

Vaisala Corporation Interim Report

November 28, 2018 at 6.30 p.m. (EET)
(original October 23, 2018)

Vaisala Corporation Interim Report January–September 2018

Good operating result, orders received weak in Weather and Environment

Third quarter 2018 highlights

- Orders received EUR 76.8 (100.1) million, decrease 23%
- Order book at the end of the period EUR 119.2 (145.0) million, decrease 18%
- Net sales EUR 84.1 (87.1) million, decrease 3%
- Gross margin 55.9 (52.8) %
- Operating result (EBIT) EUR 14.5 (14.7) million, 17.3 (16.9) % of net sales
- Earnings per share EUR 0.30 (0.30)
- Cash flow from operating activities EUR 10.6 (14.9) million

January–September 2018 highlights

- Orders received EUR 235.0 (262.9) million, decrease 11%
- Net sales EUR 240.5 (230.3) million, increase 4%
- Gross margin 52.5 (52.2) %
- Operating result (EBIT) EUR 24.9 (22.4) million, 10.4 (9.7) % of net sales
- Earnings per share EUR 0.51 (0.43)
- Cash flow from operating activities EUR 18.9 (26.2) million
- Cash and cash equivalents at the end of the period EUR 62.6 (72.3) million, decrease 13%

Business outlook for 2018

As published on October 4, 2018, Vaisala estimates its full-year 2018 net sales to be in the range of EUR 340–360 million and its operating result (EBIT) to be in the range of EUR 30–36 million.

Vaisala's President and CEO Kjell Forsén comments on the third quarter 2018

“Vaisala's third quarter operating result was good. Gross margin improvement in project deliveries in Weather and Environment Business Area was noteworthy and Industrial Measurements Business Area continued its strong performance. I am satisfied with the operating result exceeding 17% of net sales.

Despite solid profitability development, third quarter net sales fell short from previous year mainly due to timing of project deliveries in EMEA. Industrial Measurements Business Area's growth continued and net sales for the quarter were all-time high, EUR 29.5 million.

Order intake was a disappointment particularly in Weather and Environment Business Area's. As opposed to previous year, no large deals were signed.

Progress in strategic focus areas was mixed. On the positive side, net sales to life science customers grew double-digit, while sales ramp-up of power transmission products has been slow and challenging as customers' decision cycles are long. Digital Solutions net sales did not quite reach the same level as during

the first half, however, profitability developed positively. Operations has successfully continued productivity improvements and manufacturing partner consolidation.

R&D activities have progressed according to plans and both business areas have introduced new products to the market. New automatic radiosonde launching system enables full automation of sounding operations. New forward scatter series is targeted to meteorological institutes and airports. The series consists of visibility sensor and present weather sensor. Deliveries for these new weather observation solutions are estimated to start during the first half of 2019. An upgraded and a new hydrogen peroxide measurement probes are designed for environmentally friendly bio-decontamination processes. Both smart probes are optimized to provide accurate and repeatable measurements even in high humidity. Deliveries for these industrial measurement products are planned to start already this year.

At the beginning of October, we announced acquisition of Leosphere specializing in developing, manufacturing and servicing turnkey wind lidar (light detection and ranging) instruments for wind energy, aviation, meteorology, and air quality customer segments. With EUR 27 million net sales in 2017, Leosphere is the biggest acquisition in Vaisala's history. This acquisition supports Weather and Environment Business Area's strategy to drive industry leadership and growth through strengthening its position as a global leader providing remote wind sensing technologies for growing markets. I am very excited in welcoming our new colleagues to Vaisala.

Following this acquisition, we estimate our full-year 2018 net sales to be in the range of EUR 340–360 million and operating result (EBIT) to be in the range of EUR 30–36 million.”

Key Figures

	7-9/2018	7-9/2017	1-9/2018	1-9/2017	1-12/2017
Orders received, EUR million	76.8	100.1	235.0	262.9	346.3
Order book, EUR million	119.2	145.0	119.2	145.0	124.8
Net sales, EUR million	84.1	87.1	240.5	230.3	332.6
Gross profit, EUR million	47.0	46.0	126.3	120.3	174.0
Gross margin, %	55.9	52.8	52.5	52.2	52.3
Operating expenses, EUR million	32.5	30.5	101.9	97.8	133.3
Operating result, EUR million	14.5	14.7	24.9	22.4	40.9
Operating result, %	17.3	16.9	10.4	9.7	12.3
Result before taxes, EUR million	14.0	13.8	23.5	20.0	38.1
Result for the period, EUR million	10.7	10.6	18.1	15.4	27.2
Earnings per share, EUR	0.30	0.30	0.51	0.43	0.76
Return on equity, %			13.6	11.7	15.0
Capital expenditure, EUR million	4.5	2.8	10.3	6.6	8.5
Depreciations, EUR million	2.2	2.2	6.5	7.5	9.7
Cash flow from operating activities, EUR million	10.6	14.9	18.9	26.2	49.2
Cash and cash equivalents, EUR million			62.6	72.3	91.3

The share issue without payment approved by Vaisala's Annual General Meeting on April 10, 2018 increased the total number of series K shares to 6,778,662 and series A shares to 29,658,066. The share related figures in the comparison periods have been adjusted to reflect the increased number of shares.

