Observations for a Better World

VAISALA

ANNUAL REPORT 2017

ABOUT THIS REPORT

Vaisala believes in a world where environmental and industrial observations improve the safety, efficiency, and quality of life in societies. This Vaisala annual report is the second one to apply the International <IR> Framework and the first one to integrate value creation, sustainability, financial statements, risk management, and corporate governance into one coherent report. Vaisala has published standalone sustainability reports since 2008.

This report also caters to those who gather data from GRI (Global Reporting Initiative) reports. You can find a GRI cross-reference at the end of this report together with an Independent Assurance Report.

Disclosure of non-financial information in accordance with Finnish Accounting Act chapter 3 a is presented in the Annual Report's sections Business Model, Dashboard, Environment and Social Responsibility.

How to navigate this report

Read more about this topic on the web.

Read more about this topic in this report.

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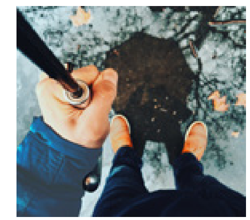
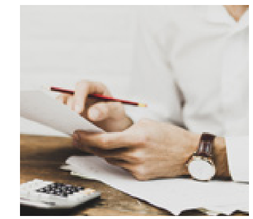
Cover image: Hurricane Harvey 2017 was the costliest tropical cyclone yet on record, inflicting more than USD 125 billion in damages.





VAISALA IN BRIEF

Vaisala is a global leader in environmental and industrial measurements. 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.

Key figures for 2017

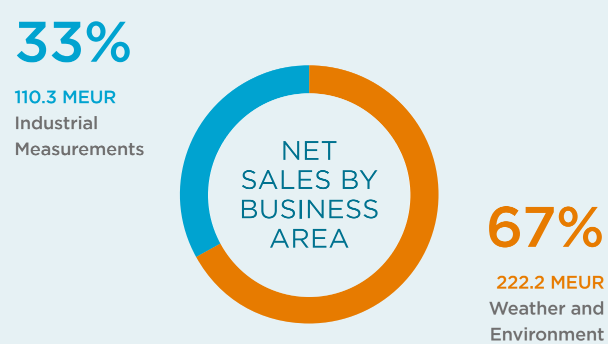
332.6 MEUR Net sales / **40.9 MEUR** Operating result / **1,600+** Employees / **30+** Offices / **17** Countries

Business areas

WEATHER AND ENVIRONMENT

Weather and Environment Business Area serves selected weather-dependent markets where accurate, real-time, uninterrupted, and reliable weather data is essential to run efficient operations.

Customer segments: Meteorology, Ground Transportation, Aviation, Renewable Energy, and Ambient Air Quality.



INDUSTRIAL MEASUREMENTS

Industrial Measurements Business Area serves industrial customers in life science, power transmission, and targeted industrial applications. It offers a broad range of measurement instruments to ensure operational quality and productivity.

Customer segments: High-end Humidity, High-end Carbon Dioxide, Power Transmission, and Life Science.

OUR YEAR

/ Chairman's Message

BUILDING CAPABILITIES FOR SEVERE WEATHER

In 2017, we saw plenty of extreme weather conditions around the world, with hurricanes and floods.

For Vaisala, they are a reminder of how important our work is. Without the data from our equipment, weather forecasts would not be as reliable as they are. And observations are needed every day – you cannot measure yesterday's temperature today.

In severe weather, reliable forecasts can be a matter of life and death. Even when this is not the case, we help secure air and sea traffic, and make people's lives safer and healthier.

This is a big responsibility. It spurs us on to develop our share of new answers to the global problems we face.

Our know-how has been built over eight decades. Finland, turning 100, and Vaisala have shared some major milestones.

Radiosondes, used primarily as research devices, showed their value during World War II, with continued demand for increasingly accurate weather forecasts. Vilho Väisälä realized radiosondes had to be mass-produced and built a new factory in 1944, having founded Vaisala in 1936.

We have operated on the global market from the start, but the 1952 Olympic Games in Helsinki gave us a new boost. The first Finnish airport meeting international standards was built then, so Vaisala moved its operations near to the new gate to worldwide markets.

Vaisala also owes a great deal to the investments Finland has made in education and technology. In our technology-friendly atmosphere, scores of engineers have been trained, always willing to face challenges and create new solutions.

A good example is the development of our humidity sensor in the 1970s. Today, it is still a market leader, paving the way for the bleeding edge sensor technology behind Vaisala's technological leadership in industrial measurements.

Our mission has always been to give back and support academic research and education. We work hard to foster this innovation-friendly climate and keep Vaisala a showcase of Finnish high technology.

Raimo Voipio

Raimo Voipio
Chairman of the Board of Directors

Our know-how has been built over eight decades. Finland, turning 100, and Vaisala have shared some major milestones.

HIGHLIGHTS – A YEAR IN OBSERVATIONS

2017

Q1

Launched Indigo 201, a new transmitter for Vaisala's carbon dioxide probes.

Read more
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Q1

Donated a C-band radar to Colorado State University (CSU), affording researchers and students with the opportunity to further explore extreme weather.

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Q1

Launched SP-12 Solar Weather Station, which provides all of the instrumentation required by solar project developers and operators.

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Q1

Doubled the manufacturing capacity of the Triton Wind Profiler to meet increasing demand in the growing wind industry in the United States.

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Q2

Support to U.S. National Weather Service's (NWS) severe and extreme weather forecasts and research through a 5-year, multimillion-dollar contract with National Oceanic and Atmospheric Administration (NOAA).

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Q2

Initiated a unique air quality network as part of the Helsinki Smart & Clean project. It is the first air quality monitoring system of such accuracy in the world to cover an entire city.

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Q2

Expanded business into a new area, vaporized hydrogen peroxide, used in bio-decontamination and sterilization.

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Q3

Announced the winners of its first ever Supplier of the Year awards in six different categories.

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Q3

Indian operations expanded to respond to the increasing demand in the local wind and solar sectors.

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Q3

Opened a hub in Nairobi, Kenya, responding to the growing demand for weather observation systems in the Eastern and Southern African market.

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Q3

U.S. National Weather Service (NWS) signed a deal for 11 AUTOSONDE sounding stations to Alaska.

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Q4

Acquired the Finnish IT company Vionice, specialized in computer vision and artificial intelligence.

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Q4

Opened a new office in Mexico City, which serves both Weather and Environment and Industrial Measurements businesses in Latin America.

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Q4

Announced a new modern office building and versatile laboratory facilities to be built at Vaisala's Head Office in Finland, housing 300 employees.

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Q4

Announced an air quality observation network to be built in Nanjing, China.

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Q4

Celebrating 100 years of Finland's independence, Vaisala took part in the TechLand exhibition in the Museum on Technology in Helsinki, Finland.

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2018

/ CEO's Message

INVESTING FOR GROWTH

In 2017 our net sales grew and profitability developed well providing a solid basis for continued strong investment in research and development. Innovation and technology leadership are cornerstones for Vaisala´s success and we keep advancing the art of environmental observations.

IMPLEMENTING OUR STRATEGY

In 2017 we expanded from weather observations to a broader addressable market by including air quality measurements as well. We are also implementing capacity building projects in the Bahamas and Vietnam to provide the necessary weather infrastructure and readiness in these areas where extreme weather events do occur.

In 2017, we also continued expanding our geographical reach by opening offices in Mexico City and Nairobi and investing in our distribution channels in Latin America, Asia-Pacific, and Europe. This has strengthened our promise to be closer to our customers.

We are continuously developing our operations in order to seize new opportunities. Our RunWay projects are a good example of this; with more flexible R&D processes mimicking agile start-up companies. They aim at simplifying and speeding up innovation and shortening the time to market for new products, making it easier to respond to changing needs on the market in an agile way.

The Vaisala Production System evolved further in 2017. We took steps to involve all our production employees in continuously improving our operations. We emphasized the importance of good workplace skills, and strived to harmonize our working methods. One of the outcomes was improved productivity in our manufacturing.

Moving forward, the combination of computer vision and artificial intelligence is one of the new technologies we are looking into. To increase our expertise, we acquired Vionice, a Finnish start-up, which specializes in computer vision and image processing. Their solution monitors the condition of roads with automated image sourcing and computer vision, with powerful artificial intelligence algorithms enabling pothole and crack detection, among other things.

MEGATRENDS PROVIDE US WITH OPPORTUNITIES

We are starting to see that increased awareness of climate change is bringing more business to Vaisala. We have been involved in extreme weather and hurricane research for a long time, but the recent weather-related catastrophes have raised awareness in many developing countries: they need to improve their meteorological forecasting capabilities. These countries are often vulnerable to weather, but do not have the infrastructure to track storms and warn their citizens of the approaching danger.

The construction of meteorological capabilities in Vietnam and the Bahamas addresses these real problems. To promote similar projects in Africa, we set up an office in Nairobi, Kenya. The local office, with permanent staff, will help us better understand the special needs of the area. Africa is, after all, one of the regions to suffer most from climate change.

Moreover, the megatrends of urbanization and health awareness have great potential for us. The air quality technology we acquired in 2016 was developed further and the first product was launched in 2017. The business is still in its infancy, but the market response has been very positive.

The air quality monitoring networks being set up in Helsinki and soon in Nanjing, China, are good examples of how we can help improve people's lives by providing them and the authorities with local information about air pollutants in their living area, route to work, and workplace.

As a high-end provider Vaisala Industrial Measurements benefitted from higher demands for monitoring of process conditions, quality and energy saving. Higher expectations from consumers and demands from regulators open up new opportunities to us as well.

Investments into renewable energy solutions and power transmission monitoring are paying off. In 2017, we had two firsts.

Our Triton Wind Profiler was used for the first time in the optimization of wind farm operations, to get more power out of it. This opens a new market for us, as earlier, the product was primarily used in wind resource assessment and wind farm design.

We continue to invest in our own development, and we have world-class partners in our customers, suppliers, and research associates.

The power transformer monitoring has a big potential for us. In 2017 we made the first commercial deliveries of equipment for online and real-time condition monitoring of power transformers to keep them operating safely and with maximum efficiency.

TAKING RISKS IS ESSENTIAL

Technological innovation is in our DNA, and we want and need to be at the cutting edge of development, to find new solutions to customer needs in demanding applications.

Taking risks and exploring new solutions is something we need to do, otherwise we could not call ourselves a true hi-tech company. To find new opportunities, we are scouting new business systematically, looking into measurement intensive growth industries that will benefit from megatrends. Circular economy is one approach that is providing us with new opportunities.

Megatrends support our business, we continue to invest in our own development, and we have world-class partners in our customers, suppliers, and research associates. All in all, our prospects for the future are bright.

Kjell Forsén
President and CEO

CREATING VALUE

/ Our Strategy

OBSERVATIONS FOR A BETTER WORLD

Across Vaisala, we build our customer value on reliability as well as excellence in science-based technology leadership and application expertise and engaged, talented people and robust partnerships.

WEATHER AND ENVIRONMENT

Growth through industry-leading offering and digital services

INDUSTRIAL MEASUREMENTS

Growth through product leadership

Vaisala Production System
Vaisala Operations drives excellence in high-mix, low-volume supply chain

We deliver value to our customers globally through three business models
Products | **Projects** | **Services**

Our Values Guide Us

Customer Focus
We strive for deep understanding of our customers' needs and aim at meeting them in everything we do.

Innovation and Renewal
We embrace pioneering innovation and drive change through continuous improvement and learning.

Strong Together
We excel by sharing, learning and working together with each other and our stakeholders.

Integrity
We are honest, respectful, and reliable. We promote sustainable and ethical behavior.

VAISALA'S BUSINESS MODEL

VAISALA
Observations for a Better World

Partners

- Key lead customers
- Meteorological institutes
- Distributors
- R&D partners
- Universities & research organizations
- Manufacturing partners
- Suppliers & sub-contractors

Activities

- R&D
- Sales & marketing
- Sensor production
- Manufacturing

Delivery models:

1. Product shipments,
2. System projects, including installations, testing, and training.
3. Services including calibration, maintenance, and digital solutions

Resources

- Application expertise
- Engaged & talented people
- Vaisala production system
- In-house cleanroom
- Science-based technology leadership
- Strong financial position

Value Propositions

Reliable, high quality measurements and observations for critical decision making, safety and efficiency.

Global technology and market leader in weather and industrial measurements

Excellence in high-mix, low-volume businesses

Solid dividend payer

Products and Technologies

Large product portfolio based on proprietary leading technologies.

Measurement sensors and instruments, systems, software, digital solutions, and services for measuring the weather, climate, and industrial conditions and processes.

6,000+ products

Thin-film humidity sensing, infrared gas sensing, optical weather sensing, and radio frequency technologies.

Sales Channels

Direct global sales:

- Sales force in **17** countries
- E-commerce

Distribution network

- Distributors and agents in **100+** countries
- Retailers

Customers in **150+** countries

Customer Segments

Wide customer base covering governmental and industrial customers

WEATHER AND ENVIRONMENT
Meteorology
Transportation
Renewable Energy
Ambient Air Quality

INDUSTRIAL MEASUREMENTS
High-end humidity
High-end carbon dioxide
Life science
Power transmission

Cost Structure

- R&D investment 11.9% of net sales
- Personnel costs EUR 129.9 million
- Material costs EUR 93.6 million
- Asset-light business model
- CAPEX EUR~10 million

Revenue Streams

Net sales EUR 332.6 million
EBIT EUR 40.9 million

Products: 63% of total sales
Projects: 23% of total sales
Services: 14% of total sales

EMEA 32%
Americas 38%
APAC 29%

VALUE CREATION MODEL

MEGATRENDS

Climate Change · Digitalization & Big Data · Urbanization · Renewable Energy · Future of Mobility · Resource Efficiency & Circular Economy · Improved Well-being & Health · Energy Efficiency · Sustainability Awareness

OUR FUNDAMENTALS

- Reliability
- Application Expertise
- Engaged & Talented People
- Vaisala Production System
- Science-Based Technology Leadership
- Partnerships
- Strong Financial Position

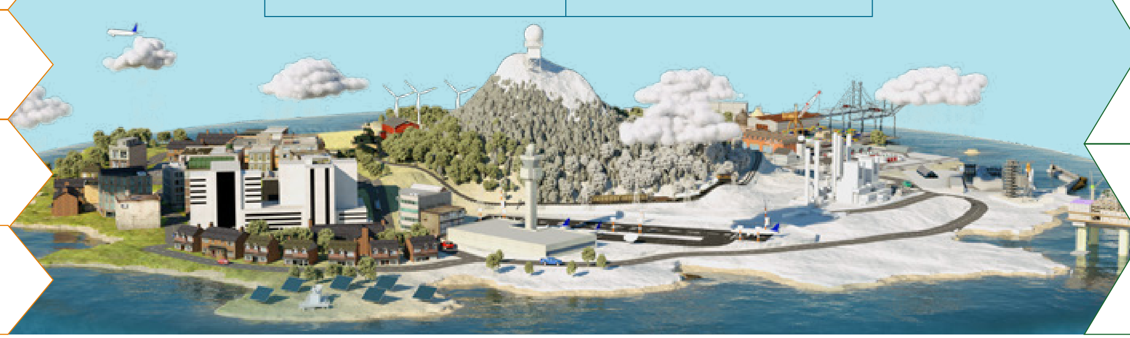
OUR MISSION

Observations for a Better World

VAISALA

Global Leader in Environmental and Industrial Measurement

Business Model



VALUE CREATED

Customers
Reliable Decisions
Productivity
Quality

Employees
Purposeful Work
Well-being
Learning

Society & Environment
Better Informed Societies
Economic Value
Safety

Investors
Responsible Returns

Net Positive

OUR VALUES

Customer Focus · Innovation and Renewal · Strong Together · Integrity

DASHBOARD

Our Fundamentals	Topic	Performance 2017	Target
Reliability Vaisala Production System Partnerships	Customer satisfaction	97.9% of customers were satisfied	Maintain
	On-time delivery accuracy	97.2%	98%
	Product failure rate, including warranty units	1.2%	Continuous reduction
	Suppliers scored for ESG-metrics, % of spend	87%	>90%
Engaged & Talented People	Employee Engagement Index	4.09/5	>4.00/5
	Learning Index	3.84/5	>4.00/5
	Total Recordable Injuries rate (TRI)	1.31 injuries per 1 million working hours	Continuous reduction
	Employees trained in Code of Conduct	97%	100%
Science-based Technology Leadership Application Expertise	R&D investments, % of net sales	11.9%	Maintain over 10% of net sales
Strong Financial Position	Net sales growth year-on-year	4.2%	5% growth year-on-year
	EBIT % of net sales	12.3%	15%
	Return on Equity (ROE)	15.0%	
	Earnings per Share (EPS), euros	1.52	
Net Positive	Carbon footprint, Scope 1–3	15,915 tonnes CO_2-e	Continuous reduction
	Carbon footprint reduction, Scope 1–2	-84% from 2014 baseline	>90% by 2020
	Waste recovery rate	98%	Maintain high ratio
	Renewable energy of Group consumption	94%, at year-end	100% by 2020

MEGATRENDS

We have identified several megatrends that affect and drive Vaisala's business. These transformational shifts provide both source for inspiration and opportunities for growth. We constantly assess markets and technologies to find new ways to engage with these megatrends.

