summary (€m)	EV	Net debt/cash/other	MV
Mobile Phones	31,532		
Multimedia	18,091		
Enterprise	3,548		
NSN (50%)	7,990		
Navteq	5,250		
Symbian (49%)	669		
Other	-9,241		
Group	57,839	4,059	61,898
share			16.9

Source: UBS

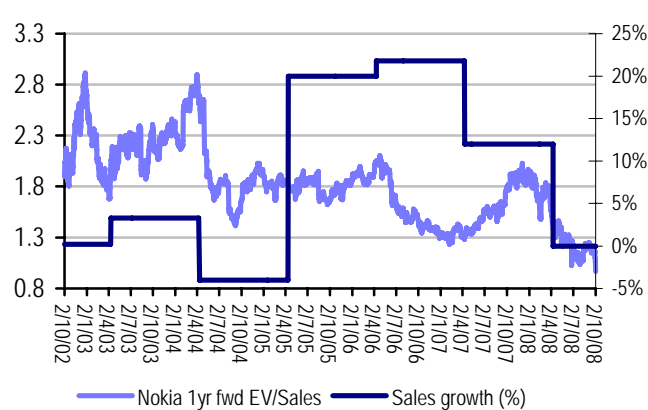
On a relative multiples basis, Nokia trades on a fully adjusted P/E of 9.5x '09E against the sector on 15.1x. Excluding cash, Nokia is trading at 8.8x P/E.