Third quarter 2018

Orders received

EUR million	7-9/2018	7-9/2017	Change, %	Change, % comparable rate	2017
Weather and Environment	48.7	72.5	-33	-33	233.0
Industrial Measurements	28.1	27.6	2	2	113.3
Total	76.8	100.1	-23	-23	346.3

In the third quarter 2018, Vaisala's orders received decreased by 23% compared to record high previous year and were EUR 76.8 (100.1) million. Orders decreased mainly due to low project orders in Weather and Environment Business Area. At comparable exchange rates, decrease would have been the same 23% compared to previous year.

In the third quarter 2018, Weather and Environment Business Area's orders received decreased by 33% compared to record high previous year and were EUR 48.7 (72.5) million. Orders decreased mainly due to lack of large project orders in all regions. At comparable exchange rates, decrease would have been the same 33% compared to previous year.

In the third quarter 2018, Industrial Measurements Business Area's orders received increased by 2% compared to previous year and were EUR 28.1 (27.6) million. Increase came mainly from instrument orders in Americas. At comparable exchange rates, increase would have been the same 2% compared to previous year.

Order book

EUR million	Sep 30, 2018	Sep 30, 2017	Change, %	Dec 31, 2017
Weather and Environment	106.3	134.3	-21	114.1
Industrial Measurements	13.0	10.7	21	10.7
Total	119.2	145.0	-18	124.8

At the end of September 2018, Vaisala's order book was EUR 119.2 (145.0) million and decreased by 18% compared to previous year. Order book decreased in all geographic areas following low order intake and high deliveries in Weather and Environment Business Area. EUR 59.5 (66.1) million of the order book is scheduled to be delivered in 2018. If the current revenue recognition standard had been used in previous year, the September 30, 2017 order book would have been EUR 10 million lower than reported. Hence, Vaisala's September 30, 2018 order book would have decreased by 12% compared to previous year.

At the end of September 2018, Weather and Environment Business Area's order book was EUR 106.3 (134.3) million and decreased by 21% compared to previous year. Order book decreased in all regions following low order intake and high deliveries. EUR 50.3 (57.7) million of the order book is scheduled to be delivered in 2018. If the current revenue recognition standard had been used in previous year, the September 30, 2017 order book would have been EUR 10 million lower than reported. Hence, September 30, 2018 order book would have decreased by 14% compared to previous year.

At the end of September 2018, Industrial Measurements Business Area's order book was EUR 13.0 (10.7) million and increased by 21% compared to previous year. Order book increased in all regions. EUR 9.2 (8.4) million of the order book is scheduled to be delivered in 2018.

Net sales by business area

EUR million	7-9/2018	7-9/2017	Change, %	Change, % comparable rates	2017
Weather and Environment	54.6	58.3	-6	-6	222.2
Products	32.5	29.7	10		112.0
Projects	13.5	21.7	-38		76.4
Services	8.5	6.9	24		33.8
Industrial Measurements	29.5	28.8	2	3	110.3
Products	26.7	25.9	3		98.7
Services	2.8	2.9	-4		11.6
Total	84.1	87.1	-3	-3	332.6

Net sales by geographical area

EUR million	7-9/2018	7-9/2017	Change, %	2017
EMEA	24.4	29.6	-18	107.7
Americas	33.6	31.7	6	127.3
APAC	26.0	25.8	1	97.5
Total	84.1	87.1	-3	332.6

In the third quarter 2018, Vaisala's net sales decreased by 3% compared to previous year and totaled EUR 84.1 (87.1) million. Weather and Environment Business Area's project business net sales decreased due to timing of project deliveries. At comparable exchange rates, decrease would have been the same 3% compared to previous year. If the current revenue recognition standard had been used in previous year, the third quarter 2017 net sales would have been EUR 3.1 million lower than reported. Hence, Vaisala's third quarter 2018 net sales would have been flat compared to previous year.

Net sales in EMEA decreased by 18% compared to previous year and were EUR 24.4 (29.6) million following timing of project deliveries in Weather and Environment Business Area. In Americas, net sales were EUR 33.6 (31.7) million and increased by 6%. Increase came mainly from meteorology business. In APAC, net sales were at comparison period's level and totaled EUR 26.0 (25.8) million.

In the third quarter 2018, Weather and Environment Business Area's net sales decreased by 6% compared to previous year and were EUR 54.6 (58.3) million. Project business net sales decreased due to timing of project deliveries. At comparable exchange rates, decrease would have been the same 6% compared to previous year. If the current revenue recognition standard had been used in previous year, the third quarter 2017 net sales would have been EUR 3.1 million lower than reported. Hence, third quarter 2018 net sales would have decreased by 1% compared to previous year.

In the third quarter 2018, Industrial Measurements Business Area's net sales increased by 2% compared to previous year and totaled EUR 29.5 (28.8) million. Net sales increased in APAC and Americas. In absolute terms, instrument and continuous monitoring system deliveries increased. Power transmission deliveries

grew, but were still modest. At comparable exchange rates, net sales would have increased by EUR 0.9 million or 3% compared to previous year.