CLIMATE CHANGE

Vaisala helps its customers to establish weather observation networks and build up capabilities that improve their capacity to assess, predict, and prepare for extreme weather. In addition, we support the scientific community in its efforts to increase knowledge of our changing climate and its impacts, by enabling them to observe our world as accurately as possible.

Our aim is to help nations to better understand their vulnerabilities and risks and become more resilient to climate change through state-of-the-art environmental observations and forecasting.

DIGITALIZATION & BIG DATA

Data gathered through Vaisala's weather observation platforms establishes the basis for decision-making by governmental organizations, research organizations, and the public. We deliver decision support by integrating observational data into applications via unified, connected services. We focus on meeting the expanding needs and requirements of users across multiple industries and application areas. This is especially true in transportation, air quality, renewable energy, and the power industry at large.

URBANIZATION

Vaisala provides reliable tools and technologies for measuring air quality, urban weather and microclimates, and traffic. This enables authorities, businesses, and the public to observe, react to, and mitigate the effects of weather.

From the viewpoint of industrial growth, we offer diverse and advanced technologies needed in environments that require precise and constant monitoring, e.g. hospitals, subways, and large manufacturing facilities.

RENEWABLE ENERGY

The selection of renewable energy sites must be based on verifiable local environmental conditions. Modeling future energy output from wind and solar production sites is a requirement for both investment decisions and achieving maximum energy output from the deployed assets.

Our predictive models and measurement technologies provide comprehensive information that facilitates sound investment decisions for wind and solar sites. Vaisala's energy assessment methodology reduces performance risk with accurate estimates of long-term energy production at a site, while our measurements and real-time power forecasting capabilities aid in determining and predicting power generation, which can vary significantly in the short term.

FUTURE OF MOBILITY

Vaisala provides solutions that help transportation authorities and operators ensure the safety and efficiency of road, rail, sea, and air transport.

Connected networks will collect and disseminate data and information between national and local observation and forecasting networks, to be delivered directly to vehicles.

Connected services will integrate weather data seamlessly into decision support systems and vehicle automation, increasing safety and efficiency of all modes of traffic.

RESOURCE EFFICIENCY & CIRCULAR ECONOMY

The purpose of Vaisala's industrial measurement solutions is to improve productivity, end-product quality and yield, and resource efficiency in industrial processes.

Our excellence in maintenance ensures a very long lifetime for our instruments and guarantees their and calibration services reliable operation in harsh environmental conditions.

Optimization of manufacturing processes and process control for material circulation require robust and high-quality measurement solutions; this performance is intrinsic to our instruments.

IMPROVED WELL-BEING & HEALTH

Technological advances make it possible to increase environmental monitoring of indoor conditions to secure people's health and well-being.

Vaisala's solutions safeguard and optimize living and working conditions inside buildings, laboratories, hospitals, incubators, and other environments where conditions are strictly controlled. They also help optimize the conditions in pharmaceutical manufacturing and supply chains, guaranteeing the safety of drugs we use.

Our high-end monitoring solutions provide the accuracy and stability required to monitor these critical environments reliably and continuously.

ENERGY EFFICIENCY

Vaisala's measurement technologies improve energy efficiency by optimizing the control of many industrial processes. We help customers in a multitude of energy intensive industries to reduce energy consumption as well as improve operations.

It is important to measure parameters like humidity, carbon dioxide and temperature in many sectors, such as Heating, Ventilation and Air-Conditioning (HVAC) automation and drying processes.

SUSTAINABILITY AWARENESS

Our responsibility does not stop at the factory door. We have been anticipating stricter requirements for and stronger commitment to sustainable business from customers, governments and the public for a long time, to be ready ahead of time.

In Vaisala's environmental observations business, trust, reliability, quality, respect, and sustainability are fundamental attributes that lay the foundation for our existence. We aim to be at the forefront of our industry, even in sustainability.

Moreover, we can achieve positive effects on society through our customers when they apply our solutions, which help them reach their own sustainability targets.

BUSINESS AREAS

Vaisala brings operational benefits to its customers through a wide offering of products and services. We have decades of experience in building instrumentation for assessment of weather related phenomena and the environmental conditions in industrial processes.

Weather and Environment

The Weather and Environment Business Area drives profitability and growth through expansion of industry-leading products and digital solutions.

WEATHER AND ENVIRONMENT STRATEGY

Industry leading products

Large system project capability

Digital solutions for weather critical operations

Selective expansion to environmental measurements

The 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 the spearhead.

PRODUCT CATEGORIES

- Radiosondes and sounding systems
- Pressure, humidity, multiweather
- Visibility, present weather
- Ceilometers
- Sodars
- Lightning sensors
- Road and aviation weather stations
- Weather radars
- Ambient air quality

Global Market Sizes and Growth

MEUR	Meteorology	Transportation	Renewable Energy	Ambient Air Quality
Market size*	450–500	300	325–375	150–200
Market growth p.a.	0%	0–5%	>10%	>5%
Vaisala market share 2017*	High	High	Low	Low
Market size total	**~ EUR 1.3 billion / ~20% market share**			

Market share indication: Low <10%, Mid 10–25%, High >25%

* Vaisala estimate of the size of market that is addressable currently or with organic development in the roadmaps

UNIQUE DIGITAL SOLUTIONS FOR

- Ground transportation
- Aviation
- Lightning
- Renewable energy

PARTNERS:

- Leading key customers
- Universities
- Research organizations
- Meteorological institutes
- Governmental organizations

GROWTH AND EXPANSION

Through industry-leading products, digital solutions, and expansion to environmental business.

1. Continue to strengthen our position as the provider of leading weather observation products
2. Drive success with large capacity building projects
3. Embrace digital transformation and grow digital solutions business
4. Develop new business in environmental measurement markets

Business Partner for Integrated Operational Value	Digital solutions
One Stop Shop Project House	Installation and integration
Reliable Measurement Technology	Hardware, software & basic services

/ Strategy Implementation in Weather and Environment

Building Better Societies

In 2017, Weather Business Area changed its name to Weather and Environment to reflect our expansion into new areas, like air quality monitoring. Having entered this market in late 2016, we have developed our air quality operations both technologically and commercially.

Air pollution is a huge problem leading to millions of premature deaths every year. Without reliable and extensive monitoring and modelling, the problem cannot be addressed efficiently. We provide the best small-scale devices for the construction of urban air quality monitoring networks, supplementing the sparse network of reference stations of today. But we can also build up the entire system. The first pilot will go live in Finland in 2018, and an agreement for one in Nanjing, China has been signed.

Weather-related capacity building in developing countries is another focus area. In 2017, strong hurricanes pounded the USA and the Caribbean and storms caused severe flooding in Asia. Protecting lives in these situations is directly linked to the ability to forecast severe weather. We deliver the infrastructure for making observations and managing the observation network and data. Together with the Finnish Meteorological Institute, we enhance the capabilities of local meteorologists to make forecasts and disseminate them to citizens. Our ongoing projects in the Bahamas and Vietnam are great examples of capacity building projects.

Air quality problems cannot be addressed without reliable and extensive measurements.

Jarkko Sairanen

EVP

Weather and Environment

As digitalization moves on, we intend to provide more support to stakeholders with weather-critical operations. With our software solutions, we provide lightning information to several industries globally; we also integrate our hosted software solutions into the decision-making processes of road authorities, aviation operations, and wind and solar energy stakeholders.

Looking ahead, urbanization and smart cities will offer us growth opportunities. Cities have micro-events that affect quality of life through heat, pollution, snow, ice or flooding, and adapting operations, smart buildings and intelligent vehicles to these micro-events allows for safer, more sustainable cities and transportation.

WHAT EXCITES ME ABOUT VAISALA

Autonomous vehicles will need road surface state information over the horizon — we aim to be part of this most disruptive change in the history of transportation.

OUR PEOPLE

We have amazing people who have made us a global market leader. We need to remain curious, challenge the status quo and drive the change in our industry to create new opportunities. The key going forward is to match people to the work they find most interesting and offer them continuous opportunities to grow and learn.

Industrial Measurements

The Industrial Measurements Business Area accelerates growth through a product leadership strategy. The strategic priorities are to achieve a 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.

CUSTOMER SEGMENTS

High-end humidity

High-end carbon dioxide

Life science

Power transmission

Vaisala Industrial Measurements
Help Customers Improve

- Product quality
- Productivity
- Energy efficiency
- Maintenance activities
- Regulatory compliance

PRODUCT CATEGORIES

- Instruments for measuring humidity, dew point, moisture in oil, carbon dioxide, vaporized hydrogen peroxide, and pressure
- Continuous monitoring systems
- Dissolved gas analysis for power transformers

PARTNERS

- Customers
- Manufacturing partners
- Suppliers
- Global distribution network

GROWTH THROUGH PRODUCT LEADERSHIP

» Discovering customers' needs
» Achieving #1 position in selected markets
» Continuously creating winning products

GROWTH MARKETS

» Strong growth potential in life science and power transmission markets
» Identification of new attractive growth markets
» Investments in new offering addressing the specific market needs

FLAGSHIP MARKETS

» Strong position with our high-end humidity and carbon dioxide offering
» Continuous investments in offering development

Our strength is differentiation through superior product performance and cutting edge technology.

Global Market Sizes and Growth

MEUR	Instruments	Power Transmission	Life Science
Market size*	420–470	170–230	275–330
Market growth p.a.	5%	15%	10%
Vaisala market share 2017*	Mid	Low	Low
Market size total		**~ EUR 1 billion**	

Market share indication:
Low <10%
Mid 10–25%
High >25%

» No major changes to market overwiew or growth rates
» Market sizes updated based on the growth rates

* Vaisala estimate of the size of market that is addressable currently or with organic development in the roadmaps

/ Strategy Implementation in Industrial Measurements

Growing Our Handprint and Helping Customers to Succeed

Controlled Environment Business Area's name was changed in 2017 into Industrial Measurements, to describe our operations more accurately. In essence, we stayed the same; we continue to develop and produce the best products for demanding measurement applications.

Moreover, we have remained curious and innovative. We are constantly looking for new applications for our products and exploring the possibilities to measure completely new parameters. In the past four years, we have almost doubled our R&D expenditure.

We have a firm product leadership position in relative humidity and carbon dioxide measurements. We are looking for growth and gaining ground in the life science market with our continuous monitoring system and in the power transmission market with our monitoring solutions.

Typically, our products are designed to improve quality, productivity, energy efficiency, and to help our customers fulfill their regulatory compliance.

Our customers operate in various types of environments – from semi-conductor factories to power plants and wherever reliable measuring and monitoring of conditions are essential for successful operations.

Sometimes the conditions may be very challenging, but we can still succeed in providing reliable measurement data.

We have remained curious, constantly looking for new applications and parameters to measure.

Sampsa Lahtinen

EVP

Industrial Measurements

A good example is lithium-ion battery production. Our dew point sensor can deliver accurate measurements in this very corrosive and harsh manufacturing environment. Another example is our latest expansion into measuring vaporized hydrogen peroxide, which is used in bio-decontamination processes.

The combination of a highly fragmented market and our ability to develop measuring solutions to very demanding conditions provides us with ample opportunities for growth. In 2017, we continued expanding our geographical reach by investing in our distribution channel. Operations were reinforced particularly in Latin America, Asia-Pacific, and Europe.

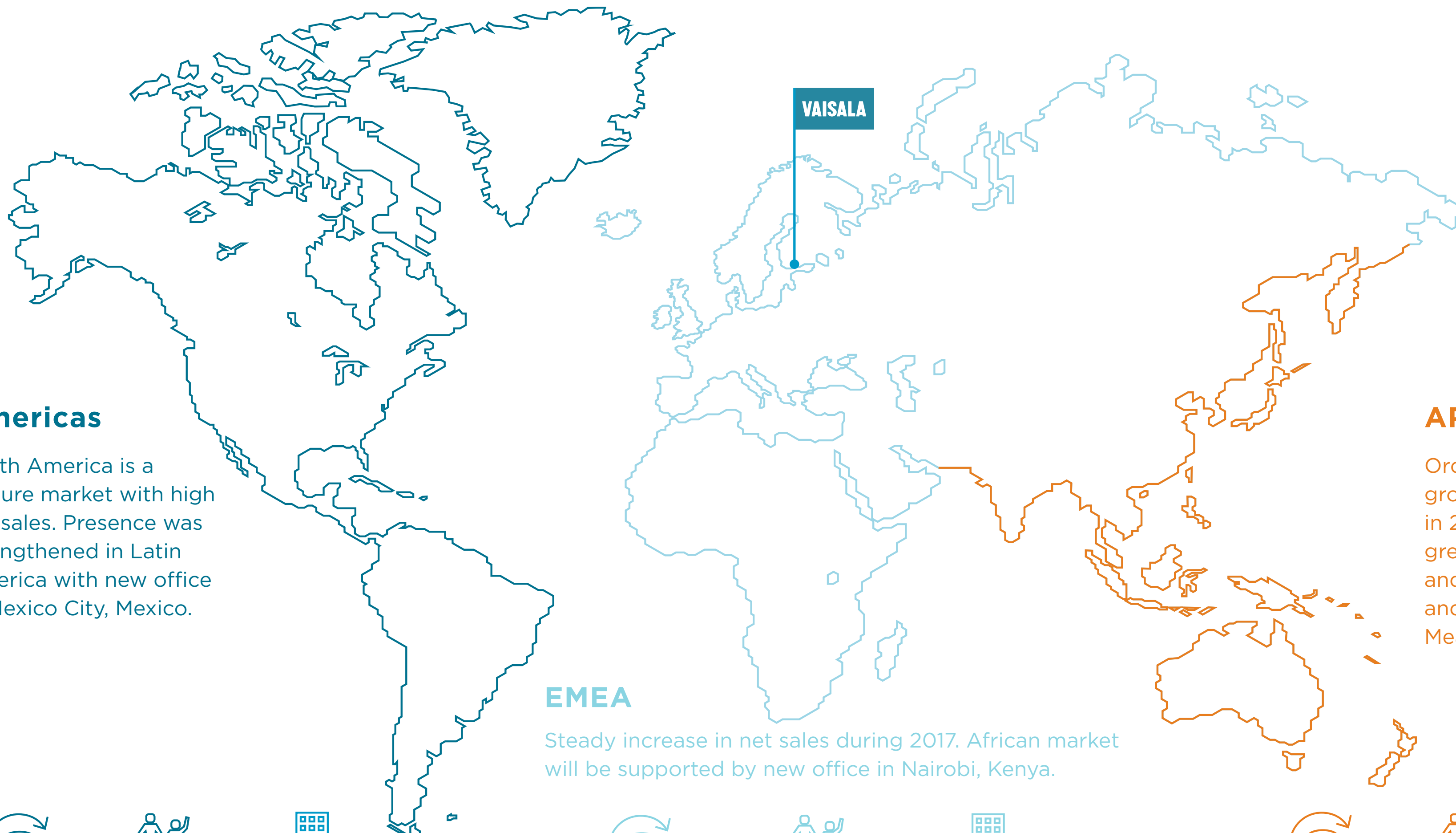
WHAT EXCITES ME ABOUT VAISALA

New applications, products, and markets and our company's shared vision and goal to succeed in our business. After all, we are all responsible for finding the best solutions to saving this planet for future generations.

OUR PEOPLE

Vaisala is a strong engineering company with brilliant professionals. I am very proud of our people and their ability to create and innovate. I also believe in giving people responsibility and freedom to do their jobs.

GLOBAL MARKETS



Americas

North America is a mature market with high net sales. Presence was strengthened in Latin America with new office in Mexico City, Mexico.

APAC

Orders continued to grow in the APAC region in 2017 and net sales grew for both Weather and Environment and Industrial Measurements.

EMEA

Steady increase in net sales during 2017. African market will be supported by new office in Nairobi, Kenya.

Americas

38% Net sales

348 Employees

11 Offices

EMEA

32% Net sales

1,120 Employees

11 Offices

APAC

29% Net sales

140 Employees

10 Offices

Operations

The foundation for Operations is the Vaisala Production System, which incorporates strategic development initiatives, adherence to systematic improvement, and standard ways of working. Our objective is to maintain high reliability while improving cost efficiency and scalability of our operations.

OPERATIONS STRATEGY

- Systematic improvement
- Standardizing ways of working
- Cultural change

STRATEGIC DEVELOPMENT INITIATIVES

- Sourcing processes and practices
- Developing life cycle management processes
- Productivity improvement
- Sensor manufacturing and calibration core technologies

As a result, we doubled the number of improvements up to 862 in 2017.