Chart 4: Nokia – one year forward P/E vs EPS



Source: Datastream

Chart 5: Nokia – one year forward EV/Sales vs revenue growth %



Source: Datastream

Chart 6: Relative multiples

UBS Telecom Equipment Relative Multiples															
Company	Rating	Price Curr	Price target	EV/Sales		EV/EBITDA		EV/EBIT		P/E		EV/FCF		EV/NCI	
				2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
ADC Telecommunications	Buy (CBE)	7.54	15	0.5	0.5	3.5	3.3	5.6	5.1	7.0	6.7	5.6	5.1	0.9	0.8
Adtran Inc.	Neutral	19.65	26	1.9	1.8	7.1	6.6	7.6	7.2	14.4	13.4	7.1	6.6	6.3	6.2
Alcatel-Lucent	Neutral	2.67	3	0.4	0.4	4.2	4.2	13.5	10.1	12.5	8.3	9.7	10.0	0.8	0.9
Arris Group Inc.	Neutral	7.57	10	0.7	0.7	6.3	5.3	7.4	6.1	12.6	9.9	2.9	2.5	0.8	0.8
Ciena Corp.	Neutral (CBE)	9.23	15	0.3	0.4	3.0	6.7	3.6	10.2	9.2	17.7	4.1	12.0	0.6	0.6
Cisco Systems Inc.	Neutral	22.08	25.5	3.9	2.6	11.5	8.1	13.2	9.3	19.1	13.9	12.4	9.0	10.2	8.2
Ericsson	Neutral	57.7	63	0.8	0.7	5.0	4.6	7.5	6.4	12.2	11.9	6.7	6.0	1.5	1.4
Corning Inc.	Neutral (CBE)	15.15	18	-0.8	-1.1	-2.4	-3.7	-3.5	-5.6	8.2	9.0	-3.8	-6.1	-0.7	-0.7
F5 Networks, Inc.	Buy (CBE)	22.2	37	2.1	1.7	7.3	5.9	8.3	6.7	23.7	17.9	-	-	4.8	4.9
Harmonic, Inc.	Neutral (CBE)	8.8215	9	1.0	0.7	5.6	4.2	6.7	4.7	14.5	17.1	6.6	4.8	3.8	2.8
Juniper Networks	Neutral (CBE)	19.74	28	2.4	1.7	8.0	5.6	9.9	7.0	17.7	14.1	9.2	6.1	2.3	2.1
Riverbed Technology	Sell (CBE)	12.19	10	1.8	1.5	9.5	7.2	10.8	8.1	186.8	57.7	9.5	7.2	30.6	21.2
Tellabs Inc.	Neutral (CBE)	4.08	5.75	0.3	0.3	4.6	2.9	9.3	4.3	21.5	13.0	7.7	4.1	0.3	0.3
Infrastructure				2.56	1.7	8.3	5.9	10.3	7.3	15.5	14.5	11.0	8.4	6.7	5.4
- ex Ericsson				2.79	1.8	8.7	6.1	10.7	7.4	15.9	14.8	9.6	6.8	7.3	5.9
- ex ALU				2.69	1.8	8.6	6.0	10.1	7.1	15.7	14.9	9.2	6.6	7.0	5.7
Apple Inc.	Buy	105.3	195	2.4	1.8	11.7	9.0	12.6	9.6	19.2	16.4	12.1	6.3	15.1	13.0
Dell Inc.	Neutral	16.0	20	0.8	0.3	11.9	5.4	14.1	6.4	19.7	11.0	15.9	5.9	-7.8	-4.4
HTC Corporation	Buy (CBE)	444.5	645	1.8	1.4	8.2	6.6	8.6	6.9	11.0	9.4	8.3	6.7	115.9	48.6
Nokia	Neutral	13.0	14.5	1.0	1.1	5.8	7.1	6.8	8.6	8.3	9.5	8.3	9.2	6.3	4.7
