

Vaisala Corporation Financial Statement Release 2017

Fourth quarter net sales all-time high, operating result 18.1% of net sales. Full year net sales increased by 4%, operating result 12.3% of net sales.

Fourth quarter 2017 highlights

- Orders received EUR 83.5 (93.0) million, decrease 10%
- Order book at the end of the period EUR 124.8 (118.0) million, increase 6%
- Net sales EUR 102.3 (93.0) million, increase 10%
- Gross margin 52.5% (52.1%)
- Operating result (EBIT) EUR 18.5 (14.6) million, 18.1% (15.7%) of net sales
- Earnings per share EUR 0.66 (0.79)
- Cash flow from operating activities EUR 23.0 (24.7) million

January–December 2017 highlights

- Orders received EUR 346.3 (311.3) million, increase 11%
- Net sales EUR 332.6 (319.1) million, increase 4%
- Gross margin 52.3% (51.6%)
- Operating result (EBIT) EUR 40.9 (22.3) million, 12.3% (7.0%) of net sales. Comparison period included EUR 10.5 million write-down of intangible assets.
- Earnings per share EUR 1.52 (1.05)
- Cash flow from operating activities EUR 49.2 (41.8) million
- Cash and cash equivalents at the end of the period EUR 91.3 (72.4) million, increase 26%
- The Board of Directors proposes to the Annual General Meeting that dividend of EUR 1.10 and additional dividend of EUR 1.00 per outstanding share be paid out of distributable earnings.

Business outlook for 2018

Vaisala estimates its full-year 2018 net sales to be in the range of EUR 330–350 million and its operating result (EBIT) to be in the range of EUR 35–45 million.

Vaisala's President and CEO Kjell Forsén comments on the fourth quarter and full-year 2017

“Vaisala’s performance was strong in the fourth quarter of 2017. Demand for weather observation and industrial measurement solutions continued healthy, even though our orders received totaling EUR 83.5 million did not reach comparison period’s level, which included the USD 18 million Bahamas contract. However, we were happy to book the second project phase of the Vietnamese weather infrastructure contract amounting to EUR 4.5 million. Deliveries of the contract are proceeding well.

Fourth quarter net sales were all-time high at EUR 102.3 million with 10% growth year-on-year despite negative exchange rate effect. In Weather and Environment Business Area, net sales increased by 12%. Project deliveries increased by 38% from previous year and deliveries to meteorology customer segment were at high level reflecting strong orders received earlier in the year. In Industrial Measurement Business Area, net sales growth was 6%, and twice as much with comparable exchange rates. In absolute terms,

increase in net sales came from instrument deliveries while power transmission and continuous monitoring system deliveries grew strongest. In geographical terms, deliveries were strong in Europe in both business areas.

Fourth quarter operating result improved from previous year and was EUR 18.5 million or 18.1% of net sales. Weather and Environment Business Area's quarterly operating result of EUR 14.0 million accounted for three-fourths of the business area's full-year result, which has been seasonally typical for the business area. In Industrial Measurements Business Area, investments in R&D, sales and marketing as well as in process digitalization burdened profitability, and hence, business area's operating result fell short of previous year's level.

During the fourth quarter, we acquired a company specializing in computer vision and artificial intelligence. This acquisition follows Weather and Environment Business Area's strategic target to grow and expand to environmental measurements. Our intention is to utilize the acquired computer vision platform by further developing innovative offering more widely to our customer segments. In Industrial Measurements Business Area, our entry to power transmission moved from testing phase to commercial deals towards the end of the year.

Vaisala performed very well in 2017. Net sales and operating result were the highest in Vaisala's history, operating result margin continued to improve towards our long-term target level, cash flow continued strong and we entered year 2018 with a strong order book. Weather and Environment Business Area improved in all aspects after several challenging years. Industrial Measurements Business Area consistently continued positive performance throughout the year. Operations continued good on-time delivery performance contributing to net sales growth and improved product quality as well as productivity supporting profitability development.

I want to thank all Vaisala employees warmly for excellent contribution and commitment in 2017. The excellent outcome of the year would not have been possible without your strong efforts.

In 2018, we plan to increase our investment in R&D, sales and marketing as well as digitalization. Net sales development is expected to be further burdened by negative exchange rate impact. Therefore, we estimate our full-year 2018 net sales to be in the range of EUR 330–350 million and operating result (EBIT) in the range of EUR 35–45 million.”

Key Figures

	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Orders received, EUR million	83.5	93.0	346.3	311.3
Order book, EUR million	124.8	118.0	124.8	118.0
Net sales, EUR million	102.3	93.0	332.6	319.1
Gross profit, EUR million	53.7	48.5	174.0	164.8
Gross margin, %	52.5	52.1	52.3	51.6
Operating expenses, EUR million	35.5	34.2	133.3	141.5
Operating result, EUR million	18.5	14.6	40.9	22.3
Operating result, %	18.1	15.7	12.3	7.0
Result before taxes, EUR million	18.1	16.3	38.1	22.1
Result for the period, EUR million	11.8	14.1	27.2	18.8
Earnings per share, EUR	0.66	0.79	1.52	1.05
Return on equity, %			15.0	10.5
Capital expenditure, EUR million	1.9	1.5	8.5	7.7
Depreciations, EUR million	2.2	2.8	9.7	24.1
Cash flow from operating activities, EUR million	23.0	24.7	49.2	41.8
Cash and cash equivalents, EUR million			91.3	72.4

Market situation in January–December 2017

Market for weather observation solutions was active throughout the year and improved compared to previous year. Demand was particularly strong from meteorology customer segment and Vaisala signed several large contracts. Demand from renewable energy customer segment increased slightly whereas from transportation customer segment demand declined. Demand for digital solutions was flat. Demand was particularly strong in Europe. In region Asia-Pacific, Middle East and Africa, demand developed positively even excluding the Vietnam contract. In China, demand slowed down after an active start of the year while in Americas demand development was a big disappointment.

Demand for industrial measurement solutions was solid throughout the year and increased compared to previous year. Market was strong in both APAC and EMEA while in Americas demand softened from a very good previous year. Demand for continuous monitoring systems developed favorably. Demand for power transmission products accelerated towards the end of the year.

Fourth quarter 2017

Orders received

EUR million	10-12/2017	10-12/2016	Change, %
Weather and Environment	55.4	66.5	-17
Industrial Measurements	28.1	26.5	6
Total	83.5	93.0	-10

In the fourth quarter 2017, Vaisala's orders received decreased by 10% compared to previous year and were EUR 83.5 (93.0) million. EUR 4.5 million of the Vietnamese contract announced in February 2016 was booked in the fourth quarter. Strong previous year included a large USD 18 million contract with the Ministry for Transport and Aviation of the Commonwealth of the Bahamas.

In the fourth quarter 2017, Weather and Environment Business Area's orders received decreased by 17% compared to previous year and were EUR 55.4 (66.5) million. EUR 4.5 million of the Vietnamese contract announced in February 2016 was booked in the fourth quarter. Strong previous year included a large USD 18 million contract with the Ministry for Transport and Aviation of the Commonwealth of the Bahamas. Orders received increased in all regions except in China if the Bahamas contract is excluded from Americas comparison.

In the fourth quarter 2017, Industrial Measurements Business Area's orders received increased by 6% compared to previous year and were EUR 28.1 (26.5) million. The increase was strongest in EMEA.

Order book

EUR million	Dec 31, 2017	Dec 31, 2016	Change,%
Weather and Environment	114.1	109.4	4
Industrial Measurements	10.7	8.6	25
Total	124.8	118.0	6

At the end of 2017, Vaisala's order book was EUR 124.8 (118.0) million and increased by 6% compared to previous year. Order book increased in Americas and APAC. EUR 99.5 (79.3) million of the order book is scheduled to be delivered in 2018.