Our vision is to be the winner in the high-mix – low-volume supply chain and an awesome place to work.

Productivity increased by more than 10% compared to 2016

Vaisala Operations has:

400 employees in two factories in Helsinki, Finland and Boulder, Colorado, USA

Over **500** production machines

400 suppliers

Vaisala Operations delivers:

Portfolio of more than **6,000** products

with more than **50,000** items in them

900 engineering changes in products annually

More than **1,000** shipments weekly

To customers in over **150** countries annually

Product life cycles of over **20** years.

/ Strategy Implementation in Vaisala Operations

Developing Our Operations Together

The Operations strategy focuses on creating a systematic improvement culture as well as making step improvements in our processes. Vaisala Operations has applied Lean manufacturing methods for years with good results. With the renewed Operations strategy, our intent is to take Lean further by creating a culture where all employees engage in continuous improvement. We believe that especially in our complex high-mix, low-volume operations, we cannot rely on experts alone, everyone can improve our ways of working. We have implemented procedures that ensure involving all employees in the development work and making continuous improvement part of everyone's job.

This kind of participation contributes also to our vision in Operations of being an Awesome Place to Work. In addition to the quick "Plan Do Check Act" improvements, all units also employ systematic techniques for larger improvement efforts and process efficiencies are regularly reviewed in so called Process Improvement Forums.

To facilitate cultural change, we carried out an extensive development program during 2017. Gamification was in the core of the program, involving everyone in Operations, both in one-off events and as part of everyone's daily work. The main themes were systematic improvement, standardized ways of working, and creating a positive working atmosphere. We saw great results, more than doubling implemented improvement suggestions compared to previous year and standard work was deployed in new areas.

Productivity, another focus area, increased by more than 10% in our manufacturing compared to 2016. Interruptions to production, such as machine and equipment downtimes and material shortages, were significantly reduced. Productivity program will continue in 2018 driven for instance by the production employee incentive system renewal.

Over the past years, we have also consolidated the number of suppliers to less than half. Working closer with fewer suppliers has improved collaboration, leading to improved quality and timeliness of deliveries to Vaisala.

Our on-time deliveries are at a high level of 97%.

Vesa Pylvänäinen
EVP
Operations

WHAT EXCITES ME ABOUT VAISALA

Our vision of an Awesome Place to Work as well as promoting our systematic improvement culture.

OUR PEOPLE

Our employees are the best experts of their work, so their input and involvement is essential. I also think that our belief in their good ideas motivates them, and they can see that their suggestions have an impact.

STAKEHOLDER ENGAGEMENT

As our stakeholders are the ones who influence the future of our business, we want to have a transparent relationship with them. Vaisala is active in many corners of society, with environmental issues as our priority.

We identify and evaluate our stakeholders as part of our sustainability management procedures and preparatory work for strategy reviews. The stakeholder review and materiality assessments are typically done at the beginning of the fourth quarter each year. The process can be an update, conducted internally when no major changes are foreseen, or it can involve surveying key stakeholders or engaging in-depth directly with them.

We determine the impact of various stakeholders on the company and analyze how our actions in turn affect them. We actively seek partnerships and joint opportunities with customers, suppliers, academia, research institutes, and other parties. We maintain a constant dialogue with our most important stakeholders.

The latest update to our stakeholder review and materiality assessment was done in the fall of 2017.

A more in-depth study was commissioned in 2016, when an external consultancy carried out a survey by interviewing investors, customers, employees, research partners, and Vaisala management.

The results provided insight into the future of reporting requirements as well as into our strategy, transparency, and sustainability issue management. Some of the key takeaways were how Vaisala should present value creation of its operations to stakeholders, how this value creation should be discussed with them, and how sustainability should be integrated into strategy, processes, and operations. One of the results of the discussion and interviews led us to consolidate our stakeholder grouping and prioritize the four stakeholder groups that have the most influence on Vaisala.

Stakeholders

	Description	Main Activities
Customers	Thousands of private, governmental, and public customers in more than 150 countries. Distributors in more than 100 countries.	» Regular customer satisfaction surveys across key markets and regions. » Ongoing online surveys on customer training and field services operations » Ongoing online survey on technical support and services
Employees	Over 1,600 professionals in more than 30 locations in 17 countries.	» Offering talented individuals work that has a higher purpose in society » Providing learning programs and career development » Monitoring employee satisfaction and well-being
Society & Environment	Universities and research collaborators, meteorological institutes, manufacturing partners and suppliers, governments and regulators, local communities, the media, the public, and the environment.	» Partnerships and collaboration with academic and scientific institutions » Scholarships and donations » Close cooperation with our global supply chain » Sharing expertise with external organizations and decision-makers » Raising awareness of environmental issues among experts and the public
Investors	Large shareholders include descendants of the founder Professor Vilho Väisälä, Novametor Oy, Finnish pension funds and other financial institutions, the Finnish Academy of Science and Letters, and private households; ownership outside Finland and nominee registrations amounted to 15.7% of shares in December 31, 2017.	» Quarterly result presentations and Q&A for investors, analysts and media » Annual General Meeting » Stock exchange releases » Roadshows, investor and analyst meetings and conference calls

VALUE FOR CUSTOMERS

Vaisala's technology and solutions help safeguard life and property, while enabling critical decision-making that facilitates effective and efficient operations. The common denominator is that by measuring the environment or a process accurately, our customers can make better decisions and ensure safer, more efficient, reliable, and sustainable operations in any application area.

Reliable Decisions

We enable our customers to make reliable decisions based on accurate environmental observations. Whether in transportation, the energy sector or industrial applications, the information produced with our technologies helps our customers make superior choices for the efficiency, safety, and sustainability of their operations.

Productivity

Vaisala's solutions improve the cost efficiency, yield, and quality of our customers' operations and end products. The high quality and long life-cycles of our products offer superior total cost of ownership. Our solutions make maintenance and monitoring of crucial systems, such as high voltage power transformers, efficient and cost-effective.

The most efficient way of monitoring conditions in warehouses, manufacturing processes, or in support context, as in insulation gas or oil, is to do it online. Online monitoring frees up resources, frees maintenance crews of the need to visit facilities for on-site testing, and reduces error sources related to sampling and spot-checking. Reliable online monitoring enables a transition from reactive to preventive maintenance, with substantial savings and economic returns in many industries.

In air pressure systems used in production processes, Vaisala's humidity measurement solutions help professionals keep compressed air dry cost-efficiently and detect any leaks in the systems early on.

Safeguarding Donated Tissues and Organs

In 2017, 119,053 people in the United States were awaiting organ donation. Each donated organ can change or save a life, but a simple refrigerator failure can lead to the tissues no longer being viable. Reliable temperature monitoring and alarms can save thousands of invaluable organs.

Read full story at
vaisala.com/annualreport

Measuring Weather at the Highest Airport in the World

Located well over 4 km above sea level, Daocheng Yading Airport in China constitutes the highest civil airport in the world. With Vaisala's equipment, Daocheng Yading manages to measure the weather conditions despite the challenging environment.

Read full story at
vaisala.com/annualreport

We help our road authority customers improve their operational efficiency especially during winter maintenance operations. Vaisala's Thermal Routing may show that only selective anti-icing, de-icing, and snow ploughing treatment is required on only a part of the maintained road network. This can lead to both monetary and environmental benefits in the use of treatment materials.

Quality

Our customers appreciate quality, which is evident in their choice of measurement technology provider. High-quality products and services have always been at the core of Vaisala, but even more important to us is ensuring the quality of customers' end products or operations.

We bring our technology and expertise to our customers' operations to improve quality and resource efficiency in various applications. Quality in operations typically entails ensuring stable environmental conditions and minimizing waste, for example reducing the need for treatment chemicals, saving energy in drying processes, and optimizing indoor air in buildings, but also making the most out of an investment in wind parks or solar power production plants.

The value created for customers through our reliable and sustainable technology is concrete and in many cases not only improves yield, quality, and resource use, but the profitability and quality of our customers' operations and end products. The long life cycles of our products, easy installation, and low maintenance needs make Vaisala the reliable and cost-effective choice.

VALUE FOR EMPLOYEES

Vaisala offers meaningful challenges to curious and passionate professionals who value work with a purpose. Being at the forefront of solving the most difficult challenges of our time makes being in the Vaisala team exciting. We want to improve the well-being of our employees and make sure they have the chance to keep learning throughout their career.

Purposeful Work

Our environmental and industrial observations have true meaning for societies, businesses and individuals; this is a key motivator for many of our employees. We promote sustainable and ethical behavior, and we are proud that our employees can have these values as a part of their daily lives.

Great leadership enables motivated employees. In 2017, the annual employee survey's 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 our employees' well-being. Our employee survey had a response rate of 84% in 2017, with 1,300 employees taking part in the survey.

During 2017, we updated our Vaisala Leadership training program for managers and experts. We will continue with this to make sure our leadership skills make us an attractive employer and support Vaisala's success even in the future.

Development discussions are an integral part of everyone's performance and development at Vaisala. In 2017, 94% of employees had completed the annual development discussion with their supervisor.

Gamification as a Cultural Change Agent

A focus area for Vaisala Operations in 2017 was to fulfill its vision of becoming an Awesome Place to Work. Gamification was used to enhance the continuous improvement culture and build understanding of what makes a great workplace.

Read full story at
vaisala.com/annualreport

VESPA paves the way for future success

Taking advantage of various learning methods, we want to ensure that the participants of this sales training find the development program intriguing and professionally valuable.

Read full story at
vaisala.com/annualreport

Well-being

At Vaisala, we regard meaningful work, good team spirit, great leadership, work-life balance, and safe working conditions as important elements of well-being. In well-being activities, our goal is to support our professionals in managing their work, ensuring sufficient recovery, and leading healthy lifestyles in general. We arrange and fund local activities to support the well-being and health of our people, such as the Vaisala FIT program in the United States, sports and recreational clubs in Finland, and other activities supporting well-being at work.

Employee well-being is measured regularly in Vaisala employee surveys. The results show that Vaisala employees find their work meaningful and feel they have clear goals in their work. There is some room for development in ensuring that workloads are manageable. In 2017, Vaisala well-being index score was 3.97 out of 5, staying at the same level as in 2016.

Blog: Be Well at Vaisala Day Interested Vaisala Employees

Read more
vaisala.com/annualreport

Occupational Health and Safety

Vaisala continues to strengthen its focus on safety at work. Global objectives, such as enhanced visibility of management commitment, mitigation of risks, and inclusion of third party employees in the scope of safety management, are set to guide the way to excellent safety performance. We believe that the zero injuries goal is achievable, and we are committed to attain it through continual improvement.

In 2017, the focus was on job hazard analyses, especially working together with employees on all levels to identify probable risks specific to different assignments, in different locations and functions. More employees were subjected to health and safety roles through committee work in many locations, and internal audits of health and safety management were carried out. Comprehensive training is mandatory for employees who require competencies for working in high-risk environments or tasks, such as working at height, in traffic, or with chemicals and gases.

In 2018, our objective is to achieve certification for our occupational health and safety management system according to OHSAS 18001.

Read more
about 2017 developments in the Sustainability chapter on page 173 of this report.

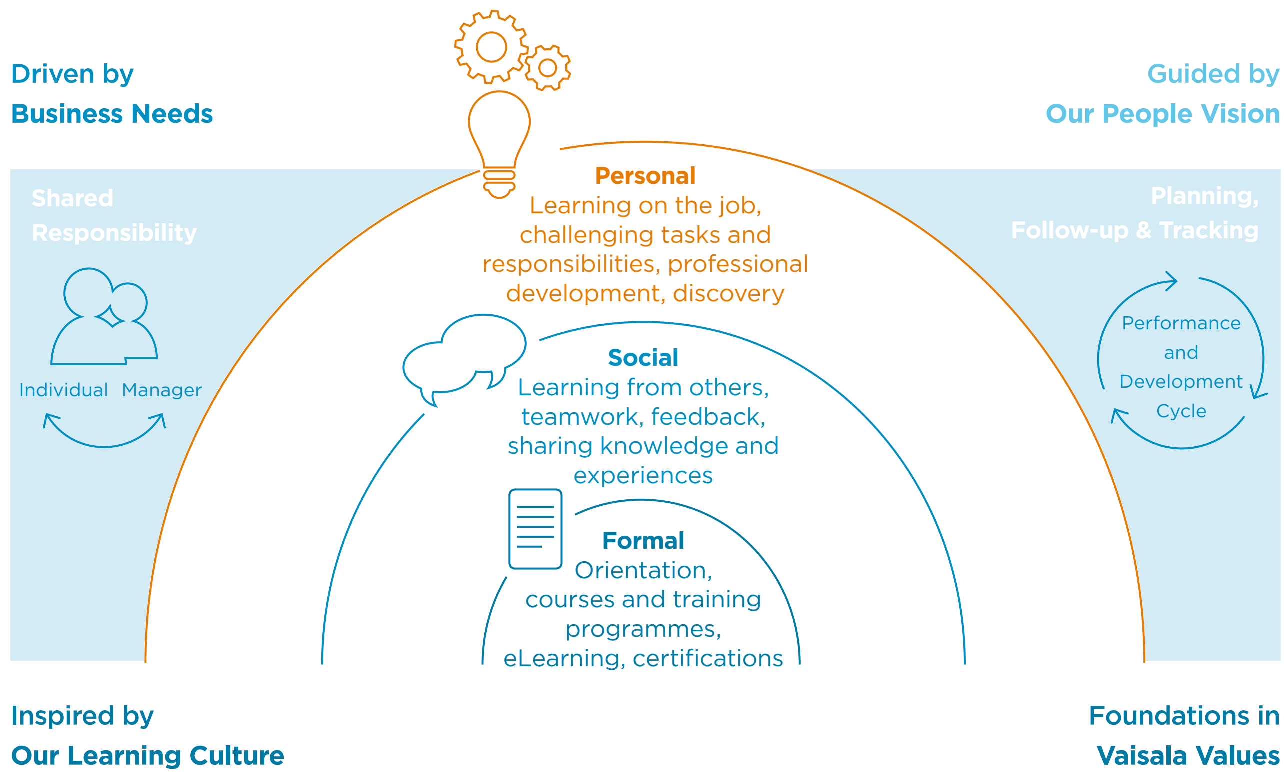
Learning

In addition to our technologies, our competitive strength stems from our highly capable personnel. We encourage our employees to take the initiative to improve their capabilities by promoting an active approach to career planning. Learning runs through every employee's whole career in Vaisala, both through structured programs and through learning on the job.

In order to harness the power of continuous learning to its full potential, we developed the Vaisala Learning Landscape framework in 2017. The Learning Landscape serves as an umbrella for all learning activities and initiatives at Vaisala. Through this framework, we emphasize every employee's responsibility for their own learning and development. Managers play an important role in enabling and supporting learning as well as ensuring through our performance and development cycle process that it is in line with Vaisala's business needs and objectives.

In 2017, Vaisala Learning index, derived from the personnel survey, was 3.73 out of 5. Employee training costs amounted to EUR 1.6 million and averaged EUR 1,000 per employee in 2017.