Gross margin and operating result

	7-9/2018	7-9/2017	2017
Gross margin, %	55.9	52.8	52.3
Weather and Environment	52.2	47.1	47.3
Industrial Measurements	63.0	64.2	62.4
Operating result, EUR million	14.5	14.7	40.9
Weather and Environment	7.5	7.1	18.2
Industrial Measurements	7.7	8.3	22.8
Other	-0.7	-0.8	-0.2
Operating result, %	17.3	16.9	12.3
Weather and Environment	13.7	12.3	8.2
Industrial Measurements	26.1	29.0	20.7

In the third quarter 2018, Vaisala's operating result decreased slightly and was EUR 14.5 (14.7) million, 17.3 (16.9) % of net sales. Gross margin increased to 55.9 (52.8) %. This was a result of improved profitability in project and services businesses in Weather and Environment Business Area. Operating expenses increased by 7% compared to previous year and totaled EUR 32.5 (30.5) million. Increase came mainly from R&D expenses according to plan as well as costs related to Leosphere acquisition.

In the third quarter 2018, Weather and Environment Business Area's operating result increased mainly due to improved gross margin and was EUR 7.5 (7.1) million, 13.7 (12.3) % of net sales. Gross margin increased to 52.2 (47.1) %. This was a result of improved profitability in project and services businesses. Operating expenses increased by 3% compared to previous year and totaled EUR 21.0 (20.4) million. Increase came mainly from R&D expenses according to plan.

In the third quarter 2018, Industrial Measurements Business Area's operating result decreased due to increase in operating expenses and was EUR 7.7 (8.3) million, 26.1 (29.0) % of net sales. Gross margin was 63.0 (64.2) %. Operating expenses increased by 7% compared to previous year and totaled EUR 10.9 (10.1) million. Increase came mainly from R&D expenses according to plan.

In the third quarter 2018, financial income and expenses were EUR -0.5 (-0.9) million. This was mainly a result of valuation of USD denominated receivables.

In the third quarter 2018, result before taxes was EUR 14.0 (13.8) million. Income taxes were EUR -3.3 (-3.2) million. Result for the period was EUR 10.7 (10.6) million and earnings per share EUR 0.30 (0.30).

January–September 2018

Orders received

EUR million	1-9/2018	1-9/2017	Change, %	Change, % comparable rate	2017
Weather and Environment	147.3	177.6	-17	-14	233.0
Industrial Measurements	87.7	85.3	3	8	113.3
Total	235.0	262.9	-11	-7	346.3

In January–September 2018, Vaisala’s orders received decreased by 11% compared to previous year and were EUR 235.0 (262.9) million. Orders increased in APAC in Industrial Measurements Business Area and decreased in all regions in Weather and Environment Business Area. At comparable exchange rates, orders received would have decreased by 7% compared to previous year. The negative exchange rate effect was mainly caused by USD exchange rate depreciation against EUR, particularly during the first half of the year.

In January–September 2018, Weather and Environment Business Area’s orders received decreased by 17% compared to previous year and were EUR 147.3 (177.6) million. Orders decreased in all regions and mainly in project business. At comparable exchange rates, orders received would have decreased by 14% compared to previous year. The negative exchange rate effect was mainly caused by USD exchange rate depreciation against EUR, particularly during the first half of the year.

In January–September 2018, Industrial Measurements Business Area’s orders received increased by 3% compared to previous year and were EUR 87.7 (85.3) million. Increase came mainly from instrument orders in APAC. At comparable exchange rates, orders received would have increased by 8% compared to previous year. The negative exchange rate effect was mainly caused by USD exchange rate depreciation against EUR, particularly during the first half of the year.

Order book

EUR million	Sep 30, 2018	Sep 30, 2017	Change, %	Dec 31, 2017
Weather and Environment	106.3	134.3	-21	114.1
Industrial Measurements	13.0	10.7	21	10.7
Total	119.2	145.0	-18	124.8

At the end of September 2018, Vaisala’s order book was EUR 119.2 (145.0) million and decreased by 18% compared to previous year. Order book decreased in all geographic areas following low order intake and high deliveries in Weather and Environment Business Area. EUR 59.5 (66.1) million of the order book is scheduled to be delivered in 2018. If the current revenue recognition standard had been used in previous year, the September 30, 2017 order book would have been EUR 10 million lower than reported. Hence, Vaisala’s September 30, 2018 order book would have decreased by 12% compared to previous year.

At the end of September 2018, Weather and Environment Business Area’s order book was EUR 106.3 (134.3) million and decreased by 21% compared to previous year. Order book decreased in all regions following low order intake and high deliveries. EUR 50.3 (57.7) million of the order book is scheduled to be delivered in 2018. If the current revenue recognition standard had been used in previous year, the September 30, 2017 order book would have been EUR 10 million lower than reported. Hence, September 30, 2018 order book would have decreased by 14% compared to previous year.

At the end of September 2018, Industrial Measurements Business Area's order book was EUR 13.0 (10.7) million and increased by 21% compared to previous year. Order book increased in all regions. EUR 9.2 (8.4) million of the order book is scheduled to be delivered in 2018.