At the end of 2017, Weather and Environment Business Area's order book was EUR 114.1 (109.4) million and increased by 4% compared to previous year. The increase came from all regions except from China, and was strong in Americas and in Europe. EUR 89.8 (71.5) million of the order book is scheduled to be delivered in 2018.

At the end of 2017, Industrial Measurements Business Area's order book was EUR 10.7 (8.6) million and increased by 25% compared to previous year. The increase came from all regions and was strongest in EMEA. EUR 9.7 (7.7) million of the order book is scheduled to be delivered in 2018.

Net sales by business area

EUR million	10-12/2017	10-12/2016	Change, %	Change, % comparable rates
Weather and Environment	74.4	66.7	12	15
Products	31.9	34.3	-7	
Projects	32.7	23.7	38	
Services	9.8	8.7	13	
Industrial Measurements	27.9	26.4	6	12
Products	25.0	23.7	5	
Services	2.9	2.6	12	
Total	102.3	93.0	10	14

Net sales by geographical area

EUR million	10-12/2017	10-12/2016	Change, %
EMEA	36.3	24.3	49
Americas	36.3	46.1	-21
APAC	29.8	22.6	31
Total	102.3	93.0	10

In the fourth quarter 2017, Vaisala's net sales increased by 10% compared to previous year and totaled EUR 102.3 (93.0) million. The increase came mainly from Weather and Environment Business Area's project deliveries. Net sales in EMEA were EUR 36.3 (24.3) million and increased by 49%, in the Americas EUR 36.3 (46.1) million and decreased by 21%. In APAC, net sales increased by 31% and totaled EUR 29.8 (22.6) million. In EMEA, both project and product deliveries increased compared to weak comparison period. In Americas, project and product deliveries in both business areas were lower than in the comparison period, whereas in APAC, net sales increased in both business areas. At comparable exchange rates, the net sales would have been EUR 106.0 (93.0) million and increase would have been EUR 13.0 million or 14% from previous year. The negative exchange rate effect was EUR 3.7 million, which was mainly caused by USD and JPY exchange rate depreciation against EUR.

In the fourth quarter 2017, Weather and Environment Business Area's net sales increased by 12% compared to previous year and were EUR 74.4 (66.7) million. The increase came from project deliveries and included EUR 2.7 million of the Vietnam contract. Deliveries to meteorology customer segment were high. At comparable exchange rates, the net sales would have been EUR 76.5 (66.7) million and increase would have been EUR 9.8 million or 15% from previous year. The negative exchange rate effect was EUR 2.1 million, which was mainly caused by USD depreciation against EUR.

In the fourth quarter 2017, Industrial Measurements Business Area's net sales increased by 6% compared to previous year and were EUR 27.9 (26.4) million. The increase came from APAC and EMEA. In absolute terms, increase came mainly from instrument deliveries while power transmission and continuous monitoring system deliveries grew strongest. At comparable exchange rates, the net sales would have been EUR 29.5 (26.4) million and increase would have been EUR 3.2 million or 12% from previous year. The negative exchange rate effect was EUR 1.6 million, which was mainly caused by USD and JPY depreciation against EUR.

Gross margin and operating result

	10-12/2017	10-12/2016
Gross margin, %	52.5	52.1
Weather and Environment	49.2	48.0
Industrial Measurements	61.2	62.2
Operating result, EUR million	18.5	14.6
Weather and Environment	14.0	9.5
Industrial Measurements	4.4	4.9
Other	0.1	0.2
Operating result, %	18.1	15.7
Weather and Environment	18.8	14.2
Industrial Measurements	15.7	18.5

In the fourth quarter 2017, Vaisala's operating result increased by EUR 3.9 million compared to previous year and was EUR 18.5 (14.6) million, 18.1% (15.7%) of net sales. Net sales growth in both business areas and improved gross margin in Weather and Environment Business Area increased operating profit. Gross margin was 52.5% (52.1%). Operating expenses increased by 4% compared to previous year and totaled EUR 35.5 (34.2) million.

In the fourth quarter 2017, Weather and Environment Business Area's operating result increased by EUR 4.5 million compared to previous year and was EUR 14.0 (9.5) million, 18.8% (14.2%) of net sales. Gross margin was 49.2% (48.0%) and increased mainly as a result of higher sales volumes and related improvement in scale economies as well as favorable inventory valuation. Operating expenses were on the previous year's level and totaled EUR 22.6 (22.5) million.

In the fourth quarter 2017, Industrial Measurements Business Area's operating result decreased by EUR 0.5 million compared to previous year and was EUR 4.4 (4.9) million, 15.7% (18.5%) of net sales. Gross margin was 61.2% (62.2%). Operating expenses increased by 10% compared to previous year and totaled EUR 12.7 (11.5) million. The increase came from R&D, sales and marketing as well as digitalization related expenses according to plan.

In the fourth quarter 2017, financial income and expenses were EUR -0.5 (1.6) million. This was mainly a result of valuation of USD denominated receivables.

In the fourth quarter 2017, result before taxes was EUR 18.1 (16.3) million. Income taxes were EUR 6.3 (2.2) million. Tax expenses of EUR 1.3 million was booked in the income statement as a result of a decrease in the US corporate tax rate from 35% to 21% from the beginning of 2018. The change in the deferred tax asset did not have any effect on cash flow nor will have on the time period when the deferred tax asset is expected to be utilized. Result for the period was EUR 11.8 (14.1) million. Earnings per share were EUR 0.66 (0.79).

January–December 2017

Orders received

EUR million	2017	2016	Change, %
Weather and Environment	233.0	206.0	13
Industrial Measurements	113.3	105.3	8
Total	346.3	311.3	11

In January–December 2017, Vaisala's orders received increased by 11% compared to previous year and were EUR 346.3 (311.3) million. The increase came from both business areas and all geographical areas. Orders received included EUR 10.8 million of the EUR 20 million Vietnamese contract announced in February 2016.

In January–December 2017, Weather and Environment Business Area's orders received increased by 13% compared to previous year and were EUR 233.0 (206.0) million. The increase came mainly from Europe and Asia-Pacific, Middle East and Africa regions. Orders received included EUR 10.8 million of the EUR 20 million Vietnamese contract announced in February 2016.

In January–December 2017, Industrial Measurements Business Area's orders received increased by 8% compared to previous year and were EUR 113.3 (105.3) million. The increase came from all regions and was strong in APAC and EMEA.

Order book

EUR million	Dec 31, 2017	Dec 31, 2016	Change, %
Weather and Environment	114.1	109.4	4
Industrial Measurements	10.7	8.6	25
Total	124.8	118.0	6

At the end of 2017, Vaisala's order book was EUR 124.8 (118.0) million and increased by 6% compared to previous year. Order book increased in Americas and APAC. EUR 99.5 (79.3) million of the order book is scheduled to be delivered in 2018.

At the end of 2017, Weather and Environment Business Area's order book was EUR 114.1 (109.4) million and increased by 4% compared to previous year. The increase came from all regions except from China, and was strong in Americas and in Europe. EUR 89.8 (71.5) million of the order book is scheduled to be delivered in 2018.

At the end of 2017, Industrial Measurements Business Area's order book was EUR 10.7 (8.6) million and increased by 25% compared to previous year. The increase came from all regions and was strongest in EMEA. EUR 9.7 (7.7) million of the order book is scheduled to be delivered in 2018.