VAISALA LEARNING LANDSCAPE

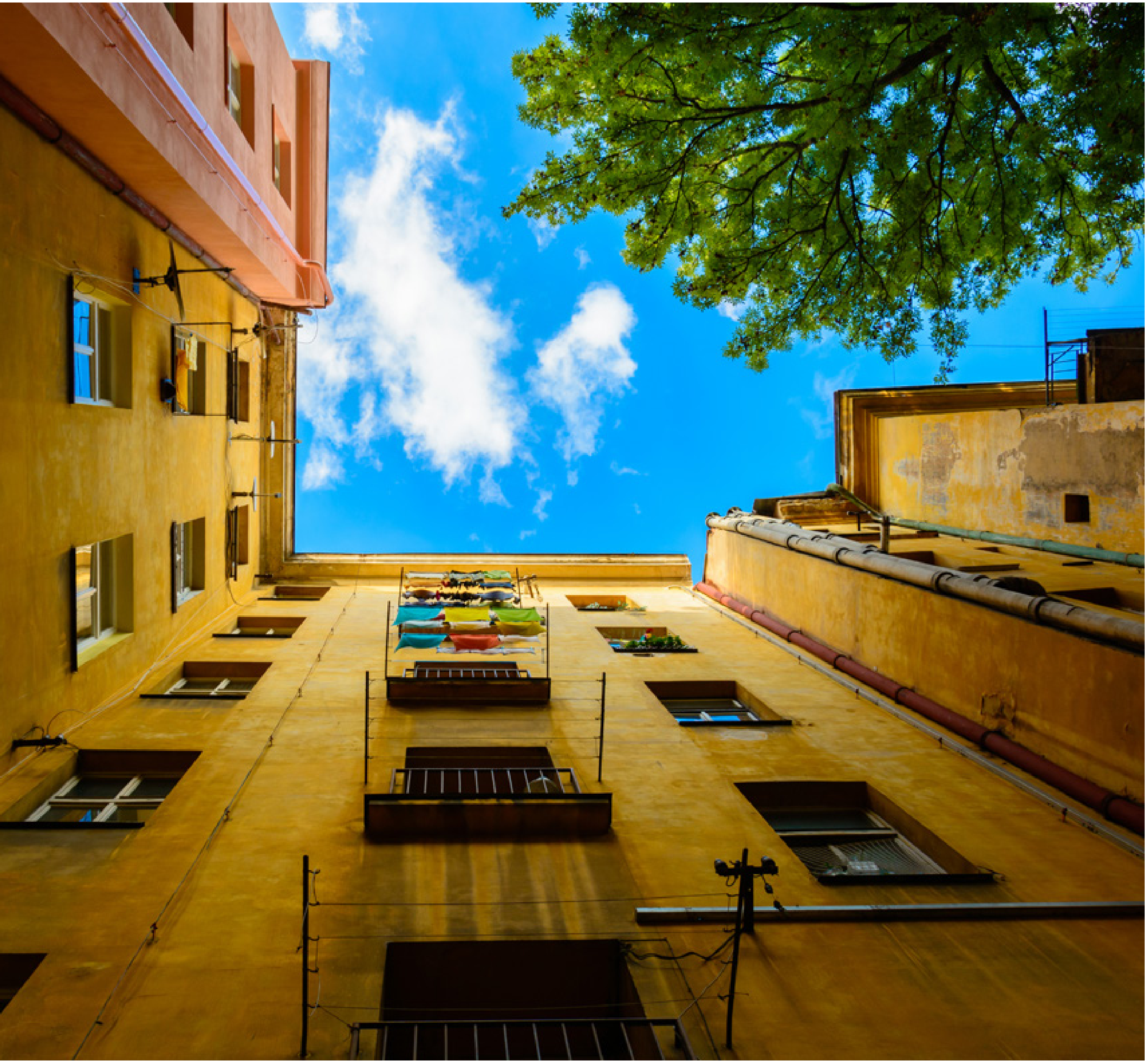


Blog: Mentoring in Vaisala

Read more
vaisala.com/annualreport

Blog: Sourcing Academy – Building Competencies for Tomorrow

Read more
vaisala.com/annualreport



VALUE FOR SOCIETY & ENVIRONMENT

We bring value to societies through accurate and reliable environmental measurements as well as decision support for national and local authorities, businesses, and the renewable energy sector.

Better Informed Societies

Vaisala works together with nearly all meteorological institutes in the world, supporting them in providing accurate, real-time information and forecasts on weather all around the globe. We and our partners also collaborate with international funding agencies and weather experts to build capacity for weather observation networks and competence in developing economies.

Extreme weather, such as hurricanes, can have devastating consequences on local economies and livelihoods. We manufacture hurricane-tracking dropsondes that are used in in-situ measurements inside a hurricane, providing essential information for forecasting the hurricane's path and intensity.

Renewable energy is powered by weather, and choosing optimal locations for wind and solar power production is vital for keeping the price of renewable energy low and investments profitable. Vaisala's solutions and services optimize site selection and power output for the renewable energy sector.

Air pollution is a threat to the health and well-being of people. The World Health Organization (WHO) has estimated that poor air quality causes seven million premature deaths annually; three million of these are directly linked to ambient air pollution. People living in low and middle-income countries carry a disproportionate share of the burden of outdoor air pollution.

Our venture into supplementary air quality monitoring networks will help authorities pinpoint and manage the problem areas especially in cities. With accurate and real-time air quality information, decision-makers as well as citizens can adjust their activities according to the current air quality situation in their part of the city.

Economic Value

Economic value is apparent when ensuring better decision-making in societies, but it is also showcased in many other applications.

Investments in new renewable energy capacity depend on reliable information on the future power output of a potential plant site. Our customers use the forecasts we generate for wind or solar power plant sites to secure financing.

Buildings are one of the biggest consumers of energy. Smart buildings save energy and keep their users healthy. For good results, building automation must be based on reliable measurements. Automated ventilation in buildings can be energy intensive as outdoor conditions determine how much indoor air needs to be cooled down or warmed up. Vaisala's building automation solutions optimize indoor air and conserve energy by eliminating unnecessary ventilation through accurate measurement of humidity, temperature and carbon dioxide levels in buildings.

Data centers are energy intensive facilities. We help data center operators cool down their facilities as cost-efficiently and sustainably as possible through smart control systems and building automation solutions.

Studying Air Quality in Nanjing

The problem of poor air quality needs to be addressed, but solutions to the problem are impossible to develop without comprehensive and accurate data. Vaisala and its partners are building a new network in Nanjing, aiming for a completely new observation concept.

Read full story at
vaisala.com/annualreport

Cost efficiency is critical in the aviation industry, but achieving it must not compromise the safety of operations. Vaisala CheckTime helps airlines reduce their consumption of de-icing chemicals by up to 30% in winter operations through decision support for pilots, based on real-time weather data. The service eliminates redundant de-icing and at the same time guarantees it is safe for the aircraft to take off in the prevailing weather conditions.

Vaisala as a company has a positive economic impact on local communities through employment and taxes, both directly and through its supply chain. Responsible business practices and use of local suppliers create indirect benefits to local communities.

Safety

Vaisala's technologies help our customers maintain safe operating environments in many parts of the society.

Weather affects all transportation sectors, whether shipping goods or transporting people. The aviation industry is dependent on accurate weather information to minimize delays and ensure safe operations. Road authorities can mitigate accidents through roadside weather warnings and plan winter operations more efficiently with advance information about prevailing weather conditions. Railway operators, especially those of high-speed trains, benefit from wind warnings: trains can slow down when wind conditions become dangerous. The maritime sector depends on weather forecasts in harbor operations as well as safe transportation of people and goods. Even missions to space require safe weather conditions during launches.

Keeping Pathogens at Bay

Global mobility for people means mobility for pathogens, too. Vaisala provides a solution to ensuring vaporized hydrogen peroxide concentration is high enough in bio-decontamination processes.

Read full story at
vaisala.com/annualreport

Hurricane Impact Mitigation Requires Accurate Data

The Atlantic hurricane season of 2017 was very active, including a high number of major storms. The better hurricanes can be forecast, the easier it is to mitigate their impact. Vaisala's Global Lightning Dataset GLD360 may provide an effective tool for predicting the evolution of these systems.

Read full story at
vaisala.com/annualreport

Collaboration in the Scientific Community

Vaisala is an active player in the scientific community. Scientific collaboration strengthens our position as an industry pioneer and an innovative technology leader. Vaisala continues to be a contributor to many organizations, advancing technological development in several fields of study.

Vaisala collaborates with the leading research institutes, institutions, and universities across various scientific and technological fields studying environmental and industrial measurement. Vaisala's collaboration partners are, for example, International Civil Aviation Organization (ICAO) and Colorado State University, National Oceanic and Atmospheric Administration (NOAA), and the National Center for Atmospheric Research (NCAR) in the United States.

One of Vaisala's key scientific research partnership areas is our cooperation with a number of national meteorological offices around the world. In addition, Vaisala is an active participant in United Nations' World Meteorological Organization (WMO).

WMO is dedicated to international cooperation and coordination on the study of the state and behavior of the Earth's atmosphere, including the weather and climate. WMO also facilitates its members' observational networks and free, unrestricted exchange of data and information. It also supports research to optimize the production of weather, climate, and water-related services worldwide.

Commission for Instruments and Methods of Observation (CIMO) is part of the WMO. Vaisala is actively involved in several CIMO expert teams focusing on the development of industry practices and standards.

Vaisala is also a member of the Association of Hydro-Meteorological Equipment Industry© (HMEI), which promotes the views of the private industry providers of products and services in the meteorological, hydrological, environmental, and related fields. The association is acknowledged by the WMO; it facilitates interaction between its members and a broad range of governmental and private organizations.

As a member of HMEI, Vaisala's representatives participate in the Expert Teams of WMO's Commission for Basic Systems (CBS) in order to help advance the improvement of environmental observations and weather forecasts worldwide.

Vaisala is partially funding the research done by the European Centre for Medium-Range Weather Forecasts (ECMWF). ECMWF is an independent intergovernmental organization, which is supported by 34 countries. It produces numerical weather forecasts worldwide. The research studies the impact of radiosonde data accuracy and precision on numerical weather prediction. The research allows ECMWF to maximize the benefit of radiosonde data in making the global weather forecasts for 3–10 days.

Vaisala also supports GRUAN in characterizing climatologic data when migrating to a new radiosonde model. GRUAN is a global climate reference measurement network, which measures various climate variables above Earth's surface.

Research and development grants received from governments amounted to EUR 504,000 in 2017.

> Curiosity about the world has always been a driving force for Vaisala. Our success is based on a constant stream of world-class innovations. In a world of shifting global economies and environments, exploration and innovation are more important than ever before.
>
> **Vaisala CEO Kjell Forsén**
> for Technical Academy Finland

IN THE UNITED STATES

In the United States, Vaisala is an active member in the Environmental Information Services Working Group of the NOAA Science Advisory Board.

Vaisala continues to be a strong contributor and corporate sponsor to the American Meteorological Society (AMS), a leading scientific organization dedicated to atmospheric, oceanic, and hydrologic sciences. In addition to sponsorships, Vaisala representatives contribute to the AMS through a number of activities, including the governance of the society and scientific committee memberships, reviewing and editing journals and articles, and actively sharing scientific advancements in various channels. Vaisala has a representative on both the AMS Council and Executive Committee.

IN ASIA

In Asia, Vaisala has a long term corporate relationship with the Chinese Meteorological Administration's Institute of Urban Meteorology in various projects.

IN EUROPE

In Germany, Vaisala has a research collaboration agreement with Karlsruhe Institute of Technology in the area of Lidar applications and with Fraunhofer Institute in microsensor technology development.

IN FINLAND

In Finland, Vaisala operates in close relationship with various scientific stakeholders, for example the Finnish Meteorological Institute, VTT Technical Research Centre of Finland Ltd., University of Helsinki, Tampere University of Technology, Lappeenranta University of Technology, and Aalto University.

Vaisala develops sensor technology also together with the University of Eastern Finland, which offers expertise in measuring the smoothness of optical surfaces. This cooperation will result in new opportunities in 3D-printing technology. Vaisala is collaborating with the University of Jyväskylä to develop novel measurement methods and to utilize the University's expertise in material analysis.

Vaisala is working together with the Technology Industries of Finland organization. Vaisala has representatives in several working groups, such as Communications, Innovation, Environment, Education, as well as the Labor working group.

Vaisala also has representation in the International Chamber of Commerce (ICC) Finland, which promotes international trade and investment worldwide. Vaisala is a member in FIBS, Finland's leading corporate responsibility network, and in the Climate Leadership Coalition (CLC), whose purpose is to improve the competitiveness of Finnish businesses and research organizations and their ability to respond to the threats posed by climate change. In addition, Vaisala partners with Technology Academy Finland (TAF).

Vaisala is a shareholder and research partner of CLIC Innovation Oy, an open innovation cluster with

Getting Ready to Fight the Climate Change with MIREGAS

Vaisala, together with our partners, is developing revolutionary LED-based technology for gas sensing, MIREGAS – Mid-IR Source for Gas Sensing, to help in battling climate change. The new Mid-IR multi-gas product claims to be the world's fastest and most accurate solution to detecting and analyzing greenhouse gases with a single sensor.

Read full story at
vaisala.com/annualreport

the mission of creating breakthrough solutions in bioeconomy, energy, and cleantech by facilitating joint research between industry and academia in Finland.

Vaisala is a project partner of the CITYZER project, which develops new digital services and products to support decision-making processes related to weather and air quality in cities. The results of the project work are utilized for example in the Helsinki & Nanjing Air Quality Testbeds.

Vaisala's Technology and Air Quality Know-how Will Help Cities Become Smarter and Cleaner

Vaisala is part of the Helsinki Metropolitan Air Quality Testbed, a joint project by expert organizations. It will offer local air quality data in the Helsinki Metropolitan area. The data will be used to accelerate new innovations, develop new services, and improve decision-making to enhance air quality and quality of life.

Read full story at
vaisala.com/annualreport

Community Outreach

In Vaisala, we believe in a world where environmental and industrial observations improve daily lives. As a global leader in measurement technology and as an active member of society, Vaisala acknowledges that we have the responsibility to support our stakeholders in society, promote higher education and research, and help new generations learn more about science.

COMMUNITY OUTREACH PROGRAM

Vaisala may provide charitable donations of products, funding, or services to non-profit organizations through its Community Outreach Program. The Program's overall objective is to support organizations and projects that advance environmental awareness and science education. All our outreach activities should be in line with our values and resonate well with topical issues such as climate, weather, environmental and industrial measurement, and environmental sciences.

Vaisala's objective is to allocate the donations and continuously correlate them with the community outreach program. Vaisala does not donate funds to political parties, causes, or campaigns. In 2017, donations amounted to EUR 83,000 globally.

Within science education, Vaisala focuses on students and their teachers in contexts that promote natural sciences, innovation, and environmental awareness. Vaisala supports universities, scientists, and researchers who help increase understanding of environmental observations and their implications. Scholarships paid in the form of salary are outside the scope of the Outreach Program.

Another focus for the Program is the non-profit organizations working for environmental disaster prevention and recovery, particularly in connection with the prevention of environmental hazards. Furthermore, impartial and neutral humanitarian organizations that provide protection and assistance to people affected by disasters are within the scope of the Community Outreach Program.

Vaisala Raising Awareness in Heureka Science Centre

Vaisala partners with Heureka Science Centre in Finland to increase awareness of atmospheric sciences and their importance among the visitors. This is one way for Vaisala to encourage the young and old alike to take an interest in science and to promote innovation.

Read full story at
vaisala.com/annualreport

Vaisala Offering a Helping Hand to the Hurricane-Affected St. Maarten

In 2017, over the course of a month, hurricanes Harvey, Irma, Jose, and Maria caused widespread devastation over many countries. Hurricane Irma was especially devastating to the island of St. Maarten, an island of around 80,000 people. The storm knocked out critical weather observation and warning systems, only recently installed.

Read full story at
vaisala.com/annualreport

PROFESSOR DR. VILHO VÄISÄLÄ AWARD

Vaisala funds the Professor Dr. Vilho Väisälä Award, established in 1985 to encourage and stimulate interest in research in the field of environmental measurement instruments and observation methods. It is administered by the World Meteorological Organization (WMO), which selects the winners every second year.

In 2004, the WMO Executive Council decided to establish a second Professor Dr. Vilho Väisälä Award. The main focus of this award is meteorological instrument work in developing countries and countries with economies in transition. Both awards are granted in connection with the WMO TECO/METEOREX conference, and each carries a cash prize of USD 10,000.

More information about the awards:
Professor Dr. Vilho Väisälä Awards

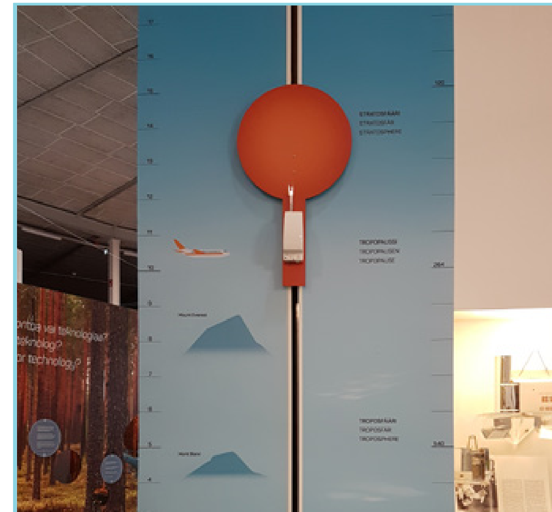
VILHO, YRJÖ AND KALLE VÄISÄLÄ FUND

In the 1960s, Professor Vilho Väisälä, Vaisala's founder, donated Vaisala shares to the Finnish Academy of Science and Letters. These shares were used to establish the Vilho, Yrjö and Kalle Väisälä Fund, which provides grants to research in mathematics, physics, geophysics, meteorology, and astronomy every year. The Fund's available grants are dependent on Vaisala's dividends, so the Fund's prosperity depends on Vaisala's long-term financial success. In 2017, the Fund rewarded 53 researchers with grants worth EUR 1.4 million.

Vaisala Equips the New Children's Hospital in Helsinki

Vaisala is the honorary in-kind donator to the New Children's Hospital being built in Helsinki. The construction commenced in 2014, and the hospital will be inaugurated in 2018. Vaisala contributes humidity, temperature, and carbon dioxide measurement instruments to the hospital.