Motorola Inc.	Neutral (CBE)	7.2	8.8	0.2	0.3	8.4	4.4	87.8	6.5	87.7	14.0	4.9	11.7	0.8	1.0
Palm	Sell (CBE)	6.2	6.0	0.7	0.6	-10.4	-18.9	-7.3	-10.1	-16.8	-11.0	-15.0	-11.5	1.6	1.7
Qualcomm Inc.	Buy	43.1	63.0	5.2	4.6	15.2	11.3	17.3	12.3	21.1	17.5	22.2	12.9	11.7	10.0
Research in Motion Limited	Neutral (CBE)	66.5	88.0	7.3	3.1	23.9	11.2	25.4	11.9	35.5	17.0	27.7	29.0	17.6	8.6
Samsung Electronics	Sell	528000	507000	0.7	0.7	3.6	4.2	7.4	11.1	9.4	12.6	17.2	15.3	1.8	1.7
Spirent Plc	Buy	70.8	90.0	2.0	1.9	9.0	9.2	10.7	10.9	11.8	10.7	9.1	9.3	8.3	7.9
TomTom	Buy (CBE)	10.7	22.0	0.9	1.1	4.1	5.0	4.8	6.0	6.1	5.4	4.6	5.8	1.3	0.9
ZTE Corporation	Buy	28.0	40.0	0.8	0.6	10.3	8.5	13.4	11.0	21.3	15.7	-19.6	-460.0	6.1	4.5
Devices				2.6	1.9	10.9	8.0	14.4	10.0	18.8	14.0	5.7	4.0	11.2	7.7
- ex Nokia				3.0	2.1	12.1	8.25	16.3	10.4	21.4	15.1	16.7	4.6	12.4	8.5
NEC Electronics	Neutral	1919.0	2840.0	0.6	0.4	4.7	3.0	74.6	24.7	-22.5	0.0	15.1	9.2	1.4	1.0
Fujitsu	Neutral	626.0	850.0	0.3	0.3	4.0	3.2	8.6	6.8	20.7	13.0	6.0	4.8	1.7	1.3
Murata Mfg.	Neutral	4060.0	4900.0	2.0	0.9	7.0	3.8	10.9	8.2	21.0	20.0	7.0	3.8	2.8	1.1
Hitachi Cable	Neutral	298.0	400.0	0.4	0.2	5.6	2.6	10.7	6.7	17.9	10.1	9.2	4.1	1.2	0.6
Mitsubishi Electric	Buy	616.0	1200.0	0.7	0.4	6.9	3.8	10.2	5.7	17.2	8.7	8.6	4.8	2.2	1.2
Sumitomo Electric Industries	Buy	989.0	1500.0	0.6	0.4	6.3	4.1	10.9	7.8	15.2	9.1	8.5	5.7	1.3	0.8
Fujikura	Neutral	372.0	470.0	0.5	0.3	6.6	3.9	16.3	10.2	58.4	12.2	11.8	6.8	1.1	0.7
Hewlett-Packard Co.	Neutral	45.0	50.0	0.9	0.9	8.1	7.5	10.1	9.0	11.4	10.2	10.3	13.6	2.3	2.1
Conglomerates				0.8	0.7	7.3	6.2	10.9	8.6	13.7	10.5	9.6	10.8	2.2	1.7

Source: UBS

Sensitivity to further device market changes

We show in the table below, Nokia's EPS sensitivity to changes in market growth and share, all else being equal. At the bottom of the range, if we were to adopt our regression analysis and -6% market growth with market share dropping 500bp in '09E (we assume 100bp), Nokia's EPS would be 1.12. Applying a trough multiple of 10x to this, would result in a price of €11.2, 14.5% lower than today's level.