Net sales by business area

EUR million	2017	2016	Change, %	Change, % comparable rates
Weather and Environment	222.2	215.4	3	4
Products	112.0	115.5	-3	
Projects	76.4	65.0	18	
Services	33.8	34.9	-3	
Industrial Measurements	110.3	103.7	6	9
Products	98.7	93.0	6	
Services	11.6	10.7	8	
Total	332.6	319.1	4	6

Net sales by geographical area

EUR million	2017	2016	Change, %
EMEA	107.7	92.0	17
Americas	127.3	140.9	-10
APAC	97.5	86.2	13
Total	332.6	319.1	4

In January–December 2017, net sales increased by 4 % compared to previous year and totaled EUR 332.6 (319.1). Net sales in EMEA were EUR 107.7 (92.0) million and increased by 17%, and in the Americas net sales decreased by 10% and were EUR 127.3 (140.9) million. In APAC, net sales increased by 13% and totaled EUR 97.5 (86.2) million. Operations outside Finland accounted for 97% (98%) of net sales. At comparable exchange rates, the net sales would have been EUR 337.4 (319.1) million and increase would have been EUR 18.3 million or 6% from previous year. The negative exchange rate effect was EUR 4.9 million, which was mainly caused by USD, JPY, GBP and CNY exchange rate depreciation against EUR.

In January–December 2017, Weather and Environment Business Area’s net sales increased by 3% compared to previous year and were EUR 222.2 (215.4) million. The increase came from project deliveries. At comparable exchange rates, the net sales would have been EUR 224.9 (215.4) million and increase would have been EUR 9.5 million or 4% from previous year. The negative exchange rate effect was EUR 2.6 million, which was mainly caused by USD and GBP depreciation against EUR.

In January–December 2017, Industrial Measurements Business Area’s net sales increased by 6% compared to previous year and were EUR 110.3 (103.7) million. The increase came from all regions and was strongest in APAC. In absolute terms, increase came mainly from instrument deliveries while power transmission and continuous monitoring system deliveries grew strongest. Deliveries to power transmission customers accelerated towards the end of the year. At comparable exchange rates, the net sales would have been EUR 112.6 (103.7) million and increase would have been EUR 8.9 million or 9% from previous year. The negative exchange rate effect was EUR 2.2 million, which was mainly caused by USD, JPY and CNY depreciation against EUR.

Gross margin and operating result

	2017	2016
Gross margin, %	52.3	51.6
Weather and Environment	47.3	47.3
Industrial Measurements	62.4	60.8
Operating result, EUR million	40.9	22.3
Weather and Environment	18.2	3.4
Industrial Measurements	22.8	21.6
Other	-0.2	-2.7
Operating result, %	12.3	7.0
Weather and Environment	8.2	1.6
Industrial Measurements	20.7	20.8

In January–December 2017, operating result increased by EUR 18.6 million compared to previous year and totaled EUR 40.9 (22.3) million, 12.3% (7.0%) of net sales. Net sales growth in both business areas and improved gross margin in Industrial Measurements Business Area increased operating profit. Comparison period included EUR 10.5 million write-down of intangible assets. Gross margin was 52.3% (51.6%). Operating expenses decreased by 6% compared to previous year due to the write-down of intangible assets in the comparison period and totaled EUR 133.3 (141.5) million.

In January–December 2017, Weather and Environment Business Area’s operating result increased by EUR 14.8 million compared to previous year and was EUR 18.2 (3.4) million, 8.2% (1.6%) of net sales. Net sales growth increased operating profit. Comparison period included EUR 10.5 million write-down of intangible assets. Gross margin was at previous year’s level at 47.3% (47.3%). Operating expenses decreased by 11% compared to previous year due to the write-down of intangible assets in the comparison period and totaled EUR 87.3 (98.4) million. Following the divestiture and restructuring of Transportation field services in 2016, business area’s costs decreased by EUR 6.4 million of which one fourth were operating expenses, exceeding the original estimate of EUR 6 million. This had close to EUR 2 million positive impact on operating result.

In January–December 2017, Industrial Measurements Business Area’s operating result increased by EUR 1.3 million compared to previous year and was EUR 22.8 (21.6) million, 20.7% (20.8%) of net sales. The increase came from higher net sales and improved gross margin. Gross margin was 62.4% (60.8%) and increased mainly as a result of higher sales volumes and related improvement in scale economies as well as improved profitability in service business. Operating expenses increased by 11% compared to previous year and were EUR 46.0 (41.5) million. The increase came from R&D, sales and marketing as well as digitalization related expenses according to plan.

In January–December 2017, financial income and expenses were EUR -2.8 (-0.3) million. This was a result of valuation of USD denominated receivables.

In January–December 2017, result before taxes was EUR 38.1 (22.1) million. Income taxes were EUR 10.9 (3.3) million and effective tax rate was 29% (15%). High effective tax rate was caused by the decrease in deferred tax asset. Tax expenses of EUR 1.3 million was booked in the income statement as a result of a decrease in the US corporate tax rate from 35% to 21% from the beginning of 2018. The change in the

deferred tax asset did not have any effect on cash flow nor will have on the time period when the deferred tax asset is expected to be utilized. Effective tax rate would have been 25% excluding the decrease in the deferred tax asset. In January–December 2016, effective tax rate was low due to deferred tax liability adjustment related to a EUR 10.5 million write-down of intangible assets. Result for the period was EUR 27.2 (18.8) million. Earnings per share were EUR 1.52 (1.05).

Statement of financial position and cash flow

Vaisala's financial position remained strong at the end of December 2017. Cash and cash equivalents increased to EUR 91.3 (72.4) million. Vaisala did not have any material interest bearing liabilities.

Financial statement total increased to EUR 273.8 (255.0) million. Improved profitability increased equity and strong cash flow raised cash balance. Despite moderate increase in receivables, working capital decreased because of reduced inventories and increased payables.

In January–December 2017, Vaisala's cash flow from operating activities increased to EUR 49.2 (41.8) million mainly because of improved profitability and positive working capital development.

During January–December 2017, Vaisala repurchased 23,173 company's series A shares with EUR 0.8 million. Purchases were completed on February 24, 2017. In the second quarter, Vaisala paid dividend EUR 17.8 million.

Capital expenditure and acquisitions

In January–December 2017, capital expenditure totaled EUR 8.5 (7.7) million. Capital expenditure was mainly related to investments in machinery and equipment to develop and maintain Vaisala's production and service operations.

In December, Vaisala announced plans to invest in a modern office building and laboratory facilities in Vantaa, Finland. This new building is planned mainly for R&D function, and the objective is to create flexible and modifiable workspaces for project teams and collaboration as well as to create an environment, which will foster rapid prototype creation. The building will be equipped with geothermal heating and cooling systems as well as other solutions supporting sustainability. This building project is estimated to cost around EUR 30 million, which will be materialized during the next 2–3 years.

In October, Vaisala acquired a Finnish IT company Vionice Oy specializing in computer vision and artificial intelligence. This acquisition follows Weather and Environment Business Area's strategy to look for both organic growth and growth through smart acquisitions as well as selective expansion to environmental measurements. Following this acquisition, Vaisala provides Vionice's product portfolio to its road and rail customers globally. In addition, Vaisala intends to utilize Vionice's existing computer vision platform by further developing innovative offering more widely to Weather and Environment Business Area's customer segments.

Depreciation, amortization and write-downs were EUR 9.7 (24.1) million. The decrease in depreciation was mainly due to EUR 10.5 million write-down of intangible assets, booked in the third quarter of 2016.

Research and development

R&D by business area

EUR million	2017	2016	Change, %
Weather and Environment	27.0	26.5	2
Industrial Measurements	12.6	11.5	10
Total	39.6	38.0	4

Industrial Measurements Business Area's R&D activity continued increasing according to plan.

R&D expenditure % of net sales

	2017	2016
Weather and Environment	12.1	12.3
Industrial Measurements	11.4	11.1
Total	11.9	11.9

Key product and software launches

In 2017, Vaisala launched several new advanced products and software to enhance growth as well as to replace existing products.