Read full story at
vaisala.com/annualreport



Celebrating 100 Years of Finnish Independence

In 2017, Vaisala celebrated the centenary of Finland's independence by taking part in the TechLand Exhibition in Helsinki. The exhibition is organized as a collaboration of Finnish technological companies. It constitutes the museum's new permanent exhibition and enables Vaisala to share cleantech knowledge with new audiences.

Read full story at
vaisala.com/annualreport

DONATIONS TO UNIVERSITIES

In 2017, Vaisala donated a brand new C-band radar to Colorado State University (CSU). The C-band radar will afford CSU researchers and students the opportunity to study extreme weather further in places where they have not been able to make measurements before due to transportability. The new radar will enable important research for both CSU and the broader atmospheric science community.

VALUE FOR INVESTORS

Vaisala is a stable, globally operating company based in Finland. The company's series A shares have been quoted on Nasdaq Helsinki stock exchange since 1994. Vaisala's target is to maintain high solvency and to pay a stable dividend which will increase in line with net profit development.

Why invest in Vaisala?

1 TECHNOLOGY LEADER AND STRONG MARKET POSITION

- Leading technologies in environmental and industrial sensing with most accurate and reliable instruments, core capability in in-house sensor design and manufacturing
- Clear market leadership position in key products, high customer satisfaction, estimated total market size over EUR 2 billion
- High continuous investments in R&D (2017: 39.6 MEUR or 11.9% of net sales)

2 GROWTH FROM MULTIPLE DIMENSIONS

- New technologies
- New products and applications by leveraging current technologies and platforms
- Geographical expansion

3 WELL DIVERSIFIED SALES MIX

- Vaisala is a global player in its relevant markets with representatives in more than 100 countries
- 2017 geographical net sales split: 38% Americas | 32% EMEA | 29% APAC
- Sales to multiple customer segments, including governmental and private sectors

4 ASSET-LIGHT BUSINESS MODEL

- High-mix – low-volume business model
- Sales growth does not require capex, annual capex around EUR 10 million
- Potential for productivity improvement with volume growth

5 STRONG CASH GENERATION AND FINANCIAL POSITION

- Enables investing in growth and long-term business development
- No interest-bearing debt, solvency ratio 68.9% (2017)
- Strong cash conversion rate (2017: 1.2)

6 SOLID DIVIDEND PAYER

- Vaisala aims to distribute a stable dividend, which will increase in line with net profit development
- Dividend per share for the last five years were paid at the average rate of 90% on earnings, and the average effective dividend yield of share was 4.1%

7 SUSTAINABLE TECHNOLOGIES IN A RESPONSIBLE WAY

- Vaisala is a reliable partner and has been recognized as a leader in responsible business, e.g. by CDP and RE100
- Vaisala is a member of several organizations that promote responsible business, such as Climate Leadership Coalition, Cleantech Finland, and the Caring for Climate initiative of the UN Global Compact
- Vaisala creates technologies and products that help its customers improve their environmental performance, increase safety in operations, and that create value to societies

GOVERNANCE

Corporate Governance Statement 2017

VAISALA'S GENERAL GOVERNANCE PRINCIPLES

Vaisala's corporate governance is based on, and complies with, the laws of Finland and Vaisala's Articles of Association. The company complies with the rules, regulations and guidelines for listed companies issued by Nasdaq Helsinki Ltd and Finnish Supervisory Authority as well as Finnish Corporate Governance Code 2015 published by the Securities Market Association.

Vaisala Board of Directors has approved this Corporate Governance statement in its meeting on February 7, 2018. Deloitte Oy, Audit Firm, the company's auditor, has verified that the statement has been issued and that the general description of internal audit and risk management systems associated with the financial reporting process conforms to the same in financial statements.

More Information
This Corporate Governance Statement has been drawn up as a document independent of the Board of Director's report and is available on the company's website at www.vaisala.com/investors. The Finnish Corporate Governance Code is available on website at www.cgfinland.fi/en.

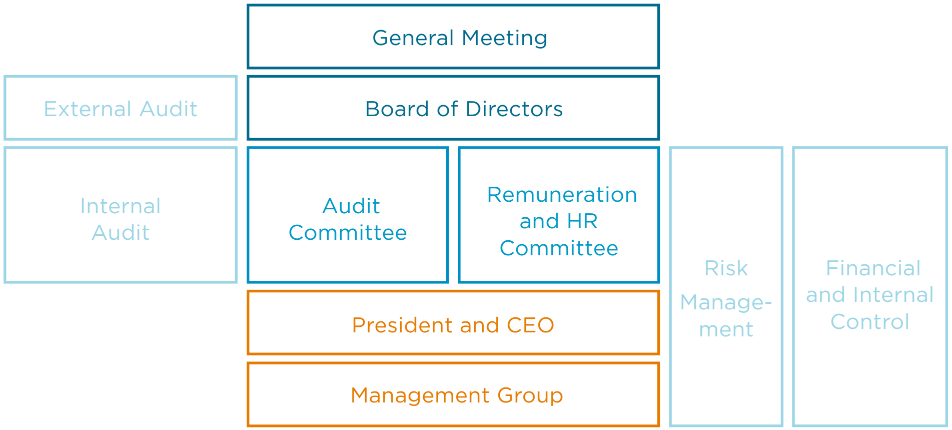
DEVIATION FROM THE RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE AND THE EXPLANATION FOR THE DEVIATION

The term of the members of Vaisala's Board of Directors deviates from the Recommendation 6 of Corporate Governance Code, which recommends a term of one year. The term of Vaisala's member of the Board of Directors is determined in accordance with its Articles of Association. Under the Articles of Association, a member's term is three years, beginning at the close of the General Meeting in which the member is elected and ending at the close of the third subsequent Annual General Meeting.

A longer term of office of the Board members is justified by the long-term development of Vaisala's business as well as by the nature of the business. The practice has worked well and Vaisala's shareholders are committed to it.

GOVERNING BODIES

The General Meeting, the Board of Directors and the President and CEO, assisted by the Management Group, are responsible for the governance of the Vaisala Corporation.



GENERAL MEETING

The General Meeting is the supreme decision-making body of Vaisala in which all the shareholders of the company can participate in the supervision and control of the company and exercise their right to vote, speak and ask questions. The Annual General Meeting is held once a year before the end of June on a date determined by the Board of Directors. It decides on the matters stipulated in the Finnish Limited Liability Companies Act and the Articles of Association.

The Chairman of the Board of Directors, members of the Board of Directors, and the President and CEO are present at the Annual General Meeting. The auditor is present at the Annual General Meeting. Board member candidates are present at the Annual General Meeting where they are elected. If the above mentioned person or persons fail to attend the Annual General Meeting, Vaisala notifies the General Meeting of such non-attendance. The members of the Management Group participate in the Annual General Meeting, if possible.

Participation in the General Meeting requires that the shareholder is registered in Vaisala's shareholder register, maintained by Euroclear Finland Ltd, on the record date of the meeting, and that he/she registers for the meeting by the date mentioned in the meeting notice.

Shareholders are entitled to have an issue placed on the agenda of the Annual General Meeting, provided that the issue can be decided upon by the Annual General Meeting according to the Limited Liability Companies Act. The request must be submitted in writing to the Board of Directors early enough so that the issue can be included in the meeting notice. The company announces the date by which the shareholder must notify the Board of Directors of an issue to be added to the agenda of the Annual General Meeting on its website. The date is available by the end of the previous financial year.

Vaisala publishes a notice of the Annual General Meeting no more than two months before the record date and no less than three weeks before the meeting on the company's website, or in any other way that may be decided by the Board of Directors, or Vaisala may deliver it directly to shareholders when required by law. In addition, Vaisala publishes a meeting notice as a stock exchange release after the Board of Directors has decided on the convening of the Annual General Meeting. Agenda of the Annual General Meeting, proposals on decisions and meeting documents are available on the company's website at least three weeks prior to the meeting. Documents of the Annual General Meeting will be held on company's website for at least five years from the time of the meeting. Minutes of a meeting will be published on the company's website within two weeks of the meeting.

More information
Minutes of the meetings and other documents related to the General Meetings can be found on the company's website at www.vaisala.com/investors.

BOARD OF DIRECTORS

Competence, composition and election

The Board of Directors is responsible for the administration and the proper organization of the operations of the company. The Board acts in accordance with Articles of Association and the applicable legislation as well as the instructions and recommendations of the Financial Supervisory Authority and Nasdaq Helsinki Ltd. In accordance with Articles of Association, the company's Board of Directors comprises at least four and maximum eight members. The Annual General Meeting elects all Board members. The Board of Directors elects a Chairman and a Vice Chairman from among its members. Under the Articles of Association, the term of the Board members is three years. The term begins at the close of the General Meeting at which the member is elected, and ends at the close of the third subsequent Annual General Meeting following the member's election.

Selection criteria, diversity and the independence of the members

The primary goal in Board member election is to gather to the Board of Directors capability, expertise and experience from various technologies, international relations, global business and strategically significant industries. The Board should be considered as a whole that is capable of managing its tasks and duties in the best possible way. The goal of the election of the members of the Board of Directors is to ensure that the Board supports the development of the company's current and future business. In addition, the Board should consist of members of both genders and the members should have the chance to allocate a sufficient amount of time to managing their tasks. The goal is that at least 25% of Board members are always men and women.

The majority of the Board members must be independent of the company and at least two members in this majority must be independent of the company's major shareholders. The Board of Directors evaluates the independence of the members annually based on overall evaluation. This evaluation of a member takes into account information and analysis provided by the member himself/herself.

The Board of Directors self-evaluates its operations, way of working as well as fulfilment of the diversity goals annually.

After election, new Board members will be familiarized with company's operations. This includes presentations by the top management and induction with the company's operations, in which the newly elected Board members are given information on the company's business, strategy and long-term targets as well as on significant economic, accounting and risk management.

Meetings, duties and decision-making

The Board of Directors convenes at least eight times each year and if otherwise needed. The President and CEO and the Chief Financial Officer also attend Board meetings. The other members of the Management Group attend Board meetings as required on the invitation of the Board of Directors. The Board of Directors may, on the basis of the Chairman's decision, establish working groups from among its members in individual cases in order to prepare the matters allocated for it in order to ensure the effective organization of the Board of Directors' work.

The Board of Directors operates in accordance with an approved written charter. Meetings may, if necessary, be held as conference calls or e-mail meetings. Minutes of meetings are compiled in English, with annually running numbering. The General Counsel acts as the Secretary of the Board of Directors.

A member of the Board of Directors is not allowed to participate if he/she is biased in that issue between him/her and the company or between the company and a third party when there is possibility to achieve essential advantage to him/her, which may conflict with the advantage of the company's interest.

The members of the Board of Directors are bound by obligations related to commercial and trade secrets as well as by the restrictions and requirements of the Market Abuse Regulation (EU) N:o 596/2014 (MAR) and the restrictions and obligations of Insider Policy. The Board and its members must in their decision-making and other activities act in accordance with the interest of the company and all its shareholders, and in accordance with the principle of due care.

The Board will have a quorum when more than half of members are present. Decisions are made on a simple majority basis, and when the votes are even, the Chairman has the casting vote. When the votes for election of the Chairman are even, the Chairman is elected by drawing lots.

The President and CEO is responsible for the execution of the Board of Directors' decisions and reports to the Board on deficiencies or problems observed during the execution.

Regular meetings include

- financial statements meeting,
- meeting prior to an Annual General Meeting,
- Board's organizing meeting,
- Interim Report meetings (2 times),
- Half Year Financial Report meeting,
- business review and strategy meeting, and
- action plan, budget and incentive matters meetings.

Main responsibilities of the Board of Directors are

- to decide on the election and dismissal of the President and CEO,
- to decide on the employment terms of the President and CEO,
- to decide on the election and dismissal of the members of the Management Group and their job descriptions based on the President and CEO's proposition,
- to ensure that the company has organized internal control of accounting and financial management as well as to monitor the effectiveness of supervision,
- to determine the company's strategy and oversee its implementation, and to approve the strategic plans of the business areas,
- to determine the company's long-term targets and to monitor their implementation, and to accept business areas' long-term targets,
- to assess the company's and its business areas' annual action plans,
- to approve the company's and its business areas' financial targets,

- to make the most important business decisions such as approve acquisitions, divestitures, major contracts and liabilities, investments and financing arrangements,
- to set approval limits for investments and commitments, which cannot be exceeded without Board of Directors' approval,
- to review and approve a Financial Statement Release, Financial Statements and the Board of Directors' Report and Corporate Governance Statement,
- to make a dividend proposal to General Meeting,
- to review and approve Interim Reports and Half Year Financial Report,
- to monitor evaluation and management of risks related to company's strategy and business operations, and
- to decide on management remuneration and incentive systems.

The responsibilities of the members of the Board of Directors when performing their duties is to always act with due care and in good faith while using their judgment, based on sufficient information, in a manner they reasonable believe to promote the interests of the company.

The President and CEO and members of management, as instructed by the President and CEO, represent the company in relation to shareholders, investors, media and other stakeholders. The Board members usually direct third-party enquiries to the President and CEO. The Board of Directors is represented by the Chairman of the Board of Directors.

Duties of the Chairman

Duties of the Chairman of the Board of Directors include chairing the Board's meeting and managing the Board's work so that it can fulfil its duties.

Chairman of the Board of Directors shall

- ensure that the meetings are held according to schedule,
- ensure that the Board of Directors is convened for the extraordinary meetings, if necessary,
- ensure that the presentations and supporting materials are delivered to the Board members within the agreed time and early enough prior to the meeting,
- approve the agenda prepared by the President and CEO,
- take care of ensure the documentation of the meetings and of the decisions made,
- keep in contact with the President and CEO and monitor the company's business performance, and
- be in charge of evaluating the work done by the Board of Directors.

Members of the Board of Directors in 2017

In January 1–March 28, 2017 the Board of Directors comprised seven members. The Chairman of the Board of Directors was Raimo Voipio, the Vice Chairman was Yrjö Neuvo and the members were Petra Lundström, Mikko Niinivaara, Kaarina Ståhlberg, Pertti Torstila and Ville Voipio. The Board of Directors' secretary was General Counsel Katriina Vainio.

The Annual General Meeting held on March 28, 2017 confirmed that the number of Board members is eight. Yrjö Neuvo, Petra Lundström, Mikko Niinivaara, Kaarina Ståhlberg, Pertti Torstila, Raimo Voipio and Ville Voipio continued as members of the Board of Directors. Petri Castrén was elected as a new member of the Board of Directors. The Chairman of the Board of Directors is Raimo Voipio, and the Vice Chairman is Yrjö Neuvo. The Board of Directors' secretary is General Counsel Katriina Vainio.

Composition of the Board of Directors Dec 31, 2017

Member	Member since	End of term	Born	Education	Nationality	Main occupation	Shareholding Dec 31, 2017
Raimo Voipio, Chairman	1989 Chairman since 1994	2020	1955	M.Sc. (Eng.)	Finnish	Board professional	284,100 (A share) 227,148 (K share)
Yrjö Neuvo, Vice Chairman	1989 Vice Chairman since 1994	2019	1943	Ph.D. (Cornell University)	Finnish	Board professional	34,640 (A share) 18,664 (K share)
Petri Castrén	2017	2019	1962	LL.M., MBA (University of Connecticut)	Finnish	CFO and Head of Region Americas, Kemira Oyj	500 (A share)
Petra Lundström	2014	2018	1966	M.Sc. (Tech. Physics)	Finnish	Vice President, Nuclear Services, Fortum Power and Heat Oy	2,200 (A share)
Mikko Niinivaara	2002	2020	1950	M.Sc. (Eng.), Dr. Tech. (h.c.)	Finnish	Board professional	2,200 (A share)
Kaarina Ståhlberg	2016	2019	1966	LL.M. (Helsinki and Columbia Universities)	Finnish	General Counsel, Posti Group Oyj	1,900 (A share)
Pertti Torstila	2014	2020	1946	M.Sc. (Pol.)	Finnish	Board professional	2,200 (A share)
Ville Voipio	2015	2018	1974	D.Sc. (Tech.)	Finnish	Business Development Manager, business strategy and R&D management, Si-Tecno Oy	197,343 (A share) 48,356 (K share)
Total							**525,083 (A share) 294,168 (K share)**

Shareholdings include also shares held by the Board of Directors' controlled organizations.

In accordance with the recommendation 10, all Board members are independent of the company and of significant shareholders of the company.