Table 6: Nokia diluted EPS sensitivity to different market growth and share assumptions

	Mkt grwth %	-6%	-3%	0%	3%	6%	9%
Mkt share	34.5%	1.12	1.15	1.18	1.21	1.24	1.27
	36.5%	1.17	1.20	1.24	1.27	1.30	1.33
	38.5%	1.23	1.26	1.30	1.33	1.37	1.40
	40.5%	1.28	1.32	1.36	1.39	1.43	1.46
	42.5%	1.34	1.38	1.42	1.45	1.49	1.53

Source: UBS

Q3 Preview

We do not intend to dedicate significant space to quarterly thoughts but set our estimates below. We are not significantly different from consensus for H2 '08. For Q4 we have run the weaker Euro through our ASP estimates and lower market volumes. In regard to guidance, we would expect commentary such as “lower than seasonally typical Q4 industry revenue growth” and “Nokia’s market share to remain flat q-o-q”. It is now the 2009 outlook which will be critical which will not be forthcoming until the Capital Markets Day, December 4th.

Chart 7: Nokia – UBS for Q3 and consensus

Dec yr end (Eur m)	Q3 '07	Q3 '08E	Q4 '08E	Q3 cons.	Q4 cons.
Handset data					
Total market volume	286	311	349	312.2	355.0
Nokia volumes	112	121	138	119.8	138.5
Nokia market share %	39.1%	39.0%	39.5%	38.4%	39.0%
Total ASP - reported	82.0	70.7	75.3	73.1	73.1
% change y-o-y	-11.8%	-13.8%	-9.3%		
Devices & Services	9,237	8,653	10,476	8,833	10,233
Navteq		154	218	172	201
NS Networks	3,674	3,826	4,626	3,748	4,461
Eliminations	-14	-6	-7	0	-6
Total Net Sales	12,897	12,627	15,313	12,753	14,889
New reporting					
EBIT (clean)					
Devices & Services	1,959	1,568	2,051	1,625	2,004
NS Networks	-34	163	264	74	192
NS Networks pre PPA/other	110	283	384	194	312
Navteq		36	65	50	62
Common expenses	23	-46	-65	-54	-64
Total EBIT pre specifics	1,948	1,684	2,250		
Total EBIT pre specifics/PPA	2,032	1,841	2,435	1,815	2,314
Total EBIT reported	1,862	1,665	1,653		
	Q3 '07	Q3 '08E	Q4 '08E	Q3 cons.	Q4 cons.
Revenues	12,897	12,627	15,313	12,753	14,889
Cost of Sales	-8,483	-8,343	-10,128	-8,345	-9,651
Gross profit inc spec. items	4,414	4,285	5,185	4,408	5,238
Total EBIT	1,861	1,665	1,653		
specific items in EBIT	-26	0	-600		
EBIT pre specifics	1,887	1,665	2,253		
Group EBIT pre specifics/PPA	2,032	1,841	2,435	1,815	2,314
Associates	-5	0	10	3	10
Financials	67	-10	-20	0	0
PBT	1,923	1,655	1,643	1,818	2,324
Tax	-364	-430	-427	-475	-609
Minorities	3	-60	124	-101	-143
Net profit	1,562	1,165	1,340		
Net ex specifics	1,582	1,165	1,784	1,242	1,572
Net ex specifics/PPA	-10				
EPS - diluted headline	0.40	0.31	0.36		
EPS - basic pre specifics	0.41	0.31	0.42		
EPS - diluted pre specifics	0.40	0.31	0.42		
EPS - diluted pre specs/PPA	0.43	0.33	0.44	0.33	0.43