Weather and Environment Business Area launched an upgraded version of Vaisala's main automatic weather station platform with improved range of sensor options, remote monitoring capabilities and low maintenance requirements. This station satisfies general and specific needs of several applications, such as synoptic meteorology, aviation, hydrology, and climatology. Automatic weather station platform is an essential part of Vaisala's weather observation systems offering.

In addition, Weather and Environment Business Area introduced a modularized road weather station for customers who rather build and integrate their own systems than buy a complete weather station. This targets fragmented customer needs at the market.

The third key product launch for Weather and Environment Business Area was a new version of dropsonde, used for hurricane monitoring and forecasting. This new dropsonde is equipped with the latest high precision sensor technology, the same that is used in the latest radiosonde RS41.

Industrial Measurements Business Area achieved a strategic milestone with an expansion to a new solution area by launching a probe for vaporized hydrogen peroxide measurement. Hydrogen peroxide is used extensively e.g. in bio-decontamination and sterilization of rooms, facilities and equipment in life science industries.

Industrial Measurement Business Area also introduced a set of new interchangeable humidity and temperature probes, which are compatible for Indigo host device. These probes share several common key features, which minimizes the downtime associated with maintenance and makes calibration and replacement convenient. All these probes are equipped with a new HUMICAP® R2 composite sensor that gives unparalleled corrosion resistance to the sensor particularly in acidic environments. This strengthens Vaisala's leadership in high-end humidity measurement.

In addition, Industrial Measurements Business Area introduced Insight PC software for the Indigo host device product family. This utility software is available for download free and allows convenient setup, diagnostics and field calibration of Indigo compatible probes.

More details concerning the new products and software can be found at www.vaisala.com.

Personnel

The average number of personnel employed in Vaisala during January–December 2017 was 1,592 (1,590). At the end of December, the number of employees was 1,608 (1,569). 70% (69%) of employees were located in EMEA, 22% (23%) in the Americas and 9% (9%) in APAC. 63% (62%) of employees were based in Finland.

In January–December 2017, personnel expenses totaled EUR 129.9 (128.4) million.

Number of employees by geographical area

	Dec 31, 2017	Dec 31, 2016	Change
Finland	1,018	971	47
EMEA (excluding Finland)	102	109	-7
Americas	348	354	-6
APAC	140	135	5
Total	1,608	1,569	39

Number of employees by function

	Dec 31, 2017	Dec 31, 2016	Change
Sales and marketing	392	371	21
R&D	321	309	12
Operations	410	403	7
Services	322	322	-
Administration	163	164	-1
Total	1,608	1,569	39

During 2017, number of employees increased in sales and marketing as well as in R&D reflecting investments in these areas.

In Vaisala's annual Employee Survey, the response rate was 84%. Leadership Index showed an all-time high of 4.09 out of 5. Being fair and objective and having a positive attitude towards initiatives are the key strengths of Vaisala managers. There is room for development in giving feedback as well as actively supporting our employees' professional development. Overall, very good scores were given to clear goals, and employees appreciated and were satisfied with their supervisors; these correlate strongly with Vaisala employees' well-being.

As part of the strategic target of customer driven growth and renewal, Vaisala initiated a sales training program. The objective of this program is to develop sales skills and competencies on all levels of the sales organizations from individual sales managers to sales team leaders. The focus of this program is in efficient sales management practices and related skills and competencies, which are aimed to improve the

proactivity and efficiency of the sales organization as a whole. A total of 111 employees participated in this program during 2017.

Share-based incentive plans

On February 10, 2014, the Board of Directors resolved for the Group key employees a share-based incentive plan that was based on the development of Group's profitability in calendar year 2014. On March 8, 2017, a total of 21,006 company's series A shares were conveyed without consideration to the 22 key employees participating in this incentive plan. The rest of the reward was paid in cash. The cost of the proportion of share reward corresponded to the value of Vaisala's series A share closing price of EUR 23.69 on the effective date of the incentive plan, and the cash proportion was valued at the closing price of the share on March 8, 2017. A total expense of EUR 1.2 million was recognized of this plan in 2014–2017.

On December 18, 2014, the Board of Directors resolved for the Group key employees a share-based incentive plan that was based on the development of Group's profitability in calendar year 2015. The reward will be paid partly in Vaisala's series A shares and partly in cash in spring 2018. The cash proportion will cover taxes and tax-related costs arising from the reward to a key employee. The maximum amount of this plan originally corresponded to 160,000 shares. No reward will be paid if a key employee's employment or service ends before the reward payment date. The expenses of this share-based incentive plan are accrued over the term of the plan from May 2015 to March 2018. The cost of the proportion of share reward corresponds to the value of Vaisala's series A share closing price of EUR 24.16 on the effective date of the incentive plan, and the cash proportion is valued at the closing price of the share on December 31, 2017. This share-based incentive plan was directed to approximately 30 persons on December 31, 2017. The maximum reward payable on the basis of this share-based plan totals to 95,104 Vaisala's series A shares, including the cash portion.

On December 16, 2015, the Board of Directors resolved for the Group key employees a share-based incentive plan that was based on the development of Group's profitability in calendar year 2016. The reward will be paid partly in Vaisala's series A shares and partly in cash in spring 2019. The cash proportion will cover taxes and tax-related costs arising from the reward to a key employee. The maximum amount of this plan originally corresponded to 200,000 shares. No reward will be paid if a key employee's employment or service ends before the reward payment date. The expenses of this share-based incentive plan are accrued over the term of the plan from May 2016 to March 2019. The cost of the proportion of share reward corresponds to the value of Vaisala's series A share closing price of EUR 23.13 on the effective date of the incentive plan, and the cash proportion is valued at the closing price of the share on December 31, 2017. This share-based incentive plan was directed to approximately 25 persons on December 31, 2017. The maximum reward payable on the basis of this share-based plan totals to 89,910 Vaisala's series A shares, including the cash portion.

On February 10, 2016, the Board of Directors resolved for a share-based incentive plan, in which the earning criteria is uninterrupted employment of certain Group employees for a defined number of years. The reward will be paid partly in Vaisala's series A shares and partly in cash in three equal installments during the term of the plan. The cash proportion will cover taxes and tax-related costs arising from the reward to a key employee. The maximum amount of this plan originally corresponded to 9,000 shares. No reward will be paid if a key employee's employment or service ends before the reward payment date. The expenses of this share-based incentive plan are accrued over the term of the plan from May 2016 to March 2018. The cost of the proportion of share reward corresponds to the value of Vaisala series A share closing price of EUR 23.13 on the effective date of the incentive plan, and the cash proportion is valued at the

closing price of the share on December 31, 2017. The maximum reward payable on the basis of this share-based plan totals to 3,000 Vaisala series A shares, including the cash portion.

On December 15, 2016, the Board of Directors resolved for the Group key employees a share-based incentive plan that is based on the development of Group's profitability in calendar year 2017. The reward will be paid partly in Vaisala's series A shares and partly in cash in spring 2020. The cash proportion will cover taxes and tax-related costs arising from the reward to a key employee. The maximum amount of this plan originally corresponded to 200,000 shares. No reward will be paid if a key employee's employment or service ends before the reward payment date. The expenses of this share-based incentive plan are accrued over the term of the plan from April 2017 to March 2020. The cost of the proportion of share reward corresponds to the value of Vaisala's series A share closing price of EUR 35.80 on the effective date of the incentive plan, and the cash proportion is valued at the closing price of the share on December 31, 2017. This share-based incentive plan was directed to approximately 35 persons on December 31, 2017. The maximum reward payable on the basis of this share-based plan totals to 128,375 Vaisala's series A shares, including the cash portion.