Net sales by business area

EUR million	1-9/2018	1-9/2017	Change, %	Change, % comparable rates	2017
Weather and Environment	154.7	147.9	5	8	222.2
Products	79.0	80.2	-1		112.0
Projects	50.9	43.7	16		76.4
Services	24.8	24.0	3		33.8
Industrial Measurements	85.8	82.4	4	9	110.3
Products	77.3	73.7	5		98.7
Services	8.5	8.7	-2		11.6
Total	240.5	230.3	4	8	332.6

Net sales by geographical area

EUR million	1-9/2018	1-9/2017	Change, %	2017
EMEA	70.0	71.5	-2	107.7
Americas	96.7	91.1	6	127.3
APAC	73.9	67.7	9	97.5
Total	240.5	230.3	4	332.6

In January–September 2018, Vaisala's net sales increased by 4% compared to previous year and totaled EUR 240.5 (230.3) million. Operations outside Finland accounted for 98 (98) % of net sales. Net sales increased in Americas and APAC and in both business areas. At comparable exchange rates, net sales would have increased by 8% compared to previous year. The negative exchange rate effect was mainly caused by USD exchange rate depreciation against EUR. If the current revenue recognition standard had been used in previous year, the January–September 2017 net sales would have been EUR 4.8 million higher than reported. Hence, Vaisala's January–September 2018 net sales would have increased by 2% compared to previous year.

Net sales in EMEA were EUR 70.0 (71.5) million and decreased by 2%. Net sales decreased in Weather and Environment Business Area's project business. In the Americas, net sales increased by 6% to EUR 96.7 (91.1) million following growth in Weather and Environment Business Area's project business in Latin America. In APAC, net sales increased by 9% to EUR 73.9 (67.7) million as a result of strong growth in Industrial Measurements Business Area and Weather and Environment Business Area's project business.

In January–September 2018, Weather and Environment Business Area's net sales increased by 5% compared to previous year and were EUR 154.7 (147.9) million. Net sales increased in project business supported by strong order book at the beginning of the year. At comparable exchange rates, net sales would have increased by 8% compared to previous year. The negative exchange rate effect was mainly caused by USD depreciation against EUR. If the current revenue recognition standard had been used in previous year, January–September 2017 net sales would have been EUR 4.8 million higher than reported. Hence, January–September 2018 net sales would have increased by 1% compared to previous year.

In January–September 2018, Industrial Measurements Business Area's net sales increased by 4% compared to previous year and totaled EUR 85.8 (82.4) million. Net sales increased mainly in instrument deliveries in APAC, whereas net sales in Americas declined due to depreciated USD. At comparable exchange rates, the net sales would have increased by EUR 7.5 million or 9% compared to previous year. The negative exchange rate effect was mainly caused by USD depreciation against EUR.

Gross margin and operating result

	1-9/2018	1-9/2017	2017
Gross margin, %	52.5	52.2	52.3
Weather and Environment	47.3	46.4	47.3
Industrial Measurements	62.0	62.8	62.4
Operating result, EUR million	24.9	22.4	40.9
Weather and Environment	7.2	4.2	18.2
Industrial Measurements	18.4	18.5	22.8
Other	-0.6	-0.3	-0.2
Operating result, %	10.4	9.7	12.3
Weather and Environment	4.6	2.8	8.2
Industrial Measurements	21.4	22.4	20.7

In January–September 2018, Vaisala's operating result increased and was EUR 24.9 (22.4) million, 10.4 (9.7) % of net sales. Net sales growth in both business areas improved operating result. Gross margin was 52.5 (52.2) %. Operating expenses increased by 4% compared to previous year and totaled EUR 101.9 (97.8) million. Increase came mainly from R&D expenses according to plan.

In January–September 2018, Weather and Environment Business Area's operating result increased to EUR 7.2 (4.2) million, 4.6 (2.8) % of net sales. Net sales growth and gross margin improvement resulted in improved operating result. Gross margin improved both in project and services businesses and was 47.3 (46.4) %. Operating expenses increased by 2% compared to previous year and totaled EUR 66.1 (64.7) million.

In January–September 2018, Industrial Measurements Business Area's operating result was at comparison period's level and totaled EUR 18.4 (18.5) million, 21.4 (22.4) % of net sales. Gross margin was 62.0 (62.8) % and decreased as a result of appreciated EUR. Operating expenses increased by 5% compared to previous year and totaled EUR 34.9 (33.3) million. Increase came mainly from R&D expenses according to plan.

In January–September 2018, financial income and expenses were EUR -1.4 (-2.3) million. This was mainly a result of valuation of USD denominated receivables.

In January–September 2018, result before taxes was EUR 23.5 (20.0) million. Income taxes were EUR -5.4 (-4.6) million. Result for the period was EUR 18.1 (15.4) million and earnings per share EUR 0.51 (0.43).

Statement of financial position and cash flow

Vaisala's financial position remained strong at the end of September 2018. Cash and cash equivalents decreased to EUR 62.6 (72.3) million mainly due to payment of EUR 17.8 million additional dividend. Vaisala did not have any material interest bearing liabilities.

Statement of financial position totaled to EUR 247.2 (251.7) million. The new revenue recognition standard resulted in lower level of inventories but correspondingly higher level of receivables.

In January–September 2018, Vaisala's cash flow from operating activities decreased to EUR 18.9 (26.2) million because of working capital development following low advance payments in project business. Dividend payment amounted to EUR 37.6 (17.8) million.

Capital expenditure

In January–September 2018, capital expenditure totaled EUR 10.3 (6.6) million. Capital expenditure was mainly related to investments in machinery and equipment to develop and maintain Vaisala's production and service operations as well as to building projects in Vantaa, Finland and Louisville, Colorado US. Depreciation, amortization and write-downs were EUR 6.5 (7.5) million.

In April, Vaisala announced plans to invest in an office building close to 3,000 m² in Louisville, Colorado US during the next two years. Following this project, Vaisala will exit the leased office building in the area. This building and refurbishing project is estimated to cost around EUR 12 million.

