Why are you launching this capital structure optimization program?

Nokia is in a very different position following the sale of the Devices & Services business to Microsoft - our financial situation has improved significantly. The Board has therefore undertaken a review of Nokia’s capital structure and the business’ future capital requirements. The two year program announced on April 29, 2014 is a result of that process and is designed to give Nokia the financial strength and flexibility to sustain our investments over the long-term. It is aligned with the long-term interests of our customers and shareholders, and puts us in a better position towards our target of being an investment grade credit rated company.

What is a share buyback and why are you doing it?

This is when a company purchases its own shares back from its shareholders. A share buyback is thus a way for the company to return funds to shareholders, and thus similar to a dividend. A share buyback is an alternative form of shareholder distribution, where a company buys back its own stock from shareholders, effectively reducing the number of outstanding shares and increasing the proportional rights of any single share. We are undertaking the share buyback as part of our overall plan to optimize Nokia’s capital structure. The share buybacks form an important part of that program, which is designed to optimize the capital structure of the company and provide Nokia with the financial flexibility to invest in the future.

What is the difference between a dividend pay-out and a share buy back?

A dividend payment is a direct payment of cash to shareholders. As part of the Capital Structure Optimization program announced on April 29, 2014 we are announcing a dividend plan consisting of two parts. The first is a recommencement of ordinary dividend payments. We plan at least a total of EUR 800 million of ordinary dividends for 2013 and 2014. The second element is a special dividend paid in 2014 of approximately EUR 1 billion. All planned dividends are subject to shareholder approval.

A share buyback is an alternative form of shareholder distribution, where a company buys back its own stock from shareholders, effectively reducing the number of outstanding shares and increasing the proportional rights of any single share. As part of the Capital Structure Optimization program announced today we are announcing a plan to execute share buybacks of EUR 1.25 billion over two years.

Nokia has different types of investors with different preferences of shareholder distribution methods. We feel that the proposed combination of ordinary dividends, special dividend and share buyback program strikes the right balance.
Why don’t you pay all of the money back to shareholders through dividends?

Nokia has different types of investors with different preferences of shareholder distribution methods. Some want to get cash, and others want to stay invested in Nokia. We feel that the proposed combination of ordinary dividends, special dividend and share buyback program strikes the right balance.

A share buyback reduces the number of shares outstanding and increases the proportional rights of any single share. Thus, assuming a certain amount of earnings, the earnings per share would be higher due to the share buyback and shareholders who want to continue to be invested in the company in the long term would benefit from this.

Some claim that buybacks are identical to dividends from a shareholder point of view. How is that possible?

Assuming that there are no differences in tax treatment (depends on tax jurisdiction, type of investor etc.) the difference to investors whether shareholder distributions are implemented by special dividends or share buybacks is limited and depends on the investor preferences.

In the case of special dividend, a portion of the value of the investor’s holding in the company is reduced and turned to a cash dividend payment whereas in the case of share buybacks every investor can choose to turn part of the holding into cash by selling a portion of the holding when the company is purchasing shares, or to stay fully invested in the stock and after the buyback is executed own a proportionately higher share of the company. In case the investor sells shares proportionally when the company is buying, the end result to the investor is very similar to that of a special dividend.

Does this mean that you think that Nokia’s shares are undervalued? What price are you prepared to buy stock up to?

We don’t comment on the value of our shares. The reason for undertaking the share buyback is to optimize the capital structure of the company over the next two years and distribute excess capital to shareholders.

What if the share price goes up significantly?

The reason for undertaking the share buyback is to optimize the capital structure of the company over the next two years and distribute excess capital to shareholders.

However, Nokia has the ability to use judgment in the execution and timing of the share buybacks dependent upon prevailing market conditions and other factors.

When will the buyback take place?
Provided we receive shareholder authorization, our plan is to commence the repurchases following publication of our Q2 2014 results. We will ask for the authorization to run until December 17, 2015 and expect to seek similar authorization at the 2015 Annual General Meeting.

**Are buybacks motivated by management bonus programs?**

No. The reason for undertaking the share buyback is to optimize the capital structure of the company over the next two years and distribute excess capital to shareholders.

In conjunction of the approval of the Capital Structure Optimization program the Board has decided to alter relevant performance criteria related to management compensation to neutralize any impact coming from the special dividends and share buybacks.

**A simplified example on dividends and buybacks:**

Assume an investor holds 10 shares in a company which has 1000 shares outstanding and the current share price is EUR 10.00. This means the market value of the company is EUR 10 000 and the investor owns 1% of the company.

Now assume the company pays a dividend of EUR 1.00 per share. This means the company pays a total dividend of EUR 1 000 and the investor receives EUR 10 dividend payment. After the dividend the value of the company is EUR 9 000 all other things equal and the investor’s holding is worth EUR 90.

Comparing this to a share buyback where the company uses the same amount of EUR 1 000 by purchasing 100 shares at price EUR 10 each. To have the same cash receipt as in the dividend case the investor decides to sell 1 share at price of EUR 10.00.

After the share buyback the company has 900 outstanding shares each worth EUR 10 and the value of the company is EUR 9 000 all other things equal (same as in the dividend case).

In both dividend and share buyback cases the company has spent EUR 1 000 of cash, the value of the company post the shareholder distribution is EUR 9 000, the value of the investor’s shares is EUR 90 i.e. 1% of the company and the investor has received EUR 10 in cash.

Naturally certain matters, such as the applicable taxation, affects the amount received finally by the shareholders.