Expenses for the share-based incentive plans

EUR million	2014	2015	2016	2017
Share-based incentive plan 2014	0.2	0.3	0.6	0.1
Share-based incentive plan 2015		0.5	1.1	1.6
Share-based incentive plans 2016			0.7	1.2
Share-based incentive plan 2017				1.1

Strategy and business area names

In May, Vaisala's Board of Directors confirmed strategy for 2017–2021. Vaisala continues to drive profitable growth through implementation of strategic priorities. Consequently, Vaisala decided to rename its business areas to better describe their current and future business focus. Controlled Environment Business Area was renamed to Industrial Measurements Business Area and Weather Business Area was renamed to Weather and Environment Business Area.

Industrial Measurements Business Area continues to further accelerate growth through product leadership strategy. Business Area's strategic priorities are to achieve strong foothold in power transmission and life science markets, to continuously create new winning products by discovering customers' needs, and to seek new business opportunities in industrial applications.

Weather and Environment Business Area drives profitability and growth through expansion of industry-leading products and digital solutions. Business Area's strategic priorities are: to systematically improve competitiveness by renewal of product offering; to grow through meteorological infrastructure improvement projects in developing countries; to expand digital solutions, which support decision-making in weather critical operations; as well as to build new business in environmental measurements with air quality as a spearhead.

Vaisala Operations continues to develop excellence in high mix low volume supply chain through further development of Vaisala Production System. Foundation of the Production System is creation of a culture, which engages everyone to systematic improvement. Operations has also strategic development priorities to

increase productivity, to develop core production technologies, as well as sourcing and product life cycle management processes.

Long-term financial targets

Vaisala's objective is profitable growth with an average annual growth of 5%, and to achieve 15% operating profit margin (EBIT). In selected growth businesses, such as digital solutions, life science and power transmission, the target is to exceed 10% annual growth.

Vaisala does not consider the long-term financial targets as market guidance for any given year.

Strategy implementation in 2017

Weather and Environment Business Area

At beginning of the year, Weather and Environment Business Area was reorganized. Old structure, which was based on customer segments, was changed to sales regions and global product lines. Implementation of this organization change was smooth and has been extremely successful. At the same time, a new unit for digital solutions was formed.

However, sales of digital solutions did not develop as expected. During the year, transition to cloud based customer solutions was planned and prepared and implementation will follow in 2018. This will enable agile solution development and more efficient operations.

Launches of an upgraded automatic weather station platform and a modularized road weather station are outcomes of Vaisala's continuous product development. Sales ramp-up of Network Manager solution, which is a solution for monitoring and managing weather observation network and weather stations, progressed well, as customers value improved efficiency in managing their observation networks remotely.

Target for business development is to look for both organic growth and growth through smart acquisitions. At the end of the year, Weather and Environment Business Area entered to computer vision and artificial intelligence by an acquisition of related technology platform and competences. Following this acquisition, this new product portfolio is offered to road and rail customers at first. Expansion to environmental measurements is strategic target for the business area. Product development of the first new product family proceeded well and the products are ready for sales ramp-up in 2018.

Two large weather infrastructure capacity building projects, in the Bahamas and Vietnam, progressed according to plan. Vaisala's target is to close one large infrastructure project every year, however, negotiation of such contracts usually take a long time.

Industrial Measurements Business Area

Industrial Measurements Business Area continued to implement its product leadership strategy. Regional expansion continued by contracting new distributors in countries with high industrial potential. This had a positive impact on distributor sales, which achieved double-digit growth for the second year in a row.

Industrial Measurements Business Area continued to focus its R&D efforts in growth markets. Entry to power transmission market moved from testing phase to commercial deals towards the end of the year. However, release of continuous monitoring systems offered to life science and other industrial customers was postponed to 2018 due to delays in testing phase.

Industrial Measurements Business Area creates new products based on existing and new parameters. One of these releases was an expansion to a new solution area with a probe for vaporized hydrogen peroxide measurement. Hydrogen peroxide is used extensively e.g. in bio-decontamination and sterilization of rooms, facilities and equipment in life science industries.

Service sales growth was supported by new service contracts, which are offered to customers together with product sales. Calibration and repair service business is ready for continued growth following improved processes, which have resulted in higher profitability.

Management Group

On December 31, 2017 Vaisala's Management Group members were

- Kjell Forsén, President and CEO, Chairman of the Management Group
- Marja Happonen, Executive Vice President, Human Resources
- Sampsa Lahtinen, Executive Vice President, Industrial Measurements Business Area
- Kaarina Muurinen, Chief Financial Officer
- Vesa Pylvänäinen, Executive Vice President, Operations
- Jarkko Sairanen, Executive Vice President, Weather and Environment Business Area
- Katriina Vainio, Executive Vice President, Group General Counsel

Decisions by Vaisala Corporation's Annual General Meeting

Vaisala Corporation's Annual General Meeting was held on March 28, 2017. The meeting approved the financial statements and discharged the members of the Board of Directors and the President and CEO from liability for the financial period January 1–December 31, 2016.

Dividend

The Annual General Meeting decided a dividend of EUR 1.00 per share, corresponding to the total of EUR 17.8 million. The record date for the dividend payment was March 30, 2017 and the payment date was April 6, 2017.

Board of Directors

The Annual General Meeting confirmed that the number of Board members is eight. Petra Lundström, Yrjö Neuvo, Mikko Niinivaara, Kaarina Ståhlberg, Pertti Torstila, Raimo Voipio and Ville Voipio will continue as members of the Board of Directors. Petri Castrén was elected as a new member of the Board of Directors.

The Annual General Meeting confirmed that the annual fee payable to the Chairman of the Board of Directors is EUR 45,000 and each Board member EUR 35,000 per year. Approximately 40 percent of the annual remuneration will be paid in Vaisala Corporation's A shares acquired from the market and the rest in cash. In addition, the Annual General Meeting confirmed that the compensation for the Chairman of the Audit Committee would be EUR 1,500 per attended meeting and EUR 1,000 for each member of the Audit Committee and Chairman and each member of the Remuneration and HR Committee and any other committee established by the Board of Directors for a term until the close of the Annual General Meeting in 2018. The meeting compensation fees are paid in cash.

Auditor

The Annual General Meeting re-elected Deloitte & Touche Oy as the auditor of the Company and APA Merja Itäniemi will act as the auditor with the principal responsibility. The Auditors are reimbursed according to invoice presented to the Company.

Authorization for the directed repurchase of own A shares

The Annual General Meeting authorized the Board of Directors to decide on the directed repurchase of a maximum of 200,000 of the company's own A shares in one or more instalments with funds belonging to the company's unrestricted equity. This authorization is valid until the closing of the next Annual General Meeting, however, no longer than September 28, 2018, and it replaced the previous authorization for directed repurchase of own A shares.

Authorization on the issuance of the company's own A shares

The Annual General Meeting authorized the Board of Directors to decide on the issuance of a maximum of 568,344 company's own A shares. The issuance of own shares may be carried out in deviation from the shareholders' pre-emptive rights (directed issue). The subscription price of the shares can instead of cash also be paid in full or in part as contribution in kind. This authorization is valid until March 28, 2022, and it replaced the previous authorization for issuance of own A shares.

Resolution on the forfeiture of shares entered in the Vaisala Corporation joint book-entry account and of the rights attached to such shares

The Annual General Meeting decided in accordance with the proposal by the Board of Directors that, regarding the shares entered in the Vaisala joint book-entry account, the right to shares incorporated in the book-entry system and the rights such shares carry are forfeited, and authorized the Board of Directors to take all actions required by said decision.