Attendance in Board meetings 2017

Member	Attendance/Number of meetings	Attendance %
Raimo Voipio (Chairman)	11/11	100
Yrjö Neuvo (Vice Chairman)	11/11	100
Petri Castrén (since Mar 28, 2017)	8/9	89
Petra Lundström	11/11	100
Mikko Niinivaara	11/11	100
Kaarina Ståhlberg	11/11	100
Pertti Torstila	11/11	100
Ville Voipio	11/11	100

BOARD COMMITTEES

The Board of Directors has two permanent committees: an Audit Committee and a Remuneration and HR Committee. The members and the chairs of the Committees are appointed annually from among the members of the Board of Directors in accordance with the charter of the respective committee. The Board of Directors may establish committees for duties assigned by the Board. The Board of Directors confirm the charter for the committees. The committees assist the Board of Directors by preparing matters that are within the scope of responsibilities of the Board. The committees are not decision-making or executive organs; instead, the Board of Directors is responsible for the tasks it has assigned to the committees, unless it has been stated otherwise in the committees' charters. The committees keep minutes of their meetings in English; minutes are available to the members of the Board of Directors. The secretary of the Board of Directors acts as the secretary of the committees.

Audit Committee and its charter

The Audit Committee assists the Board of Directors in supervising the company's accounting and asset management, risk management as well as in organizing external and internal audit. The Audit Committee manages its tasks in accordance with the charter approved by the Board of Directors, the Securities Market Association's Finnish Corporate Governance Code and the applicable laws and regulations.

The Audit Committee comprises at least three members, appointed annually by the Board of Directors among its members. The members of the committee must be independent of the company and at least one member must also be independent of significant shareholders of the company. A member of the Audit Committee may not participate in the company's or its group company's daily management. The committee convenes at least five times a year. The President and CEO and the Chief Financial Officer also attend the committee meetings. Other responsible employees attend the committee meetings as required on the invitation of the committee. The committee reports of its actions to the Board of Directors in the following Board of Directors' meeting.

Main responsibilities of the Audit Committee are

- to review Interim Reports, Half Year Financial Report, Financial Statement Release and Financial Statements as well as Board of Directors' Report,
- to approve goodwill testing,
- to approve management's essential estimates included in Financial Statements, Financial Statement Review, Half Year Financial Report and Interim Reports,
- to prepare a dividend proposal,
- to accept accounting and calculation principles, as well as their changes,
- to monitor non-financial reporting and integrated reporting,
- to monitor internal audit,
- to approve internal auditing plan and cost estimate,
- to monitor and evaluate financial reporting and forecast processes,
- to monitor and evaluate efficiency of the company's internal control and audit, risk management and quality auditing, and approve related plans,
- to assess compliance with laws and regulations,
- to monitor compliance with company's Code of Conduct,
- to monitor audit and Key Audit Matters,
- to prepare a decision proposal on the election of the auditor,
- to monitor and evaluate independence of the statutory auditor or audit firm, and particularly in relation to provision of non-auditing services to the company,
- to monitor provision of non-auditing services by audit firms,
- to approve plan and cost estimate of non-auditing services by audit firms,
- to review Corporate Governance Statement,
- to approve company's Treasury Policy and to monitor its financing position,
- to monitor company's tax situation,
- to monitor compliance of data protection and privacy regulation and policies, and
- to approve Audit Committee's annual plan and evaluate committee's performance.

Remuneration and HR Committee and its charter

The Remuneration and HR Committee is responsible for preparing human resources matters pertaining to the compensation of the President and CEO as well as top management, evaluation of the performance of the President and CEO and the Management Group, and to bonus and incentive plans.

The Remuneration and HR Committee comprises at least three members, appointed annually by the Board of Directors among its members. The majority of the members of the committee must be independent of the company. The committee convenes at least two times a year. The President and CEO, the Executive Vice President, Human resources as well as the Chief Financial Officer also attend the committee meetings, except when the agenda includes items relating to them. Other responsible employees attend the committee meetings as required on the invitation of the committee. The committee reports of its actions to the Board of Directors in the following Board of Directors' meeting.

Main responsibilities of the Remuneration and HR Committee are

- to prepare remuneration and other financial benefits of the President and CEO,
- to prepare remuneration and other financial benefits of the management,
- to prepare the matters relating to the company's bonus plans,
- to evaluate the remuneration of the President and CEO and other management and to ensure the appropriateness of the bonus plans,
- to monitor development of the employees, and
- to monitor employee well-being, health and development of security.

Committee Members and their attendance in committee meetings 2017

Committee	Members	Attendance/ Number of meetings	Attendance %
Audit Committee	Kaarina Ståhlberg (Chairman)	6/6	100
	Petri Castrén (since Mar 28, 2017)	5/5	100
	Petra Lundström (until Mar 28, 2017)	1/1	100
	Mikko Niinivaara	6/6	100
Remuneration and HR Committee	Raimo Voipio (Chairman)	4/4	100
	Yrjö Neuvo	4/4	100
	Mikko Niinivaara	4/4	100
	Pertti Torstila (since Mar 28, 2017)	4/4	100

All members of the Audit Committee as well as the Remuneration and HR Committee are independent both of the company and of significant shareholders.

PRESIDENT AND CEO

The Board of Directors appoints the President and CEO. The President and CEO is responsible for the everyday management of the company in accordance with the guidelines and instructions given by the Board of Directors, and informs the Board of Directors of the development of the company's business and financial situation. The President and CEO is responsible for ensuring that the company's accounting is legally compliant and that its financial affairs have been arranged in a reliable manner. Kjell Forsén has been the President and CEO of Vaisala as well as Chairman of Vaisala Management Group since 2006. He was born in 1958 and holds a licentiate's degree in technology.

MANAGEMENT GROUP

The President and CEO is the Chairman of the Management Group. The Management Group comprises seven members. The Management Group meets at least once a month to assist the President and CEO in developing the strategy, implementing the strategy, managing operational business, as well as preparing matters handled by the Board. The Management Group draws up annual operational and financial plans as well as targets related to these plans, monitors the implementation of the plans and prepares major investments and acquisitions. The President and CEO is responsible for the decisions taken by the Management Group. Members of the Management Group are responsible for implementing the decisions in their own areas of responsibility.

Members of the Management Group are heads of business areas, the Chief Financial Officer, the Executive Vice President of Operations and Human Resources as well as Group General Counsel. The General Counsel acts a secretary to the Management Group.

Members of the Management Group Dec 31, 2017

Director	Member since	Born	Education	Nationality	Position at Vaisala	Shareholding Dec 31, 2017
Kjell Forsén	2006	1958	Lic.Sc. (Tech.)	Finnish	President and CEO	11,332 (A share)
Marja Happonen	1994	1957	M.Sc. (Econ.)	Finnish	EVP, Human Resources	5,325 (A share)
Sampsa Lahtinen	2013	1963	M.Sc. (El. Eng.)	Finnish	EVP, Industrial Measurements	-
Kaarina Muurinen	2011	1958	M.Sc. (Econ.)	Finnish	CFO	6,945 (A share)
Vesa Pylvänäinen	2011	1970	M.Sc. (Econ.)	Finnish	EVP, Operations	3,062 (A share)
Jarkko Sairanen	2016	1963	M.Sc. (Ind. Eng.), MBA (INSEAD)	Finnish	EVP, Weather and Environment	2,000 (A share)
Katriina Vainio	2017	1967	LL.M.	Finnish	EVP, Group General Counsel	1,000 (A share)
Total						**29,664 (A share)**

Shareholdings include also shares held by the Management Groups' controlled organizations.

REMUNERATION

The Annual General Meeting decides on the remuneration of the Chairman, Vice Chairman and Board members as well as on the remuneration of auditor.

The objective of remuneration is to encourage employees as individuals and as team members to achieve the financial and operational targets set. In determining the remuneration, Vaisala takes into account its financial performance, remuneration levels for similar positions among peer companies and external references. All employees are included in a bonus plan that promotes the development of net sales, operating result and cash flow.

Remuneration for key executives includes a competitive salary and employee benefits according to local market practices as well as bonuses based on predefined annual performance indicators. Bonus plans promote development of net sales, operating result and cash flow. The key executives also belong to long-term share-based incentive plans, which are based on the development of the company's profitability.

The Board of Directors approves the company's incentive plans and their target groups annually. The Board of Directors also decides on the compensation of the President and CEO and approves the compensation of the direct reports of the President and CEO.

Remuneration of the Board of Directors

The Annual General Meeting held on March 28, 2017 decided that the annual fee payable to the Board members for the term until the close of the Annual General Meeting in 2018 is: the Chairman of the Board of Directors EUR 45,000 and each Board member EUR 35,000. Approximately 40 percent 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 decided that the compensation per attended meeting for the Chairman of the Audit Committee is EUR 1,500 and EUR 1,000 for each member of the Audit Committee for the term until the close of the Annual General Meeting in 2018. The compensation per attended meeting for the Chairman and each member of the Remuneration and HR Committee and any other committee established by the Board of Directors is EUR 1,000 for the term until the close of the Annual General Meeting in 2018.

Remuneration of the Board of Directors (accrual basis)

EUR 1,000	2017	2016
Petri Castrén (since March 28, 2017)	30	-
Petra Lundström	36	41
Yrjö Neuvo	39	40
Mikko Niinivaara	44	44
Kaarina Ståhlberg (since April 5, 2016)	43	34
Maija Torkko (until April 5, 2016)	-	11
Pertti Torstila	39	35
Raimo Voipio	49	50
Ville Voipio	35	35
Total	**315**	**290**

REMUNERATION OF THE MANAGEMENT

President and CEO

The Board of Directors decides on the remuneration of the President and CEO. The overall compensation consists of a monthly salary, fringe benefits, a pension plan and a performance bonus as well as the Share-Based Incentive Plans 2015, 2016 and 2017. The maximum annual bonus is limited to 72 percent of the President and CEO's annual salary. The President and CEO belongs to a voluntary pension plan, which defines the retirement age as 62 years.

The notice period is 6 months for the President and CEO and 12 months for the employer. Severance pay and conditions of other severance compensations are equal to the respective salary.

Management Group

The Board of Directors approves the compensation of the direct reports of the President and CEO. Overall compensation of the Management Group members consists of a monthly salary, fringe benefits, pension plan and a performance bonus as well as the Share-Based Incentive Plans 2015, 2016 and 2017. The maximum annual bonus is limited to 60 percent of the annual salary. The Management Group members belong to a voluntary pension plan, which defines the optional retirement age as 62 years.

Remuneration of the President and CEO (accrual basis)

EUR 1,000	2017	2016
Salary	512	494
Bonuses	323	178
Share-based payment	639	315
Obligatory pension	126	135
Voluntary pension	120	116
Total	**1,720**	**1,238**

Remuneration of the members of the Management Group, excl. the President and CEO (accrual basis)

EUR 1,000	2017	2016
Salary	1,363	1,129
Bonuses	650	355
Share-based payment	1,580	846
Obligatory pension	320	275
Voluntary pension	228	195
Total	**4,142**	**2,800**

Remuneration of the President and CEO and the members of the Management Group in 2017 (accrual basis)

EUR 1,000	Salary	Bonuses	Share-based payment	Obligatory pension	Voluntary pension	Total
President and CEO	512	323	639	126	120	1,720
Other Management Group members	1,363	650	1,580	320	228	4,142
Total	**1,875**	**973**	**2,219**	**446**	**348**	**5,861**

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

MEUR	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

CONTROLS

Main features of the internal control and risk management systems pertaining to the financial reporting process

Internal control seeks to ensure the company's compliance with applicable laws, regulations, Code of Conduct and with other recommendations, as well as the reliability of financial and operational reporting. Furthermore, internal control seeks to safeguard the company's assets and to ensure overall effectiveness and efficiency of operations to meet strategic, operational and financial targets. Internal control practices are aligned with the risk management process. The goal of the risk management is to support strategy and achievement of targets by anticipating and managing potential business threats and opportunities.

Vaisala's operating model of internal control and risk management related to financial reporting aims to provide sufficient assurance regarding the reliability of financial reporting and that the financial statements have been prepared in accordance with the applicable laws and regulations, accepted accounting principles (IFRS) and other requirements for listed companies. The principal components of internal control are control environment, risk assessment, control activities, communications and monitoring.

Control environment

The Board of Directors has the overall responsibility for the internal control of financial reporting. The Board of Directors has established a written charter that clarifies its responsibilities and regulates the internal distribution of work of the Board of Directors and its committees. The Board of Directors has appointed the Audit Committee whose task is to ensure that established principles for financial reporting, risk management and internal control are followed by, and to enable appropriate external audit. The President and CEO is responsible for organizing an effective control environment and ongoing work on internal control as regards financial reporting. The internal audit reports all relevant issues to the Audit Committee and the President and CEO.

Internal audit focuses on developing and enhancing control related to financial reporting by proactively concentrating on internal control environment and by monitoring effectiveness of the control. Most important internal steering instruments for financial reporting comprise the Code of Conduct, Approval Policy, Treasury Policy, Credit Policy, Disclosure Policy, accounting policies and other reporting instructions.

Risk assessment

Risk assessment as regards financial reporting aims to identify and evaluate most significant threats at the levels of Vaisala reporting segments, functions and processes. As a result of risk assessment, the company defines control targets through which it seeks to ensure that the fundamental requirements place on financial reporting are fulfilled. Information on the development of essential risk areas as well as plans and measures to mitigate the risks are communicated regularly to the Audit Committee.

Control activities

The President and CEO is operationally responsible for internal controls. Internal control related to financial activities as well as to control of the business and the management has been integrated into Vaisala's business processes. The company has defined and documented significant internal control activities related to its financial statements reporting process as part of business processes. Approval mechanisms, access rights, segregation of duties, authorizations, verifications, reconciliations and follow-up of financial reporting are essential internal activities. All business units have their own defined controller functions whose representatives participate in planning and evaluating the unit's performance. They ensure that monthly and quarterly financial reporting follows the company's policies and instructions and that all financial reporting is delivered on time. The management follows-up achievement of targets through monthly management reporting routines. The Chief Financial Officer regularly reports the results of the internal control work and efficiency of the control activities the Audit Committee.

Communications

Vaisala seeks to ensure that the company's internal and external communication is open, transparent, accurate and timely. The Disclosure Policy defines how and when information should be given and by whom it is given. It also defines the accuracy and comprehensiveness of the information in order to fulfil the communication obligations. Code of Conduct, Approval Policy, Treasury Policy, Credit Policy, accounting policies, and reporting instructions as well as Disclosure Policy and Insider Policy are available on the company's intranet.

Monitoring

The Board of Directors, the Audit Committee, the President and CEO, the Management Group and internal audit monitor effectiveness of internal control related to financial reporting. The monitoring includes follow up of monthly financial reports, review of the rolling estimates and plans, as well as reports from internal audit and auditors. Internal audit assesses the effectiveness of operations and adequacy of risk management and reports the risks and weaknesses related to the internal control processes. Internal audit compiles an annual audit plan and reports the status of the plan and findings regularly to the Audit Committee and the Management Group. Furthermore, the Chief Financial Officer, the General Counsel, internal audit and auditor coordinate audit planning and monitoring at least twice a year.

General development measures in internal control and risk management in 2017

In 2017, internal audit focused on risk management, material flow process, HR and compensation process, IT security policy as well as on travel expense reports. As a result of the findings in the audit of risk management, the company clarified and complemented the Risk Management Policy and renewed risk management processes in order to develop coverage and reporting. Other audits generated development measures in order to harmonize and enhance processes as well as improve internal controls. Development of internal controls focused on improvement of transparency as well as quality and accuracy of performance in inventory, credit risk and fixed assets processes in particular.

RELATED PARTY TRANSACTIONS

Vaisala reports related party transactions in a note to financial statements. In addition, the company evaluates and monitors transactions between the company and its related parties in order to ensure that possible conflicts of interest are taken into account in decision making. Vaisala has currently no related party transactions which would be material and in conflict with ordinary business or ordinary market terms.

AUDITING AND AUDITOR'S FEES

The company has one auditor, who must be a public accountant or audit firm authorized by the Finland Chamber of Commerce. If an audit firm is not chosen to perform the auditing, a deputy auditor must be elected as well. Auditor's term of office covers the current fiscal year and expires at the end of the following Annual General Meeting. Annual General meeting elects the auditor and decides on the compensation paid to them.

The Annual General Meeting held on March 28, 2017 re-elected Deloitte Oy, Audit Firm, as the Auditor for a term of one year. APA Merja Itäniemi has acted as an auditor with the principal responsibility of the company since March 26, 2014.