Research and development

R&D by business area

EUR million	1-9/2018	1-9/2017	Change, %	2017
Weather and Environment	21.1	20.2	4	27.0
Industrial Measurements	11.1	9.0	22	12.6
Total	32.1	29.2	10	39.6

R&D activity continued to increase according to plan in both business areas.

R&D expenditure % of net sales

	1-9/2018	1-9/2017	2017
Weather and Environment	13.6	13.6	12.1
Industrial Measurements	12.9	11.0	11.4
Total	13.4	12.7	11.9

Personnel

The average number of personnel employed in Vaisala during January–September 2018 was 1,644 (1,590). At the end of September, the number of employees was 1,643 (1,588). 70 (70) % of employees were located in EMEA, 21 (22) % in the Americas and 9 (9) % in APAC. 64 (63) % of employees were based in Finland.

Decisions by Vaisala Corporation's Annual General Meeting

Vaisala Corporation's Annual General Meeting was held on April 10, 2018. 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, 2017.

Dividend

The Annual General Meeting decided a dividend of EUR 1.10 per share. The record date for the dividend payment was April 12, 2018 and the payment date was April 19, 2018.

The Annual General Meeting decided an additional dividend of EUR 1.00 per share. The record date for the additional dividend payment was April 12, 2018 and the payment date was April 19, 2018.

Board of Directors

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

The Annual General Meeting confirmed that that the annual remuneration payable to the Chairman of the Board of Directors is EUR 45,000 and each Board member EUR 35,000 per year. Approximately 40% of the annual remuneration will be paid in Vaisala Corporation's series A shares acquired from the market and the rest in cash. In addition, the Annual General Meeting confirmed that the meeting fee for the Chairman of the Audit Committee will 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 2019. The meeting fees are paid in cash.

Auditor

The Annual General Meeting re-elected Deloitte 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.

Share issue without payment (share split) and amendment of Articles of Association

The Annual General Meeting resolved to issue new shares to the shareholders without payment in proportion to their holdings so that one (1) new share was issued for each share (split). The record date for share split was April 12, 2018. The new shares generated shareholder rights as of April 12, 2018. The new shares did not entitle their holders to the dividend payments as defined above.

The Annual General Meeting resolved to amend the § 3 of Articles of Association so that stipulations on minimum and maximum share capital were deleted.

Authorization for the directed repurchase of own A shares

The Annual General Meeting authorized the Board of Directors to resolve on the directed repurchase of a maximum of 400,000 of the company's own series A shares in one or more instalments by using company's unrestricted equity. This authorization is valid until the closing of the next Annual General Meeting, however, no longer than October 10, 2019, and it replaced the previous authorization for directed repurchase of own series A shares.

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

The Annual General Meeting authorized the Board of Directors to resolve on the issuance of a maximum of 1,046,636 company's own series 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 April 10, 2023, and it replaced the previous authorization for issuance of own series A shares.

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 Petri Castrén and Mikko Niinivaara 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 September 30, 2018. The 2018 Annual General meeting resolved to issue new shares to the shareholders without payment in proportion to their holding so that one (1) new share was issued for each share (split). The record date for the share split was April 12, 2018 and the share split was registered into the trade register on April 12, 2018. New shares were issued on April 13, 2018. Following this share split, Vaisala has 36,436,728 shares, of which 6,778,662 are series K shares and 29,658,066 series A shares. 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–September 2018, a total of 2,220,498 series A shares with a value totaling EUR 58.5 million were traded on the Nasdaq Helsinki Ltd. The closing price of the series A share on the Nasdaq Helsinki stock exchange was EUR 18.60. Shares registered a high of EUR 23.90 and a low of EUR 18.00. Volume-weighted average share price was EUR 21.06.

The market value of series A shares on September 30, 2018 was EUR 539.6 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 September, the total market value of all the series A and series K shares together was EUR 665.7 million, excluding company's treasury shares.

Treasury shares and their authorizations

The Annual General Meeting held on March 28, 2017, authorized the Board of Directors to decide on the issuance of a maximum of 568,344 company's own series A shares. This authorization was valid until the closing of the Annual General Meeting held on April 10, 2018.

In February 2018, the Board of Directors decided to transfer shares under this authorization. In March, a total of 49,046 company's series A shares were transferred to the 28 key employees participating on the Share-based incentive plan 2015 and Restricted share-based incentive plan 2016 under the terms and conditions of the plans.

At the end of September 2018, Vaisala held a total of 646,636 company's series A shares, which represented 2.2% of all series A shares and 1.8% of all shares.

Shareholders

At the end of September 2018, Vaisala Corporation had 8,435 (7,768) registered shareholders. Ownership outside of Finland and nominee registrations represented 16.3 (15.7) % of the company's shares. Households owned 40.4 (40.1) %, private companies 13.9 (14.9) %, financial and insurance institutions 14.3 (13.1) %, non-profit organizations 11.1 (11.2) % and public sector organizations owned 4.0 (5.0) %.

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

Near-term risks and uncertainties

Uncertainties in international trade policies, 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 postpone 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, and digital solutions, 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.

Events after reporting period

Mari Heusala, M.Sc. (Economy), (b. 1966), was appointed Executive Vice President, Human Resources. She will be a member of the Vaisala Management Group and report to President and CEO Kjell Forsén. Mari Heusala will start in her position January 7, 2019. Marja Happonen, current Senior Vice President, Human Resources, will retire during spring 2019.