Source: UBS, SME Direkt

Income statement (€m)	12/03	12/04	12/05	12/06	12/07	12/08E	% ch	12/09E	% ch	12/10E	% ch
Revenues	29,455	29,371	34,191	41,121	51,058	53,751	5.3	53,266	-0.9	53,032	-0.4
Operating expenses (ex deprecn)	(23,222)	(24,114)	(28,920)	(35,008)	(42,725)	(44,645)	4.5	(45,399)	1.7	(45,295)	-0.2
EBITDA (UBS)	6,233	5,257	5,271	6,113	8,333	9,106	9.3	7,867	-13.6	7,737	-1.7
Depreciation	(1,138)	(868)	(712)	(712)	(1,206)	(1,391)	15.3	(1,353)	-2.7	(1,347)	-0.4
Operating income (EBIT, UBS)	5,095	4,389	4,559	5,401	7,127	7,716	8.3	6,515	-15.6	6,390	-1.9
Other income & associates	(178)	(122)	10	28	44	18	-59.1	50	177.8	30	-40.0
Net interest	352	405	322	207	239	41	-82.8	(80)	-	(75)	-6.3
Abnormal items (pre-tax)	75	33	80	87	858	(1,393)	-	0	-	0	-
Profit before tax	5,345	4,705	4,971	5,723	8,268	6,382	-22.8	6,485	1.6	6,345	-2.1
Tax	(1,699)	(1,446)	(1,281)	(1,357)	(1,522)	(1,658)	9.0	(1,718)	3.6	(1,650)	-4.0
Profit after tax	3,646	3,259	3,690	4,366	6,746	4,723	-30.0	4,766	0.9	4,695	-1.5
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	(54)	(67)	(74)	(60)	498	106	-78.6	(158)	-	(182)	15.8
Net income (local GAAP)	3,592	3,192	3,616	4,305	7,244	4,829	-33.3	4,609	-4.6	4,513	-2.1
Net Income (UBS)	3,742	3,255	3,488	4,141	5,952	5,778	-2.9	4,877	-15.6	4,513	-7.5
Tax rate (%)	32	31	26	24	18	26	41.2	27	2.0	26	-1.9
Pre-abnormal tax rate (%)	30	30	27	25	23	25	6.0	26	8.0	26	-1.9
Per share (€)	12/03	12/04	12/05	12/06	12/07	12/08E	% ch	12/09E	% ch	12/10E	% ch
EPS (local GAAP)	0.75	0.69	0.83	1.06	1.86	1.29	-30.7	1.27	-1.4	1.26	-0.8
EPS (UBS)	0.79	0.71	0.80	1.02	1.53	1.54	0.8	1.35	-12.7	1.26	-6.3
Net DPS	0.30	0.33	0.37	0.43	0.53	0.52	-2.0	0.45	-14.2	0.44	-0.8
Cash EPS	1.02	0.90	0.96	1.19	1.84	1.92	4.0	1.72	-10.2	1.64	-4.7
BVPS	3.16	3.05	2.74	2.92	3.93	4.04	2.6	4.56	13.1	5.31	16.4
Balance sheet (€m)	12/03	12/04	12/05	12/06	12/07	12/08E	% ch	12/09E	% ch	12/10E	% ch
Net tangible fixed assets	2,103	1,812	1,845	1,853	2,290	4,730	106.6	4,919	4.0	5,095	3.6
Net intangible fixed assets	371	299	301	830	3,742	7,154	91.2	6,424	-10.2	5,694	-11.4
Net working capital (incl. other assets)	585	8	(182)	162	(310)	936	-	2,067	120.9	2,043	-1.2
Other liabilities	(308)	(275)	(247)	(327)	(1,082)	(1,134)	4.8	(1,134)	0.0	(1,134)	0.0
Operating invested capital	2,751	1,844	1,717	2,518	4,640	11,686	151.8	12,276	5.1	11,698	-4.7
Investments	197	369	439	512	666	745	11.9	795	6.7	825	3.8
Total capital employed	2,948	2,213	2,156	3,030	5,306	12,431	134.3	13,071	5.2	12,523	-4.2
Shareholders' equity	15,148	14,231	12,155	11,968	14,773	14,819	0.3	16,298	10.0	18,969	16.4
Minority interests	164	168	205	92	2,565	2,439	-4.9	2,595	6.4	2,778	7.0
Total equity	14,569	13,776	11,668	11,251	15,785	15,586	-1.3	17,222	10.5	20,076	16.6
Net debt / (cash)	(11,621)	(11,563)	(9,512)	(8,221)	(10,479)	(3,156)	-69.9	(4,151)	31.5	(7,553)	82.0
Debt deemed provisions	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	2,948	2,213	2,156	3,030	5,306	12,431	134.3	13,071	5.2	12,523	-4.2
Cash flow (€m)	12/03	12/04	12/05	12/06	12/07	12/08E	% ch	12/09E	% ch	12/10E	% ch
Operating income (EBIT, UBS)	5,095	4,389	4,559	5,401	7,127	7,716	8.3	6,515	-15.6	6,390	-1.9
Depreciation	1,138	868	712	712	1,206	1,391	15.3	1,353	-2.7	1,347	-0.4
Net change in working capital	(203)	241	(366)	(793)	605	(1,639)	-	(708)	-56.8	24	-
Other (operating)	725	42	182	254	(1,173)	701	-	112	-83.9	152	35.5
Operating cash flow	6,755	5,540	5,087	5,574	7,765	8,168	5.2	7,271	-11.0	7,913	8.8
Net interest received / (paid)	352	405	322	207	239	41	-82.8	(80)	-	(75)	-6.3
Dividends paid	(1,378)	(1,413)	(1,531)	(1,553)	(1,760)	(1,999)	13.6	(1,908)	-4.6	(1,592)	-16.5
Tax paid	(1,699)	(1,446)	(1,281)	(1,357)	(1,522)	(1,658)	9.0	(1,718)	3.6	(1,650)	-4.0
Capital expenditure	(650)	(649)	(760)	(777)	(872)	(1,014)	16.2	(1,062)	4.8	(1,042)	-1.9
Net (acquisitions) / disposals	12	7	175	(488)	325	(5,612)	-	0	-	0	-
Other	(2,720)	230	2,628	2,275	1,222	372	-69.5	(108)	-	(152)	41.7
Share issues	(1,332)	(2,648)	(4,256)	(3,325)	(2,832)	(3,320)	17.2	(1,400)	-57.8	0	-
Cash flow (inc)/dec in net debt	(660)	26	384	555	2,565	(5,022)	-	995	-	3,402	241.7
FX / non cash items	3,494	(84)	(2,435)	(1,846)	(307)	(2,301)	649.6	0	-100.0	0	-
Balance sheet (inc)/dec in net debt	2,834	(58)	(2,051)	(1,291)	2,258	(7,323)	-	995	-	3,402	241.7
Core EBITDA	6,233	5,257	5,271	5,548	8,004	8,858	10.7	7,867	-11.2	7,737	-1.7
Maintenance capital expenditure	(650)	(649)	(760)	(777)	(872)	(1,014)	16.2	(1,062)	4.8	(1,042)	-1.9
Maintenance net working capital	(203)	241	(366)	(793)	605	(1,639)	-	(708)	-56.8	24	-
Operating free cash flow, pre-tax	5,380	4,849	4,145	3,978	7,737	6,206	-19.8	6,097	-1.8	6,719	10.2