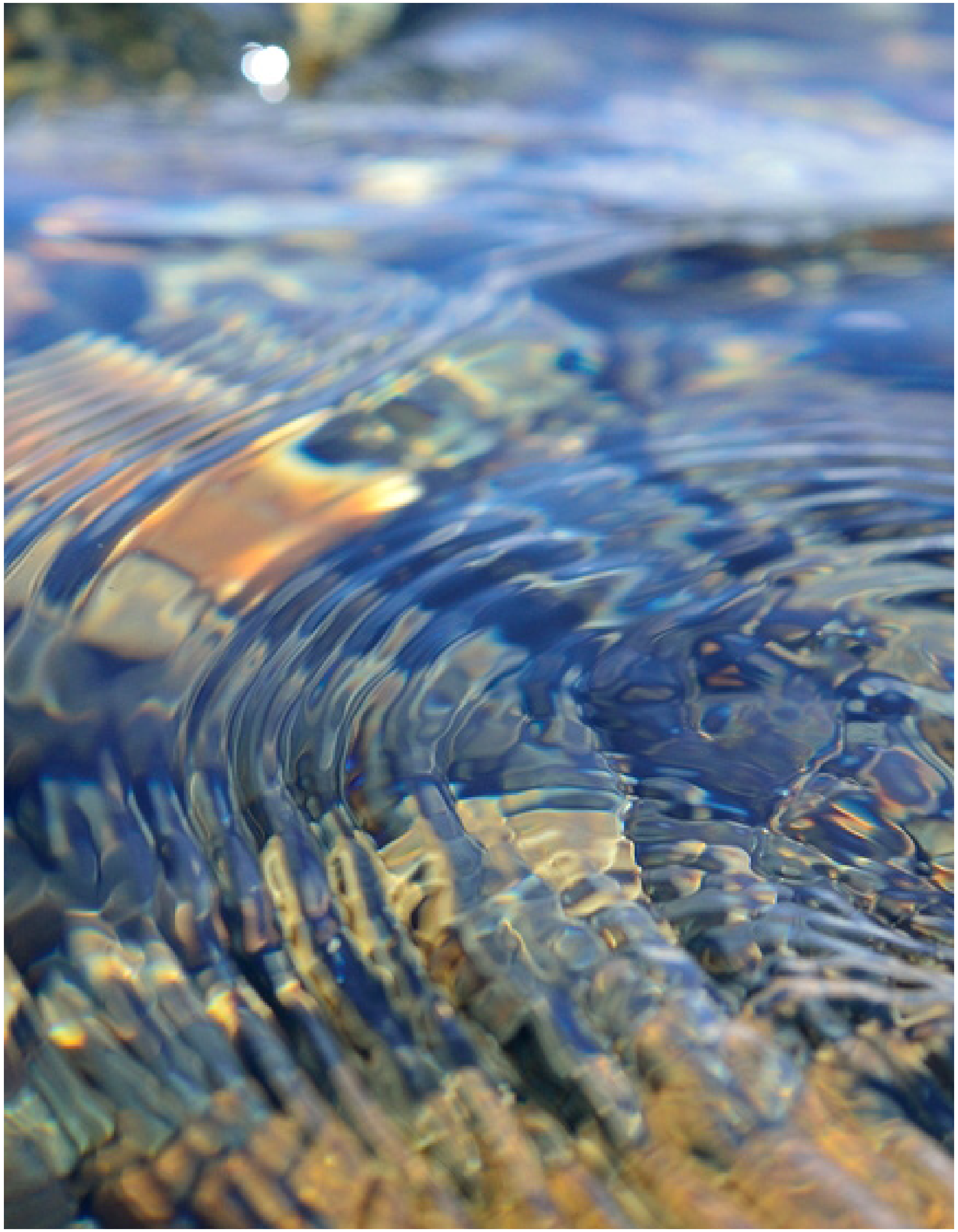
Auditor's Fees

EUR 1,000	2017	2016
Auditor's fees	293	256
Tax advice	25	7
Statements	6	8
Other fees	164	110
Total	**488**	**381**

INSIDERS

Vaisala no longer maintains public insider register but project-specific insider lists. 30-day closed window applies to the managers defined by the company before publishing Interim Reports, Half Year Financial Report, Financial Statement Release and Financial Statements. Closed window ends following the publication day. Closed window also applies to the persons engaged in preparation of those reports. The managers subject to transaction notification obligations comprise of the Board of Directors, the President and CEO as well as members of the Management Group. The company's legal department is responsible for insider management, training, and creation and maintenance of project and event specific insider lists, and monitoring of the same.

The President and CEO, Chief Financial Officer and/or the General Counsel, two together, can decide, based on an evaluation of the conditions set out in the Market Abuse Regulation being met, to delay publication of insider information. When the company makes a decision on delay of disclosure, a project or event based insider list regarding the inside information will be established. Persons, to whom project or event specific inside information is disclosed, are entered into the project or event specific insider list.



Risk Management

The objective of Vaisala's risk management is to identify and manage material risks related to strategy implementation and business operations. Vaisala has a risk management policy, which has been approved by the Board of Directors and which covers the company's strategic, operational, hazard, and financial risks. The policy aims at ensuring the safety of the company's personnel, operations, and products, as well as the continuity and compliance of business operations.

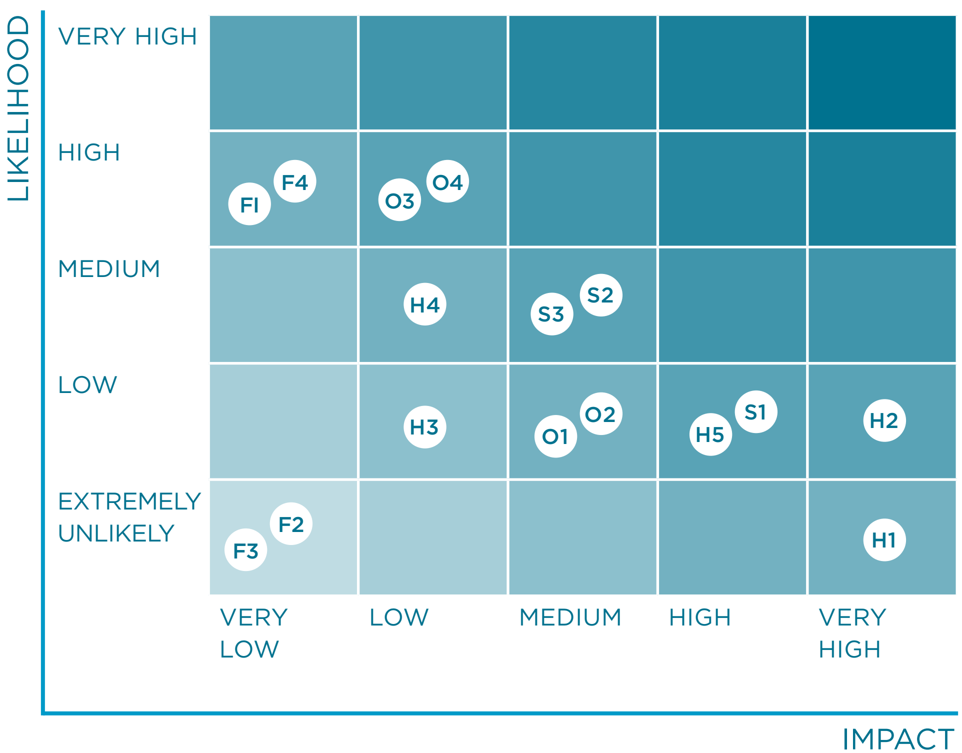
The Board of Directors defines and approves risk management principles and policies and assesses the effectiveness of risk management. The Audit Committee reviews compliance with risk management policy and processes.

Vaisala's Risk Management Steering Group comprises key internal stakeholders. The Steering Group is responsible for the operational oversight of the risk management process and for assuring that all significant risks are identified and reported and risks are acted upon on all necessary organizational levels and in all geographical locations.

Risk management is integrated into key business processes and operations. This is accomplished by incorporating applicable risk identification, assessment, management, and risk reporting actions into the core processes. The most significant risks are reported to the Vaisala Management Group quarterly and to the Audit Committee annually.

Vaisala's strategy and business operations are subject to various risks, which may have an adverse effect on the company. The list below explains some of the risks with their potential impacts and how Vaisala manages those risks today. Risk likelihoods and impacts provided here are estimates, typically provided by a small group of subject area experts. No quantitative methods have been applied to assess either likelihoods or impacts.

RISK MAP



Key Risks 2017		Impact/Likelihood
STRATEGIC RISKS		
S1	Increased competition, loss of market leader and price premium position	High/Low
S2	Unsuccessful entry into new business	Medium/Medium
S3	Political, legislative or regulatory changes	Medium/Medium
HAZARD RISKS		
H1	Long disruption in the cleanroom's operation	Very high/Extremely unlikely
H2	Field service personnel accident caused by working conditions	Very high/Low
H3	Critical failure of infrastructure supporting Digital Solutions	Low/Low
H4	Natural disaster, epidemic, civil unrest, terrorism	Low/Medium
H5	Cyber risk	High/Low
OPERATIONAL RISKS		
O1	Long unavailability of IT systems	Medium/Low
O2	Business continuity risks related to suppliers	Medium/Low
O3	Project delivery performance and interdependencies	Low/High
O4	Inventory risk	Low/High
FINANCIAL RISKS		
F1	Credit risk	Very low/High
F2	Liquidity and refinancing risk	Very low/Extremely unlikely
F3	Financial credit and interest rate risk	Very low/Extremely unlikely
F4	Currency risk	Very low/High

STRATEGIC RISKS

S1 Increased competition, loss of market leader and price premium position
Vaisala is a market leader in many businesses. Loss of that position would lead to significant reduction in profitability.

Managing risk
- Continued focus on product leadership
- Striving for outstanding customer experience and superior product quality
- Product portfolio management
- Close and frequent contacts with large customers

S2 Unsuccessful entry into new business
Digital Solutions and Air Quality in Weather and Environment, and Power business in Industrial Measurements are expected to keep growing to their full potential.

Managing risk
- Fast learning cycles and validation of new businesses with customers
- Sales channel and sales skills development
- Industry knowledge acquisition and transfer
- Adequate resourcing

S3 Political, legislative or regulatory changes
Changes in market environment can lead to loss of market potential, or increased cost of accessing the market.

Managing risk
- Geographic and market diversity of business
- Market and regulatory foresight
- Partnering

HAZARD RISKS

H1 Long disruption in the cleanroom's operation
Long disruption of cleanroom operations has a major impact on delivery capability of both business areas. Potential causes are fire, contamination, or breakdown of key equipment.

Managing risk
- Emergency stock of sensor components, risk-based management of production equipment and spare parts, safety of facilities
- Business continuity planning

H2 Field service personnel accident caused by working conditions
Serious accident caused by hazardous working conditions, such as roadsides, tall towers, extreme temperatures, or working alone.

Managing risk
- Continuous development of occupational health and safety system, emergency procedures, job hazard analysis
- Traveler tracking system

H3 Critical failure of infrastructure supporting Digital Solutions
Service unavailability due to communications failure, fire, power outage, causing significant harm to customers.

Managing risk
- Quality of software and systems design
- Geographic system redundancy across multiple server sites
- Transition to cloud computing

H4 Natural disaster, epidemic, civil unrest, terrorism
Impaired business environment caused by external events.

Managing risk
- Geographic diversity of business
- Business Interruption Insurance
- Monitoring of the business environment
- Risk assessment of business opportunities

H5 Cyber risk
Interruptions to operations or information services, financial loss, loss of trade secrets or personal data.

Managing risk
- ISO27001 compliant Information Security Management System (ISMS) creation and deployment
- Cyber insurance

OPERATIONAL RISKS

O1 Long unavailability of IT systems
Unavailability of systems leads quickly to interruptions in operations, especially in manufacturing.

Managing risk
- IT Disaster Recovery Plan as part of Information Security Management System
- Shortening resolution time of critical incidents
- Cyber insurance

O2 Business continuity risks related to suppliers
Long disruption in strategic supplier's operations e.g. due to natural disaster, accident, or bankruptcy

Managing risk
- Active supplier risk assessment
- Long term supplier development plans
- Strategic supplier business continuity audits
- Parts stock at Vaisala

O3 Project delivery performance and interdependencies
Significant loss of gross margin or delay in sales recognition of a large project.

Managing risk
- Thorough project preparation
- Early escalation and prudent change management
- Execution skill development

O4 Inventory risk
Write-offs of excess or obsolete items and inaccurate valuation reduce profitability.

Managing risk
- Development of product ramp-down process
- Development and material management and inventory processes

FINANCIAL RISKS

F1 Credit risk

Managing risk
- Secured terms of payment
- Business credit checks
- Diversification of customer pool

F2 Liquidity and refinancing risk

Managing risk
- Sustainable capital structure

F3 Financial credit and interest rate risk

Managing risk
- High credit rating of financial counter parties
- Low risk cash investment

F4 Currency risk

Managing risk
- Currency hedging

Board of Directors

RAIMO VOIPIO Chairman of the Board of Directors, Chairman of the Remuneration and HR Committee	YRJÖ NEUVO Vice Chairman of the Board of Directors, Member of the Remuneration and HR Committee	PETRI CASTRÉN Member of the Audit Committee	PETRA LUNDSTRÖM Member of the Board of Directors
b. 1955, Finnish citizen, M.Sc. (Eng.)	b. 1943, Finnish citizen, Ph.D. Cornell University	b. 1962, Finnish citizen, LL.M (Helsinki University), MBA (University of Connecticut, USA)	b. 1966, Finnish Citizen, M.Sc (Technical Physics)
Independent of the Company, dependent of significant shareholders of the Company, member of the Vaisala Board of Directors since 1989 and Chairman since 1994. End of term 2020. Main occupation: Board professional	Independent member of the Vaisala Board of Directors since 1989 and Vice Chairman since 1994. End of term 2019. Main occupation: Board professional	Independent member of the Vaisala Board of Directors since 2017. End of term 2019. Main occupation: CFO and Head of Region Americas, Kemira Oyj	Independent member of the Vaisala Board of Directors since 2014. End of term 2018. Main occupation: Vice President, Nuclear Services, Fortum Power and Heat Oy
Vaisala shares held Dec 31, 2017: 284,100 A shares and 227,148 K shares Dec 31, 2016: 283,580 A shares and 227,148 K shares	Vaisala shares held Dec 31, 2017: 34,640 A shares and 18,664 K shares Dec 31, 2016: 34,240 A shares and 18,664 K shares	Vaisala shares held Dec 31, 2017: 500 A shares Dec 31, 2016: -	Vaisala shares held Dec 31, 2017: 2,200 A shares Dec 31, 2016: 1,800 A shares

MIKKO NIINIVAARA Member of the Audit Committee, Member of the Remuneration and HR Committee	KAARINA STÅHLBERG Chairman of the Audit Committee	PERTTI TORSTILA Member of the Remuneration and HR Committee	VILLE VOIPIO Member of the Board of Directors
b. 1950, Finnish citizen, M.Sc. (Eng.), Dr. Tech. (h.c.)	b. 1966, Finnish citizen, LL.M. (Helsinki University), LL.M. (Columbia University, NY)	b. 1946, Finnish citizen, Master of Political Sciences	b. 1974, Finnish citizen, Doctor of Science in Measurement Technology
Independent member of the Vaisala Board of Directors since 2002. End of term 2020. Main occupation: Board professional	Independent member of the Vaisala Board of Directors since 2016. Chairman of the Audit Committee. End of term 2019. Main occupation: General Counsel, Posti Group Oyj	Independent member of the Vaisala Board of Directors since 2014. Member of the Remuneration and HR Committee. End of term 2020. Main occupation: Board professional	Independent member of the Vaisala Board of Directors since 2015. End of term 2018. Main occupation: Business Development Manager, Si-Tecno Oy, business strategy and R&D management
Vaisala shares held Dec 31, 2017: 2,200 A shares Dec 31, 2016: 1,800 A shares	Vaisala shares held Dec 31, 2017: 1,900 A shares Dec 31, 2016: 1,500 A shares	Vaisala shares held Dec 31, 2017: 2,200 A shares Dec 31, 2016: 1,800 A shares	Vaisala shares held Dec 31, 2017: 197,343 A shares and 48,356 K shares Dec 31, 2016: 196,943 A shares and 48,356 K shares

Shareholdings include direct holdings and shares held by interest parties and controlled organizations.

Read full CV information on the company's website at www.vaisala.com.

Management Group

KJELL FORSÉN
President and CEO,
Chairman of Management Group 2006–

b. 1958, Finnish citizen,
Lic.Sc. (Technology)

Vaisala shares held
Dec 31, 2017: 11,322 A shares
Dec 31, 2016: 10,720 A shares

MARJA HAPPONEN
Executive Vice President,
Human Resources 1994–

b. 1957, Finnish citizen,
M.Sc. (Economy)

Vaisala shares held
Dec 31, 2017: 5,325 A shares
Dec 31, 2016: 3,963 A shares

SAMPSA LAHTINEN
Executive Vice President,
Industrial Measurements 2013–

b. 1963, Finnish citizen,
M.Sc. (Electrical Engineering)

Vaisala shares held
Dec 31, 2017: -
Dec 31, 2016: 1,000 A shares

KAARINA MUURINEN
Chief Financial Officer 2011–

b. 1958, Finnish Citizen,
M.Sc. (Economy)

Vaisala shares held
Dec 31, 2017: 6,945 A shares
Dec 31, 2016: 5,000 A shares

VESA PYLVÄNÄINEN
Executive Vice President,
Operations 2011–

b. 1970, Finnish citizen,
M.Sc. (Economy)

Vaisala shares held
Dec 31, 2017: 3,062 A shares
Dec 31, 2016: 3,500 A shares

JARKKO SAIRANEN
Executive Vice President,
Weather and Environment 2016–

b. 1963, Finnish citizen,
M.Sc. (Industrial Engineering), MBA (INSEAD)

Vaisala shares held
Dec 31, 2017: 2,000 A shares
Dec 31, 2016: 4,500 A shares

KATRIINA VAINIO
Executive Vice President,
Group General Counsel 2017–

b. 1967, Finnish citizen,
LL.M.