On October 4, 2018 Vaisala announced that it acquires all the shares in Leosphere SAS, a French company specializing in developing, manufacturing and servicing turnkey wind lidar (light detection and ranging) instruments for wind energy, aviation, meteorology, and air quality customer segments for a purchase price (cash and debt free) of EUR 38 million. Acquisition was financed partly with cash and partly with interest-bearing debt. Leosphere's net sales in 2017 amounted to EUR 27 million and its net operating income margin reached 15%. Vaisala will report Leosphere results as part of Weather and Environment Business Area's financial results as of October 11, 2018.

On October 5, 2018 Vaisala signed a EUR 50 million unsecured revolving credit facility with one of its core banks. The committed credit facility matures 5 years from the signing date and it has no financial covenants. The facility will be used for working capital needs, for financing of acquisitions and for general corporate purposes. On October 23, 2018, EUR 40 million of the revolving credit facility was utilized.

Market outlook 2018

Market for traditional weather observation solutions is expected to be flat. Demand for weather observation solutions is expected to improve in Americas. In Asia-Pacific, Middle East and Africa region demand is expected to be stable whereas in Europe and especially in China demand is expected to decline moderately compared to strong 2017. Demand for digital solutions is expected to improve moderately or be flat compared to previous year.

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 full-year net sales, assuming they remain at the end of September level.

Business outlook for 2018

Vaisala estimates its full-year 2018 net sales to be in the range of EUR 340–360 million and its operating result (EBIT) to be in the range of EUR 30–36 million.

Financial calendar 2019

Financial Statements Release 2018, February 12, 2019

Annual Review 2018, by the end of week 9

Interim Report January–March 2019, April 24, 2019

Half Year Financial Report 2019, July 19, 2019

Interim Report January–September 2019, October 24, 2019

Vantaa, November 28, 2018

Vaisala Corporation
President and CEO

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 interim report has been prepared in accordance with IAS 34, *Interim Financial Reporting*, following the same accounting policies and principles as in the annual financial statements for 2017. All figures in the interim 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 the interim report, actual results may differ from the estimates. This interim financial report is unaudited.

New and amended IFRS standards

As of January 1, 2018 Vaisala has adopted following new standards and interpretations issued by IASB.

Amendments to IFRS 2 *Share-based Payments*

Amendments to IFRS 2 *Share-based Payment* include the following changes:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
 - a) the original liability is derecognized;
 - b) the equity-settled share-based payment is recognized at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
 - c) any difference between the carrying amount of the liability at the modification date and the amount recognized in equity should be recognized in profit or loss immediately.

Following this change, Vaisala has adjusted other reserves in equity by EUR 3.9 million and trade and other payables EUR -3.9 million. Vaisala has specified IFRS 2 opening balance sheet adjustments in this Interim Report. Figures in the comparison period have not been restated retrospectively.

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* introduced new requirements for the classification and measurement of financial assets. In summary, it includes a revised guidance on the classification and measurement of financial assets, new general hedge accounting requirements and a new expected credit loss model for calculating impairment on financial assets. Furthermore, IFRS 9 requires disclosures.

Vaisala does not have significant amounts of financial instruments except customer receivables and foreign currency forwards. Vaisala does not apply hedge accounting as defined by IFRS.

Vaisala applies the simplified approach to recognize lifetime expected credit losses for its trade receivables and amounts due from customers under long-term projects as required or permitted by IFRS 9. In general, the application of the expected credit loss model of IFRS 9 results in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognized for these items. Following this, Vaisala has made an adjustment of EUR -0.2 million in retained earnings and trade and other receivables as at January 1, 2018. IFRS 9 transition did not affect income taxes materially. Figures in the comparison periods have not been restated retrospectively.

IFRS 15 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 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations. 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 has adopted IFRS 15 *Revenue from contracts with customers* as at January 1, 2018. IFRS 15 affected 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 during financial year 2017 and EUR 65 million during financial year 2016. The major changes in project revenue recognition takes 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. In the financial year 2018, Vaisala recognizes revenue for integrated projects using percentage of completion method. 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.

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 in 2017, Vaisala recognizes revenue of product deliveries based on delivery terms, and revenue of services when benefits are rendered to customers in the financial year 2018 and onwards. 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.

Vaisala financial reporting and transition

Under IFRS 15, January–December 2017 net sales would have been EUR 4 million lower and order book would have cumulatively been EUR 1 million lower compared to accounting principles applied in financial year 2017. This was due to earlier timing of revenue recognition. Revenue recognition method in financial year 2017 also resulted in seasonality where revenue in third and especially in fourth quarter of a year were typically high. Adopting IFRS 15 results flatter revenue between quarters as the concrete project completion takes place more evenly throughout a year.

Vaisala applies cumulative method in transition, which means that open contracts are recognized according to IFRS 15 as at January 1, 2018, but revenue or profit of completed projects were not adjusted retrospectively. Following this, Vaisala has made an adjustment of EUR 0.3 million in retained earnings as at January 1, 2018. In addition, in the statement of financial position trade and other receivables EUR 2.8 million, inventories EUR -2.6 million, trade and other payables EUR -0.2 million and income tax liabilities EUR 0.1 million were adjusted following the IFRS 15 adoption. Figures in the comparison periods have not been restated retrospectively.