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

12-month rating

Neutral

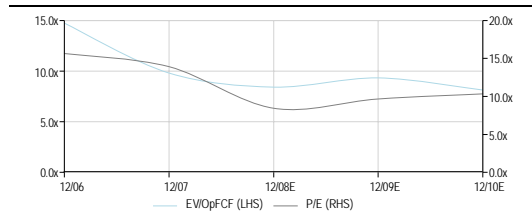
12m price target

€14.50

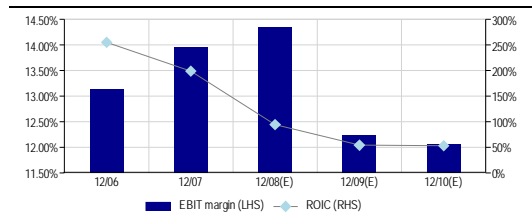
Company profile

Nokia, based in Finland, is a leading manufacturer of mobile communication technologies. The company holds the number one position in terms of share of global mobile handsets shipped, and has a strong position in the GSM, GPRS, EDGE and W-CDMA infrastructure markets. Nokia is also a leading developer of enabling mobile technologies, such as location-based services and Bluetooth, one of the major short-distance wireless communication standards.

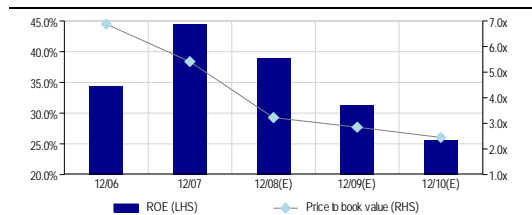
Value (EV/OpFCF & P/E)



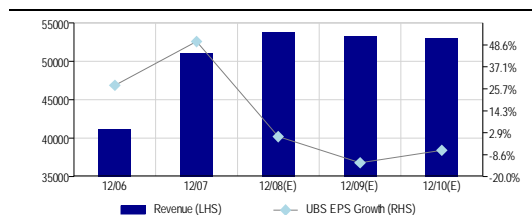
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/06	12/07	12/08E	12/09E	12/10E
P/E (local GAAP)	18.8	15.1	11.6	10.2	10.3	10.4
P/E (UBS)	18.0	15.7	13.9	8.4	9.7	10.3
P/CEPS	14.3	13.4	11.6	6.8	7.6	7.9
Net dividend yield (%)	2.0	2.7	2.5	4.0	3.4	3.4
P/BV	5.0	5.5	5.4	3.2	2.9	2.5
EV/revenue (core)	1.8	1.5	1.6	1.0	1.1	1.0
EV/EBITDA (core)	10.2	10.6	9.5	5.9	7.2	7.1
EV/EBIT (core)	12.0	11.1	10.9	6.9	8.7	8.6
EV/OpFCF (core)	11.8	14.7	9.8	8.4	9.3	8.1
EV/op. invested capital	NM	NM	NM	6.4	4.7	4.6

Enterprise value (€m)	12/06	12/07	12/08E	12/09E	12/10E
Average market cap	66,712	84,362	53,104	54,504	54,504
+ minority interests	1,343	1,343	6,592	6,592	6,592
+ average net debt (cash)	(8,867)	(9,350)	(6,817)	(3,653)	(5,852)
+ pension obligations and other	139	130	92	92	92
- non-core asset value	(669)	(669)	(669)	(669)	(669)
Core enterprise value	58,658	75,816	52,303	56,866	54,668

Growth (%)	5Yr Avg	12/06	12/07	12/08E	12/09E	12/10E
Revenue	8.2	20.3	24.2	5.3	-0.9	-0.4
EBITDA (UBS)	-2.4	16.0	36.3	9.3	-13.6	-1.7
EBIT (UBS)	-0.1	18.5	32.0	8.3	-15.6	-1.9
EPS (UBS)	5.3	27.6	50.3	0.8	-12.7	-6.3
Cash EPS	2.0	24.1	54.2	4.0	-10.2	-4.7
Net DPS	-	16.2	23.3	-2.0	-14.2	-0.8
BVPS	-0.4	6.7	34.5	2.6	13.1	16.4

Margins (%)	5Yr Avg	12/06	12/07	12/08E	12/09E	12/10E
EBITDA / revenue	18.4	14.9	16.3	16.9	14.8	14.6
EBIT / revenue	15.4	13.1	14.0	14.4	12.2	12.0
Net profit (UBS) / revenue	11.4	10.1	11.7	10.8	9.2	8.5

Return on capital (%)	5Yr Avg	12/06	12/07	12/08E	12/09E	12/10E
EBIT ROIC (UBS)	NM	NM	NM	NM	54.4	53.3
ROIC post tax	-	NM	NM	71.3	40.0	39.4
Net ROE	27.6	34.3	44.5	39.1	31.3	25.6

Coverage ratios (x)	5Yr Avg	12/06	12/07	12/08E	12/09E	12/10E
EBIT / net interest	-	-	-	-	NM	NM
Dividend cover (UBS EPS)	-	2.4	2.9	3.0	3.0	2.9
Div. payout ratio (% UBS EPS)	-	42.2	34.6	33.6	33.1	35.0
Net debt / EBITDA	NM	NM	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	12/06	12/07	12/08E	12/09E	12/10E
Revenue / op. invested capital	10.8	19.4	14.3	6.6	4.4	4.4
Revenue / fixed assets	11.8	17.0	11.7	6.0	4.6	4.8
Revenue / net working capital	NM	NM	NM	NM	36.5	26.3

Investment ratios (x)	5Yr Avg	12/06	12/07	12/08E	12/09E	12/10E
OpFCF / EBIT	1.0	0.7	1.1	0.8	0.9	1.1
Capex / revenue (%)	2.2	1.9	1.7	1.9	2.0	2.0
Capex / depreciation	0.8	1.1	0.7	0.7	0.8	0.8

Capital structure (%)	5Yr Avg	12/06	12/07	12/08E	12/09E	12/10E
Net debt / total equity	(73.3)	(68.7)	(70.9)	(21.3)	(25.5)	(39.8)
Net debt / (net debt + equity)	NM	NM	NM	(27.1)	(34.2)	(66.2)
Net debt (core) / EV	(16.2)	(15.1)	(12.3)	(13.0)	(6.4)	(10.7)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of €13.03 on 03 Oct 2008 21:42 BST Market cap(E) may include forecast share issues/buybacks.