The forfeiture of shareholder rights concerned shares that were in the joint book-entry account, i.e. 4,820 shares of which 4,800 were series A-shares and 20 series K-shares. The shares, whose registration of shareholder rights to the shareholder's book-entry account were requested prior to the commencement of the Annual General Meeting, and which were entered in the shareholder's book-entry account by June 30, 2017, were not subject to the forfeiture of rights referred to above.

The organizing meeting of the Board of Directors

At its organizing meeting held after the Annual General Meeting, the Board elected Raimo Voipio to continue as the Chairman of the Board of Directors and Yrjö Neuvo to continue as the Vice Chairman.

The composition of the Board committees was decided to be as follows:

Kaarina Ståhlberg was elected as the Chairman and Petri Castrén and Mikko Niinivaara as members of the Audit Committee. The Chairman and all members of the Audit Committee are independent both of the company and of significant shareholders.

Raimo Voipio was elected as the Chairman and Yrjö Neuvo, Mikko Niinivaara and Pertti Torstila as members of the Remuneration and HR Committee. The Chairman and all members of the Remuneration and HR Committee are independent both of the company and of significant shareholders.

Vaisala's shares and shareholders

Share capital and shares

Vaisala's share capital totaled EUR 7,660,808 on December 31, 2017. Vaisala had 18,218,364 shares, of which 3,389,331 were series K shares and 14,829,033 were series A shares. In 2017, the number of series K shares decreased by 20 and number of series A shares increased by 20 as the Board of Directors decided that 20 series K shares held by the company will be converted to series A shares. This conversion was registered into the Trade Register on August 24, 2017. The series K shares and series A shares are differentiated by the fact that each series K share entitles its owner to 20 votes at a General Meeting of Shareholders while each series A share entitles its owner to 1 vote. The series A shares represented 81.4% of the total number of shares and 17.9% of the total votes. The series K shares represented 18.6% of the total number of shares and 82.1% of the total votes.

Trading and share price development

In January–December 2017, a total of 2,149,252 (2,031,136) series A shares with a value totaling EUR 87.0 (57.7) million were traded on the Nasdaq Helsinki Ltd. The share price increased by 32% (41%) during the year while OMX Helsinki Cap index increased by 7% (8%). The closing price of the series A share on the Nasdaq Helsinki stock exchange was EUR 44.50 (33.70). Shares registered a high of EUR 48.90 (36.96) and a low of EUR 31.88 (21.81). The volume-weighted average share price was EUR 40.25 (28.27).

The market value of series A shares on December 31, 2017 was EUR 643.3 (487.4) million, excluding company's treasury shares. Valuing the series K shares – which are not traded on the stock market – at the rate of the series A share's closing price on the last trading day of December, the total market value of all the series A and series K shares together was EUR 794.1 (601.6) million, excluding company's treasury shares.

Treasury shares and their authorizations

The Annual General Meeting held on April 5, 2016 authorized the Board of Directors to decide on the directed repurchase of a maximum of 200,000 of the company's series A shares. This authorization was valid until the closing of the Annual General Meeting held on March 28, 2017.

In April 2016, the Board of Directors resolved to commence repurchases of shares under this authorization. During May 2–December 30, 2016 Vaisala acquired a total of 176,827 company's series A shares at an average price of EUR 29.96 and the total cost of the acquired shares was EUR 5,297,463.80. During January 2–February 24, 2017 Vaisala acquired a total of 23,173 company's series A shares at an average price of EUR 34.03 and the total cost of the acquired shares was EUR 788,522.13.

The Annual General Meeting held on April 5, 2016, authorized the Board of Directors to decide on the issuance of a maximum of 391,550 company's series A shares. This authorization was valid until the closing of the Annual General Meeting held on March 28, 2017.

In February 2017, the Board of Directors decided to transfer shares under this authorization. In March, a total of 22,506 company's series A shares were transferred to the 22 key employees participating on the Share-based incentive plan 2014 and Restricted share-based incentive plan 2016 under the terms and conditions of the plans.

Vaisala Corporation's General Meeting, held on March 28, 2017 decided, that regarding the shares entered in the Vaisala joint book-entry account, the right to shares incorporated in the book-entry system and the

rights such shares carry are forfeited, and authorized the Board of Directors to take all actions required by said decision after June 30, 2017. The forfeiture of shareholder rights concerned shares that were in the joint book-entry account, i.e. 4,820 shares of which 4,800 were series A shares and 20 series K shares.

Vaisala's Board of Directors decided on July 20, 2017, that the shares entered in the Vaisala joint book-entry account will become own shares of Vaisala, and that the above-mentioned 20 series K shares will be converted to series A shares.

At the end of December 2017, Vaisala held a total of 372,364 (366,277) company's series A shares, which represented 2.5% (2.2%) of all series A shares and 2.0% (1.8 %) of all shares.

Shareholders

At the end of December, 2017 Vaisala Corporation had 7,853 (7,696) registered shareholders. Ownership outside of Finland and nominee registrations represented 15.7% (14.7%) of the company's shares. Households owned 39.9% (40.8%), private companies 14.9% (14.3%), financial and insurance institutions 13.6% (12.9%), non-profit organizations 11.2% (11.4%) and public sector organizations owned 4.7% (6.0%).

Shareholding by the Board of Directors and the Management Group

On December 31, 2017 the Board of Directors held and controlled 525,083 (520,463) series A shares. These shares accounted for 3.5% (3.5%) of series A shares and 2.9 % (2.9%) of total shares. The number of series K shares held and controlled by the Board was 294,168 (294,168). Total votes attached to the series A and K shares held and controlled by the Board were 6,408,443 (6,403,823), which accounted for 7.8% (7.8%) of the total votes of all shares.

On December 31, 2017 the President and CEO held and controlled 11,332 (10,720) series A shares. The President and CEO did not hold nor control any series K shares. Other Management Group members held and controlled 18,332 (17,963) series A shares but none series K shares.

Flagging notifications

On September 13, 2017, Nordea Funds Ltd. Informed Vaisala of the following change in ownership: Nordea Funds Ltd's aggregate holding in Vaisala increased above the 5 percent threshold and amounted to 911,662 shares or 5.004% of Vaisala's shares and 1.103% of total votes.

More information about Vaisala's shares and shareholders are presented on the website, www.vaisala.com/investors.

Near-term risks and uncertainties

Uncertainties in political situation and governmental customers' budgetary constraints or changes in their sourcing criteria may reduce or delay demand for Vaisala's products and services.

Delay in developing applications for digital solutions as well as acquiring and in building related competences for sales and business operations may slow down growth in Weather and Environment Business Area. Closing of infrastructure contracts in Weather and Environment Business Area may be postponed by budgetary constraints, complex customer decision making processes, changes in scope, and financing. Disturbance in project delivery performance may reduce or prolong associated profit. Thus, Vaisala's financial performance may vary significantly over time.

Prolonged new product ramp-ups, market acceptances and regulatory certifications of new offering, such as power transformer monitoring products, supplementary air quality sensors and networks, digital solutions and continuous monitoring systems, may postpone realization of Vaisala's growth plans.

Long interruption in production or test equipment or disruption in suppliers' and subcontractors' delivery capability or product quality may impact significantly Vaisala's net sales and profitability. Cyber risk and downtime of IT systems may impact operations, and delivery of digital solutions.

Vaisala's capability to successfully complete investments, acquisitions, divestments and restructurings on a timely basis and to achieve related financial and operational targets includes uncertainties and risks, which may negatively impact net sales and profitability.

Further information about risk management and risks are available on the company website at www.vaisala.com/investors.