Consolidated Statement of Income

EUR million	7-9/2018	7-9/2017	1-9/2018	1-9/2017	1-12/2017
Net sales	84.1	87.1	240.5	230.3	332.6
Cost of sales	-37.0	-41.1	-114.2	-110.0	-158.5
Gross profit	47.0	46.0	126.3	120.3	174.0
Sales, marketing and administrative costs	-22.5	-21.9	-69.7	-68.6	-93.7
Research and development costs	-10.0	-8.6	-32.1	-29.2	-39.6
Other operating income and expense	0.0	-0.8	0.5	-0.2	0.1
Operating result	14.5	14.7	24.9	22.4	40.9
Share of result in associated company	-	-	-	-	0.1
Financial income and expenses, net	-0.5	-0.9	-1.4	-2.3	-2.8
Result before taxes	14.0	13.8	23.5	20.0	38.1
Income taxes	-3.3	-3.2	-5.4	-4.6	-10.9
Result for the period	10.7	10.6	18.1	15.4	27.2
Earnings per share, EUR	0.30	0.30	0.51	0.43	0.76
Diluted earnings per share, EUR	0.30	0.29	0.50	0.43	0.75

Consolidated Statement of Comprehensive Income

EUR million	7-9/2018	7-9/2017	1-9/2018	1-9/2017	1-12/2017
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	0.0
Total	0.0	0.0	0.0	0.0	0.0
Items that may be reclassified subsequently to profit or loss					
Currency translation differences	0.0	-0.7	0.7	-2.8	-3.2
Total	0.0	-0.7	0.7	-2.8	-3.2
Total other comprehensive income	0.0	-0.7	0.7	-2.8	-3.2
Total comprehensive income	10.8	9.8	18.8	12.7	24.1

Consolidated Statement of Financial Position

EUR million

Assets	Sep 30, 2018	Sep 30, 2017	Dec 31, 2017
Non-current assets			
Intangible assets	20.7	17.0	20.6
Property, plant and equipment	44.8	40.5	40.4
Investments	0.1	0.1	0.1
Investment in associated companies	0.8	0.7	0.9
Long-term receivables	0.7	0.7	0.7
Deferred tax assets	7.9	10.4	7.6
Total non-current assets	75.1	69.4	70.3
Current assets			
Inventories	27.7	35.5	28.6
Trade and other receivables	79.8	72.3	83.1
Income tax receivables	2.0	2.1	0.5
Cash and cash equivalents	62.6	72.3	91.3
Total current assets	172.2	182.3	203.5
Total assets	247.2	251.7	273.8

Shareholders' equity and liabilities	Sep 30, 2018	Sep 30, 2017	Dec 31, 2017
Shareholders' equity			
Share capital	7.7	7.7	7.7
Other reserves	5.2	2.4	3.0
Cumulative translation adjustment	0.5	0.2	-0.2
Treasury shares	-9.0	-10.1	-10.1
Retained earnings	165.7	173.3	185.1
Total shareholders' equity	170.1	173.5	185.4
Non-current liabilities			
Interest-bearing liabilities	0.0	-	-
Post-employment benefit obligations	2.6	2.4	2.5
Deferred tax liabilities	0.4	0.0	0.5
Provisions for other liabilities and charges	0.2	0.1	0.2
Other long-term liabilities	1.9	1.3	2.7
Total non-current liabilities	5.1	3.8	5.8
Current liabilities			
Interest-bearing liabilities	0.0	0.0	-
Unbilled advances received	4.3	4.8	4.6
Income tax liabilities	2.0	0.8	1.4
Provisions for other liabilities and charges	1.5	1.7	1.3
Trade and other payables	64.2	67.0	75.3
Total current liabilities	72.0	74.4	82.5
Total liabilities	77.1	78.2	88.4
Total shareholders' equity and liabilities	247.2	251.7	273.8

Consolidated Statement of Changes in Shareholders' Equity

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					15.4	15.4
Other comprehensive income		-0.0		-2.7		-2.8
Dividend paid					-17.8	-17.8
Return of unpaid dividends to shareholders' equity					0.1	0.1
Purchase of treasury shares			-0.8			-0.8
Share-based payments		0.5	0.3			0.8
Balance at Sep 30, 2017	7.7	2.4	-10.1	0.2	173.3	173.5

EUR million	Share capital	Other reserves	Treasury shares	Translation adjustment	Retained earnings	Total
Balance at Dec 31, 2017	7.7	3.0	-10.1	-0.2	185.1	185.4
Adjustments to opening balance						
IFRS 2 amendment		3.9				3.9
IFRS 9					-0.2	-0.2
IFRS 15					0.3	0.3
Balance at Jan 1, 2018	7.7	6.8	-10.1	-0.2	185.2	189.3
Result for the period					18.1	18.1
Other comprehensive income		-0.0		0.7		0.7
Dividend paid					-37.6	-37.6
Share-based payments		-1.6	1.1			-0.5
Balance at Sep 30, 2018	7.7	5.2	-9.0	0.5	165.7	170.1