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■ Nokia

Nokia, based in Finland, is a leading manufacturer of mobile communication technologies. The company holds the number one position in terms of share of global mobile handsets shipped, and has a strong position in the GSM, GPRS, EDGE and W-CDMA infrastructure markets. Nokia is also a leading developer of enabling mobile technologies, such as location-based services and Bluetooth, one of the major short-distance wireless communication standards.

■ Statement of Risk

Continued weakness of the U.S. dollar relative to the euro would be expected to hurt Nokia's sales, given that its U.S.-dollar sales exposure is roughly 50%. On the handset side, we believe that there are multiple downside risks. Firstly, weak sales could result in lower unit growth than is forecast in our model. Second, ASPs could decline more than we currently expect due to Nokia aggressively pricing models in an attempt to increase market share. Third, competitors may introduce new products and this could impact our assumptions regarding market share. The timing of competitive new product launches is key for Nokia to stabilise or regain lost share. There are upside and downside risks to Nokia's Mobile Device margins depending on how much these will be impacted as the company attempts to stabilise market share, and the competitiveness of the company's product portfolio. On the systems side, downside risk comes from possible downside to operator capex plans, decreasing the revenue growth outlook for the industry and Nokia. Another downside risk on the systems side is the lack of visibility over margins. Margin weakness could be driven by a mix shift to more network rollout and services business.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	56%	36%
Neutral	Hold/Neutral	35%	33%
Sell	Sell	8%	27%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	32%
Sell	Sell	less than 1%	14%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2008.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are :

Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE) : Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Nokia ^{4, 6, 15, 16, 22}	NOK1V.HE	Neutral	N/A	€13.03	03 Oct 2008

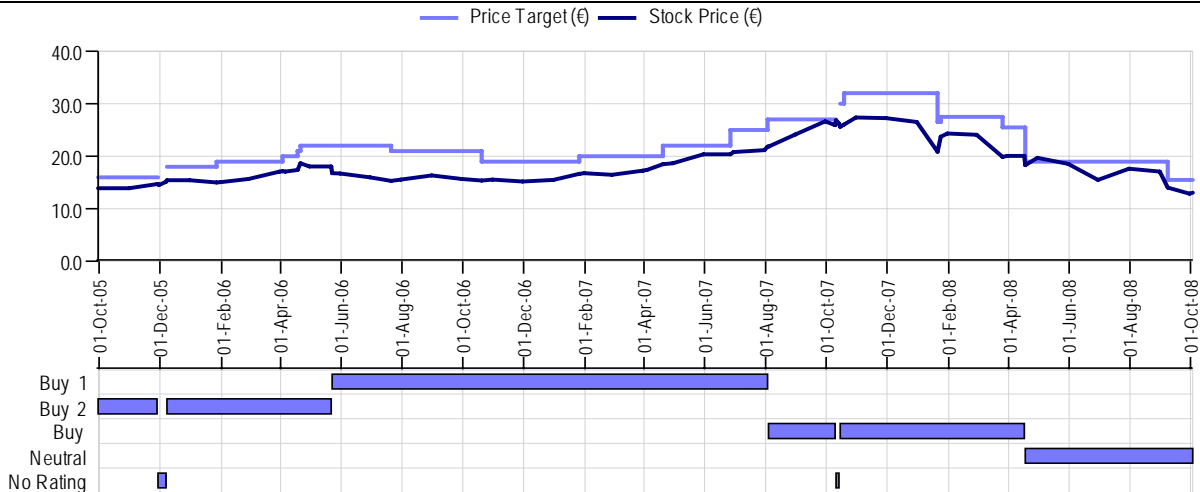
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Nokia (€)



Source: UBS; as of 03 Oct 2008

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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