Market outlook 2018

Market for traditional weather observation solutions is expected to be flat. Market growth is expected to originate from digital solutions as well as air quality measurement, however, starting from a low level. Demand for weather observation solutions is expected to improve in Americas and somewhat in China. In Asia-Pacific, Middle East and Africa region demand is expected to be stable whereas in Europe demand is expected to decline compared to strong 2017 as customers' decision-making may take time. Demand for digital solutions is expected to improve moderately.

Market for industrial measurement solutions is expected to be healthy. Underlying demand is expected to grow in all regions. Demand for power transmission products is expected to develop positively and continuous monitoring systems to gain speed from the release of next generation system.

Foreign exchange rates are expected to have a negative impact on reported net sales, assuming they remain at the end of 2017 level.

Business outlook for 2018

Vaisala estimates its full-year 2018 net sales to be in the range of EUR 330–350 million and its operating result (EBIT) to be in the range of EUR 35–45 million.

Board of Directors' proposal for distribution of earnings

The parent company's distributable earnings amount to EUR 167,226,029.01, of which the result for the period is EUR 25,833,770.47.

The Board of Directors proposes to the Annual General Meeting that dividend of EUR 1.10 and additional dividend of EUR 1.00 per share be paid out of distributable earnings totaling approximately EUR 37.5 million and the rest to be carried forward in the shareholders' equity. No dividend will be paid for treasury shares held by the company.

There have been no significant changes in the company's financial position since the close of the financial period. According to the Board of Directors, the proposed dividend distribution does not endanger the company's financial standing.

Annual General Meeting 2018

Vaisala's Annual General Meeting will be held on Tuesday, April 10, 2018 at 6:00 p.m. at Vaisala Corporation's head office, Vanha Nurmijärventie 21, 01670 Vantaa.

Financial calendar 2018

Annual Report 2017, by the end of week 9 at www.vaisala.com

Annual General Meeting 2018, April 10, 2018

Interim Report January–March 2018, April 25, 2018

Half Year Financial Report 2018, July 20, 2018

Interim Report January–September 2018, October 23, 2018

Vantaa, February 7, 2018

Vaisala Corporation
Board of Directors

The forward-looking statements in this release are based on the current expectations, known factors, decisions and plans of Vaisala's management. Although the management believes that the expectations reflected in these forward-looking statements are reasonable, there is no assurance that these expectations would prove to be correct. Therefore, the results could differ materially from those implied in the forward-looking statements, due to for example changes in the economic, market and competitive environments, regulatory or other government-related changes, or shifts in exchange rates.

Financial information and changes in accounting policies

This Financial Statement Review have been prepared in accordance with the IAS 34 following the same accounting principles as in annual financial statements. The whole year numbers presented in the financial report have been audited. All figures in the report are group figures. All presented figures have been rounded and consequently the sum of individual figures may deviate from the sum presented.

The preparation of the financial statements in accordance with IFRS requires Vaisala's management to make estimates and assumptions that affect the valuation of the reported assets and liabilities and the recognition of income and expenses in the statement of income. Although the estimates are based on the management's best knowledge at the date of this report, actual results may differ from the estimates.

New and amended IFRS standards not yet adopted

Revenue from Contracts with Customers

IFRS 15 *Revenue from contracts with customers* establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers with an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when control of the good or service underlying the particular performance obligation is transferred to the customer. These principles are applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue

Furthermore, IFRS 15 requires extensive disclosures.

Vaisala will adopt IFRS 15 *Revenue from contracts with customers* as of January 1, 2018. Management estimates that IFRS 15 affects mainly Weather and Environment Business Area's project business, while effects on product and services businesses in Weather and Environment as well as Industrial Measurements Business Areas are limited.

Project business

Net sales of Weather and Environment Business Area's project business totaled EUR 76 million in during financial year 2017 and EUR 65 million during financial year 2016. Management estimates, that major changes in project revenue recognition will take place in the above mentioned steps two, four and five, whereas changes are limited in step one and step three.

Vaisala's delivery projects are typically integrated projects. In integrated projects, Vaisala delivers observation solutions consisting of products, services and software to a customer. These solutions are integrated/connected to customer systems according to customer specifications. Therefore, one delivery project is typically one performance obligation under IFRS 15. Vaisala will recognize revenue for integrated

projects using percentage of completion method. Based on contract analysis performed, the conclusion is that Vaisala's projects typically meet the over-time revenue recognition criteria, either by creating an asset without an alternative use and Vaisala having an enforceable right to payment for performance completed to date and/or by creating an asset under customer control.

Revenue of projects, which do not meet the over-time revenue recognition criteria, is recognized at a point in time when control has been transferred to a customer. These projects are typically standard shipments or collections of several individual deliveries, which Vaisala manages as projects because of their size.

Prior to 2018, Vaisala has rarely used percentage of completion method, and only in projects with very long delivery times. Generally, Vaisala has recognized project revenue separately for hardware and field service in accordance with their pro rata selling prices. Hence, adoption of over-time revenue recognition will have an impact on timing of revenue recognition in Vaisala's project business since control over assets transfers to customers over time. Consequently, recognition of project revenue and profit will be advanced.

Product and service businesses

As currently, Vaisala will recognize revenue of product deliveries based on delivery terms, and revenue of services when benefits are rendered to customers. Vaisala continues to recognize revenue of such fixed-time service contracts, which are negotiated in connection with delivery projects and commence after completion of the delivery projects, as separate performance obligations with over time revenue recognition method.

Implementation and transition

During 2017, Vaisala has been preparing transition to IFRS 15. Actions included accounting system development, contract reviews, key person trainings, control environment development as well as preparing disclosure information to the notes of the financial statements.

Vaisala will use cumulative method in transition, which means that open contracts will be recognized according to IFRS 15 as of January 1, 2018, but revenue or profit of completed projects will not be adjusted retrospectively. According to management's preliminary estimate for January–December 2017, net sales would have been approximately EUR 4 million lower and order book would have cumulatively been approximately EUR 1 million lower under IFRS 15 compared to current accounting policies. The estimated effect on order book is due to earlier timing of revenue recognition. Current revenue recognition method results in seasonality where revenue in third and especially in fourth quarter of a year has been typically high, while concrete project completion takes place more evenly throughout a year. In the above management estimate, there are significant accounting judgements involved especially as the percentage of completion method requires accurate estimates in project revenue and costs.

Vaisala will disclose 2018 opening balance sheet including IFRS 15 adjustment during first quarter of 2018.

Consolidated Statement of Income

EUR million	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Net sales	102.3	93.0	332.6	319.1
Cost of sales	-48.6	-44.6	-158.5	-154.3
Gross profit	53.7	48.5	174.0	164.8
Sales, marketing and administrative costs	-25.1	-24.1	-93.7	-103.4
Research and development costs	-10.4	-10.1	-39.6	-38.0
Other operating income and expense	0.3	0.4	0.1	-1.0
Operating result	18.5	14.6	40.9	22.3
Share of result in associated company	0.1	0.1	0.1	0.1
Financial income and expenses, net	-0.5	1.6	-2.8	-0.3
Result before taxes	18.1	16.3	38.1	22.1
Income taxes	-6.3	-2.2	-10.9	-3.3
Result for the period	11.8	14.1	27.2	18.8
Earnings per share, EUR	0.66	0.79	1.52	1.05
Diluted earnings per share, EUR	0.65	0.78	1.50	1.03

Consolidated Statement of Comprehensive Income

EUR million	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Items that will not be reclassified to profit or loss				
Actuarial profit (loss) on post-employment benefits	0.0	-0.0	0.0	-0.0
Total	0.0	-0.0	0.0	-0.0
Items that may be reclassified subsequently to profit or loss				
Currency translation differences	-0.4	1.0	-3.2	0.0
Total	-0.4	1.0	-3.2	0.0
Total other comprehensive income	-0.4	1.0	-3.2	-0.0
Total comprehensive income	11.4	15.1	24.1	18.8