Consolidated Cash Flow Statement

EUR million	1-9/2018	1-9/2017	1-12/2017
Cash flows from operating activities			
Cash receipts from customers	244.5	242.1	330.6
Cash paid to suppliers and employees	-219.2	-207.9	-272.6
Financials paid, net	-0.1	-2.5	-1.8
Income taxes paid, net	-6.3	-5.5	-7.1
Cash flow from operating activities	18.9	26.2	49.2
Cash flows from investing activities			
Acquisitions	-	-	-2.0
Capital expenditure on fixed assets	-10.3	-6.6	-8.5
Divestments	0.1	0.2	0.3
Cash flow from investing activities	-10.2	-6.3	-10.2
Cash flows from financing activities			
Dividends paid	-37.6	-17.8	-17.9
Purchase of treasury shares	-	-0.8	-0.8
Change in loan receivables	0.1	0.0	0.0
Change in leasing liabilities	0.0	0.0	0.0
Cash flow from financing activities	-37.4	-18.6	-18.6
Change in cash and cash equivalents increase (+) / decrease (-)	-28.8	1.2	20.4
Cash and cash equivalents at the beginning of period	91.3	72.4	72.4
Net increase (+) / decrease (-) in cash and cash equivalents	-28.8	1.2	20.4
Effect from changes in exchange rates	0.2	-1.4	-1.5
Cash and cash equivalents at the end of period	62.6	72.3	91.3

Notes for Report

Orders Received by Business Area

EUR million	7-9/2018	7-9/2017	1-9/2018	1-9/2017	1-12/2017
Weather and Environment	48.7	72.5	147.3	177.6	233.0
Industrial Measurements	28.1	27.6	87.7	85.3	113.3
Total	76.8	100.1	235.0	262.9	346.3

Net Sales by Business Area

EUR million	7-9/2018	7-9/2017	1-9/2018	1-9/2017	1-12/2017
Weather and Environment					
Products	32.5	29.7	79.0	80.2	112.0
Projects	13.5	21.7	50.9	43.7	76.4
Services	8.5	6.9	24.8	24.0	33.8
Total	54.6	58.3	154.7	147.9	222.2
Industrial Measurements					
Products	26.7	25.9	77.3	73.7	98.7
Services	2.8	2.9	8.5	8.7	11.6
Total	29.5	28.8	85.8	82.4	110.3
Sales, Other	0.0	0.0	0.0	0.0	0.0
Total Sales	84.1	87.1	240.5	230.3	332.6

Operating Result by Business Area

EUR million	7-9/2018	7-9/2017	1-9/2018	1-9/2017	1-12/2017
Weather and Environment	7.5	7.1	7.2	4.2	18.2
Industrial Measurements	7.7	8.3	18.4	18.5	22.8
Other	-0.7	-0.8	-0.6	-0.3	-0.2
Total	14.5	14.7	24.9	22.4	40.9

Net Sales by Geographical Area

EUR million	7-9/2018	7-9/2017	1-9/2018	1-9/2017	1-12/2017
EMEA	24.4	29.6	70.0	71.5	107.7
Americas	33.6	31.7	96.7	91.1	127.3
APAC	26.0	25.8	73.9	67.7	97.5
Total	84.1	87.1	240.5	230.3	332.6

Personnel					
	7-9/2018	7-9/2017	1-9/2018	1-9/2017	1-12/2017
Average personnel	1,656	1,606	1,644	1,590	1,592
Personnel at the end of period	1,643	1,588	1,643	1,588	1,608

Financial Instruments					
			Sep 30, 2018	Sep 30, 2017	Dec 31, 2017
Nominal value of financial derivatives, EUR million			35.0	39.8	38.8
Fair values of financial derivatives, assets, EUR million			0.2	2.5	1.5
Fair values of financial derivatives, liabilities, EUR million			1.3	0.4	0.3

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					
	7-9/2018	7-9/2017	1-9/2018	1-9/2017	1-12/2017
Number of shares outstanding, thousand	35,790	17,846	35,790	17,846	17,846
Number of treasury shares, thousand	647	372	647	372	372
Number of shares, weighted average, diluted, thousand	36,353	18,146	36,329	18,146	18,176
Number of shares, weighted average, thousand	35,790	17,847	35,766	17,847	17,847
Number of shares traded, thousand	673	622	2,220	1,751	2,149
Share price, highest, EUR	23.90	22.61	23.90	24.28	24.45
Share price, lowest, EUR	18.00	19.14	18.00	15.94	15.94

Key Ratios					
	7-9/2018	7-9/2017	1-9/2018	1-9/2017	1-12/2017
Earnings per share, EUR	0.30	0.30	0.51	0.43	0.76
Diluted earnings per share, EUR	0.30	0.29	0.50	0.43	0.75
Equity per share, EUR			4.75	4.86	5.19
Return on equity, %			13.6	11.7	15.0
Cash flow from operating activities per share, EUR	0.30	0.42	0.53	0.73	1.38
Solvency ratio, %			70.0	70.3	68.9

The share issue without payment approved by Vaisala's Annual General Meeting on April 10, 2018 increased the total number of series K shares to 6,778,662 and series A shares to 29,658,066. The share related figures in the comparison periods have been adjusted to reflect the increased number of shares.

Further information

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Vaisala is a global leader in environmental and industrial measurement. Building on over 80 years of experience, Vaisala provides observations for a better world. We are a reliable partner for customers around the world, offering a comprehensive range of innovative observation and measurement products and services. Headquartered in Finland, Vaisala employs approximately 1,600 professionals worldwide and is listed on the Nasdaq Helsinki stock exchange. www.vaisala.com www.twitter.com/VaisalaGroup