Consolidated Statement of Financial Position

EUR million

Assets	Dec 31, 2017	Dec 31, 2016
Non-current assets		
Intangible assets	20.6	20.0
Property, plant and equipment	40.4	41.4
Investments	0.1	0.1
Investment in associated companies	0.9	0.8
Long-term receivables	0.7	0.7
Deferred tax assets	7.6	10.8
Total non-current assets	70.3	73.8
Current assets		
Inventories	28.6	32.1
Trade and other receivables	83.1	75.4
Income tax receivables	0.5	1.4
Cash and cash equivalents	91.3	72.4
Total current assets	203.5	181.2
Total assets	273.8	255.0
Shareholders' equity and liabilities		
Shareholders' equity		
Share capital	7.7	7.7
Other reserves	3.0	2.0
Cumulative translation adjustment	-0.2	2.9
Treasury shares	-10.1	-9.6
Retained earnings	185.1	175.6
Total shareholders' equity	185.4	178.5
Non-current liabilities		
Post-employment benefit obligations	2.5	2.4
Deferred tax liabilities	0.5	0.0
Provisions for other liabilities and charges	0.2	0.0
Other long-term liabilities	2.7	1.3
Total non-current liabilities	5.8	3.7
Current liabilities		
Interest-bearing liabilities	-	0.0
Advances received	4.6	4.0
Income tax liabilities	1.4	0.4
Provisions for other liabilities and charges	1.3	1.8
Trade and other payables	75.3	66.6
Total current liabilities	82.5	72.8
Total liabilities	88.4	76.5
Total shareholders' equity and liabilities	273.8	255.0

Consolidated Statement of Changes in Shareholders' Equity

EUR million	Share capital	Other reserves	Treasury shares	Translation adjustment	Retained earnings	Total
Balance at Jan 1, 2016	7.7	1.1	-4.3	2.9	173.9	181.3
Result for the period					18.8	18.8
Other comprehensive income		-0.0		0.0	-0.0	-0.0
Dividend paid					-17.1	-17.1
Reclassification		0.0			-0.0	-
Purchase of treasury shares			-5.3			-5.3
Share-based payments		0.8	0.0			0.9
Balance at Dec 31, 2016	7.7	2.0	-9.6	2.9	175.6	178.5

EUR million	Share capital	Other reserves	Treasury shares	Translation adjustment	Retained earnings	Total
Balance at Jan 1, 2017	7.7	2.0	-9.6	2.9	175.6	178.5
Result for the period					27.2	27.2
Other comprehensive income		-0.0		-3.1	-0.0	-3.2
Dividend paid					-17.8	-17.8
Return of unpaid dividends to shareholders' equity					0.1	0.1
Transfer		0.0			-0.0	-
Purchase of treasury shares			-0.8			-0.8
Share-based payments		1.0	0.3			1.4
Balance at Dec 31, 2017	7.7	3.0	-10.1	-0.2	185.1	185.4

Consolidated Cash Flow Statement

EUR million	1-12/2017	1-12/2016
Cash flows from operating activities		
Cash receipts from customers	330.6	320.1
Cash paid to suppliers and employees	-272.6	-268.3
Financials paid, net	-1.8	-0.7
Income taxes paid, net	-7.1	-9.4
Cash flow from operating activities	49.2	41.8
Cash flows from investing activities		
Acquisitions	-2.0	-
Capital expenditure on fixed assets	-8.5	-7.7
Divestments	0.3	1.4
Cash flow from investing activities	-10.2	-6.4
Cash flows from financing activities		
Dividends paid	-17.9	-17.1
Purchase of treasury shares	-0.8	-5.3
Change in loan receivables	0.0	0.0
Change in leasing liabilities	0.0	-0.0
Cash flow from financing activities	-18.6	-22.4
Change in cash and cash equivalents increase (+) / decrease (-)	20.4	13.0
Cash and cash equivalents at the beginning of period	72.4	59.2
Net increase (+) / decrease (-) in cash and cash equivalents	20.4	13.0
Effect from changes in exchange rates	-1.5	0.2
Cash and cash equivalents at the end of period	91.3	72.4

Notes for Report

Orders Received by Business Area

EUR million	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Weather and Environment	55.4	66.5	233.0	206.0
Industrial Measurements	28.1	26.5	113.3	105.3
Total	83.5	93.0	346.3	311.3

Net Sales by Business Area

EUR million	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Weather and Environment				
Products	31.9	34.3	112.0	115.5
Projects	32.7	23.7	76.4	65.0
Services	9.8	8.7	33.8	34.9
Total	74.4	66.7	222.2	215.4
Industrial Measurements				
Products	25.0	23.7	98.7	93.0
Services	2.9	2.6	11.6	10.7
Total	27.9	26.4	110.3	103.7
Sales, Other	0.0	0.0	0.0	0.0
Total Sales	102.3	93.0	332.6	319.1

Operating Result by Business Area

EUR million	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Weather and Environment	14.0	9.5	18.2	3.4
Industrial Measurements	4.4	4.9	22.8	21.6
Other	0.1	0.2	-0.2	-2.7
Total	18.5	14.6	40.9	22.3

Net Sales by Geographical Area

EUR million	10-12/2017	10-12/2016	1-12/2017	1-12/2016
EMEA	36.3	24.3	107.7	92.0
Americas	36.3	46.1	127.3	140.9
APAC	29.8	22.6	97.5	86.2
Total	102.3	93.0	332.6	319.1

Personnel				
	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Average personnel	1,598	1,568	1,592	1,590
Personnel at the end of period	1,608	1,569	1,608	1,569

Financial Instruments			Dec 31, 2017	Dec 31, 2016
Nominal value of financial derivatives, EUR million			38.8	50.2
Fair values of financial derivatives, assets, EUR million			1.5	0.3
Fair values of financial derivatives, liabilities, EUR million			0.3	1.5

Financial derivatives consist solely of foreign currency forwards and they are measured based on price information derived from active markets and commonly used valuation methods (Fair value hierarchy 2). Financial contracts are executed only with counterparties that have high credit ratings.

Share Information				
	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Number of shares outstanding, thousand	17,846	17,851	17,846	17,851
Number of treasury shares, thousand	372	367	372	367
Number of shares, weighted average, diluted, thousand	18,175	18,119	18,176	18,203
Number of shares, weighted average, thousand	17,846	17,870	17,847	17,955
Number of shares traded, thousand	398	469	2,149	2,031
Share price, highest, EUR	48.90	39.96	48.90	36.96
Share price, lowest, EUR	40.52	29.00	31.88	21.81

Key Ratios				
	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Earnings per share, EUR	0.66	0.79	1.52	1.05
Diluted earnings per share, EUR	0.65	0.78	1.50	1.03
Equity per share, EUR			10.39	10.00
Return on equity, %			15.0	10.5
Cash flow from operating activities per share, EUR	1.29	1.38	2.76	2.34
Solvency ratio, %			68.9	71.1

Further information

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Vaisala Corporation

Briefing and Telephone Conference

Briefing for analysts, investors and media, combined with an English-language conference call will be arranged in Hotel Kämp, Paavo Nurmi meeting room, Pohjoisesplanadi 29, Helsinki, starting at 4:00 p.m. (Finnish time).

Numbers for conference call, during which questions may be presented, are:

Finland: +358 9 8171 0495
UK: +44 20 3194 0552
Sweden: +46 8 5664 2702
US: +1 85 5716 1597

Audiocast

The presentation by Kjell Forsén, President and CEO, can also be followed through a live audiocast at www.vaisala.com/investors starting at 4:00 p.m. A recording of the presentation will be published at the same address by 6:00 p.m.

Distribution

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Key media
www.vaisala.com

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