Vaisala shares held
Dec 31, 2017: 1,000 A shares
Dec 31, 2016: 300 A shares

Shareholdings include direct holdings and shares held by interest parties and controlled organizations.
Read full CV information on the company's website at www.vaisala.com.

Information for Shareholders

ANNUAL GENERAL MEETING

Vaisala Corporation's Annual General Meeting will be held on Tuesday, April 10, 2018 at 6:00 p.m. Finnish time at Vaisala Corporation's head office, Vanha Nurmijärventie 21, 01670 Vantaa, Finland. The reception of persons who have registered for the meeting will commence at 5:00 p.m.

A shareholder, who wishes to participate in the Annual General Meeting, may register for the Meeting by giving a prior notice of participation no later than on April 5, 2018 at 4:00 p.m.

A prior notice of participation can be given:

- through Vaisala's website at www.vaisala.com/investors
- by email to paivi.aaltonen@vaisala.com
- by telephone to +358 9 8949 2201 during working days between 9:00 a.m. and 11:00 a.m. Finnish time.

Possible proxy documents should be delivered in originals to Vaisala Oyj, Päivi Aaltonen, PL 26, 00421 Helsinki, Finland or by email to paivi.aaltonen@vaisala.com before the end of the registration time.

PAYMENT OF DIVIDENDS

The Board of Directors proposes to the Annual General Meeting a dividend of EUR 1.10 per share and additional dividend of EUR 1.00 per share for the fiscal year 2017 to be paid. The dividend would be paid to shareholders registered in the Register of Shareholders held by Euroclear Finland ltd on the record date of the dividend distribution, April 12, 2018. The Board of Directors proposes that the dividend will be paid on April 19, 2018.

SHARE ISSUE WITHOUT PAYMENT (SHARE SPLIT)

The Board of Directors proposes to the Annual General Meeting that in order to enhance the liquidity of the company's share, new shares shall be issued to the shareholders without payment in proportion to their holdings so that one (1) new share will be issued for each share (split). The shares shall be issued to the shareholders who are registered in the Register of Shareholders maintained by Euroclear Finland Ltd on the record date of the share issue on April 12, 2018. The share issue without payment shall be executed in the book-entry system and will not require any actions by the shareholders. The new shares will generate shareholder rights as of April 13, 2018 when they have been registered in the trade register. The new shares will not entitle their holders to the dividend payments as defined above.

CHANGE OF ADDRESS

Vaisala's shareholders are kindly requested to report written changes of address to the bank where they have their book entry account.

LISTING OF VAISALA SHARES

Vaisala Corporation has two classes of shares: the listed class A shares and the non-listed class K shares. The Vaisala class A shares are listed on the Nasdaq Helsinki and are registered at Euroclear Finland Ltd.

PUBLICATION OF FINANCIAL INFORMATION

Vaisala Corporation publishes financial information in Finnish and English. All materials are available on Vaisala's website at www.vaisala.com. The printed Annual Report will only be mailed to those on the company's mailing list. Requests for printed financial reports can be submitted on Vaisala's website at www.vaisala.com.

INTERIM REPORTS AND HALF YEAR REPORT

- April 25, 2018: Interim Report for January–March 2018
- July 20, 2018: Half Year Financial Report 2018
- October 23, 2018: Interim Report for January–September 2018

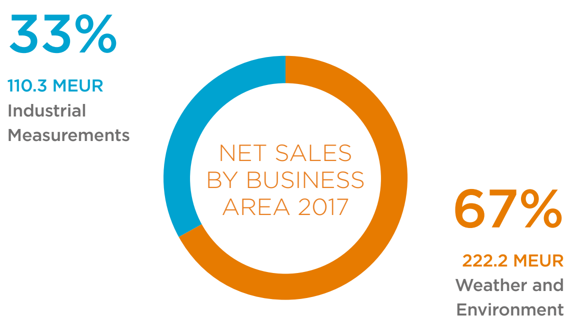
SILENT PERIOD

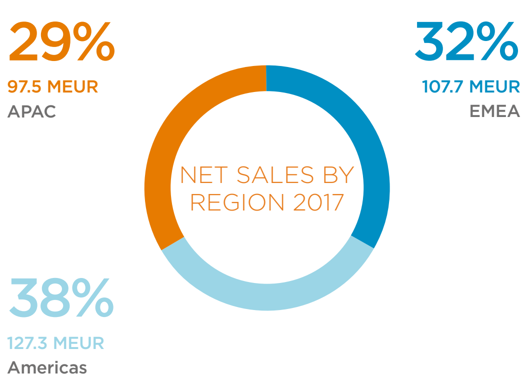
The silent period begins 30 calendar days before the publishing of the Interim Reports, Half Year Financial Report and Financial Statement Release, and lasts until the publishing of the Interim Reports, Half Year Financial Report and Financial Statement Release. Exceptions to this rule are the Annual General Meeting (if held during the silent period) and the publishing of a stock exchange release regarding a significant business event and the related communication. During silent periods, Vaisala's spokespersons refrain from discussing and commenting on issues related to the Company's financial performance or meeting with capital market representatives.

Comprehensive investor relations pages and investor relations contact information can be found at www.vaisala.com/investors.

FINANCIALS

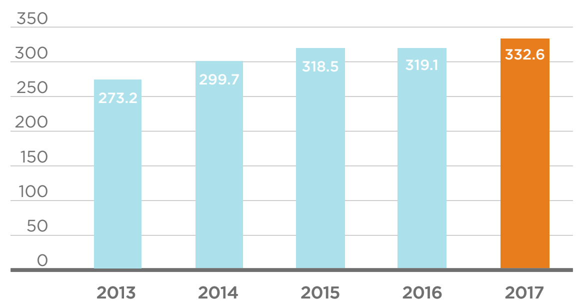
Key Figures



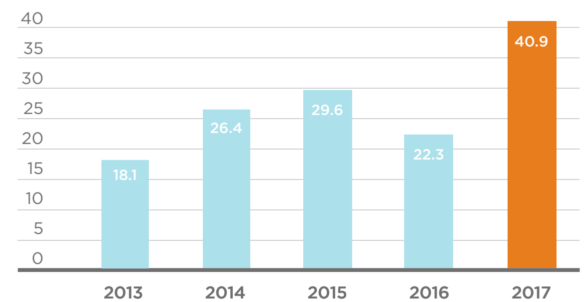


EMEA: Europe, Middle-East and Africa
Americas: North and South America
APAC: Asia-Pacific region

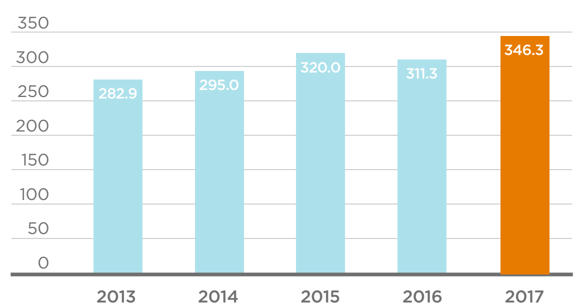
NET SALES, MEUR



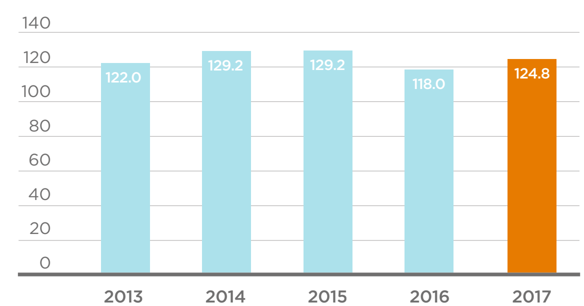
OPERATING RESULT (EBIT), MEUR



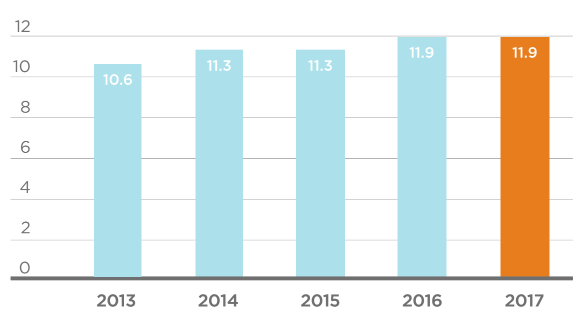
ORDERS RECEIVED, MEUR



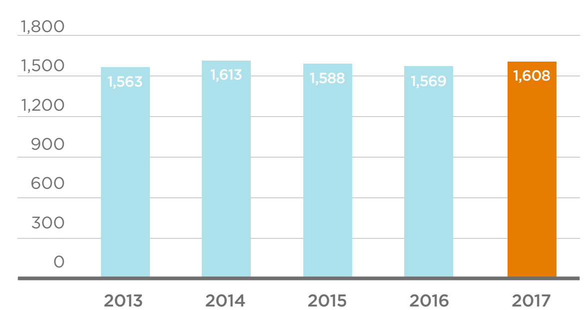
ORDER BOOK, MEUR



RESEARCH & DEVELOPMENT COSTS % OF NET SALES



PERSONNEL, AT YEAR-END



Board of Directors' Report 2017

MARKET SITUATION IN 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.

KEY FIGURES

Financial key figures

	IFRS 2017	IFRS 2016	IFRS 2015	IFRS 2014	IFRS 2013
Net sales, MEUR	332.6	319.1	318.5	299.7	273.2
Exports and international operations, %	97.0	98.0	98.0	97.0	97.1
Gross profit, %	52.3	51.6	51.1	51.1	49.2
Operating result, MEUR	40.9	22.3	29.6	26.4	18.1
% of net sales	12.3	7.0	9.3	8.8	6.6
Result before taxes, MEUR	38.1	22.1	33.0	29.1	17.2
% of net sales	11.5	6.9	10.4	9.7	6.3
Result, MEUR	27.2	18.8	27.5	23.4	10.9
% of net sales	8.2	5.9	8.6	7.8	4.0
Research and development costs, MEUR	39.6	38.0	36.1	34.0	28.9
% of net sales	11.9	11.9	11.3	11.3	10.6
Depreciations, MEUR	9.7	24.1	15.1	15.2	14.8
Cash and cash equivalents, MEUR	91.3	72.4	59.2	47.6	45.8
Equity, MEUR	185.4	178.5	181.3	170.0	158.9
Statement of financial position total, MEUR	274.0	255.0	264.0	244.6	225.6
Return on equity, %	15.0	10.5	15.7	14.3	6.3
Solvency ratio, %	68.9	71.1	69.7	70.6	71.6
Capital expenditure, MEUR	8.5	7.7	8.3	7.9	7.1
% of net sales	2.5	2.4	2.6	2.6	2.6
Cash flow from operating activities, MEUR	49.2	41.8	38.8	23.8	28.2
Orders received, MEUR	346.3	311.3	320.0	295.0	282.9
Order book Dec 31, MEUR	124.8	118.0	129.2	129.2	122.0
Personnel expenses, MEUR	129.9	128.4	130.0	116.3	104.7
Employees, average	1,592	1,590	1,611	1,617	1,485
Employees Dec 31	1,608	1,569	1,588	1,613	1,563

Share key figures

	IFRS 2017	IFRS 2016	IFRS 2015	IFRS 2014	IFRS 2013
Earnings/share (EPS), EUR	1.52	1.05	1.52	1.30	0.60
Earning/share (EPS), diluted, EUR	1.50	1.03	1.51	1.29	0.60
Cash flow from business operations/share, EUR	2.76	2.34	2.15	1.32	1.55
Shareholders equity/share, EUR	10.39	10.00	10.06	9.41	8.80
Dividend/share, EUR	*2.10	1.00	0.95	0.90	0.90
Dividend/earnings, %	**138.2	95.2	62.5	69.0	150.0
Effective dividend yield, %	2.5	3.0	4.0	4.1	3.9
Price/earnings (P/E)	29.28	32.10	15.75	16.84	38.68
A share trading					
highest price, EUR	48.90	36.96	27.02	24.98	23.47
lowest price, EUR	31.88	21.81	21.55	19.40	16.04
volume weighted average price, EUR	40.25	28.27	24.33	22.60	19.88
closing price, EUR	44.50	33.70	23.94	21.89	23.21
Market capitalization on Dec 31***, MEUR	794.1	601.6	431.6	395.3	419.2
A shares traded					
pieces	2,149,252	2,031,136	2,507,672	1,110,337	2,876,861
% of total series	14.5	13.7	16.9	7.5	19.4
Number of shares, pieces	18,218,364	18,218,364	18,218,364	18,218,364	18,218,364
A shares, pieces	14,829,033	14,829,013	14,829,013	14,829,013	14,829,013
K shares, pieces	3,389,331	3,389,351	3,389,351	3,389,351	3,389,351
Outstanding shares Dec 31***, pieces	17,846,000	17,851,487	18,026,814	18,059,214	18,059,214

* Proposal by the Board of Directors including dividend of EUR 1.10 and additional dividend of EUR 1.00.

** Calculated according to the proposal by the Board of Directors.

*** Including series A and K shares, excluding treasury shares. Series K shares are valued using the closing price for the series A share on the last trading day of December.

Trading information is based on Nasdaq Helsinki Ltd. statistics.

CALCULATION OF KEY FIGURES

$$\text{Earnings/share, EUR} = \frac{\text{Result for the period +/- non-controlling interest}}{\text{Average number of shares outstanding}}$$

$$\text{Cash flow from business operations/share, EUR} = \frac{\text{Cash flow from business operations}}{\text{Number of shares outstanding at the end of the period}}$$

$$\text{Equity/share, EUR} = \frac{\text{Shareholders' equity}}{\text{Number of shares outstanding at the end of the period}}$$

$$\text{Dividend/share, EUR} = \frac{\text{Dividend}}{\text{Number of shares outstanding at the end of the period}}$$

$$\text{Dividend/earnings, \%} = \frac{\text{Dividend}}{\text{Result for the period +/- non-controlling interest}} \times 100$$

$$\text{Effective dividend yield, \%} = \frac{\text{Dividend/share}}{\text{Closing price for the series A share at the end of the period}} \times 100$$

$$\text{Price/earnings (P/E)} = \frac{\text{Closing price for the series A share at the end of the period}}{\text{Earnings/share}}$$

Market capitalization, MEUR = Closing price for the series A share x number of shares outstanding

ALTERNATIVE PERFORMANCE MEASURES

Vaisala presents in its financial reporting alternative performance measures, which describe businesses' financial performance and its development as well as investments and return on equity. In addition to accounting measures which are defined or specified in IFRS, alternative performance measures complement and explain presented information. Vaisala presents in its financial reporting the following alternative performance measures:

Net sales with comparable exchange rates = Net sales converted to euros with exchange rates used during the comparison period

$$\text{Gross margin, \%} = \frac{\text{Cost of sales}}{\text{Net sales}} \times 100$$

Operating result = Result before income taxes, financial income and expenses, and share of result in associated company as presented in Consolidated Statement of Income. Operating result describes profitability and development of business areas' performance.

Result before taxes = Result before taxes as presented in Consolidated Statement of Income

$$\text{Return on equity (ROE), \%} = \frac{\text{Result for the period}}{\text{Shareholders' equity + non-controlling interest (average)}} \times 100$$

$$\text{Solvency ratio, \%} = \frac{\text{Shareholders' equity + non-controlling interest}}{\text{Statement of financial position total - advance payments}} \times 100$$

Investments = Gross investments in non-current intangible assets as well as property, plant and equipment

Order book = Undelivered customer orders at the end of the period

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

In 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 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 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 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 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.

GROUP STRUCTURE

Vaisala's headquarters are located in Vantaa, Finland. On December 31, 2017, Vaisala had subsidiaries in Australia, Brazil, Canada, China, Finland, France, Germany, India, Japan, Kenya, Malaysia, Mexico, United Kingdom and United States. The parent company has a branch in Columbia. In addition, Vaisala has permanent establishments and offices in South Korea, Sweden and United Arab Emirates.

BOARD OF DIRECTORS

The Annual General Meeting held on March 28, 2017 confirmed that the number of Board members is eight. Petri Castrén was elected as a new member of the Board of Directors.

Members of the Board of Directors on December 31, 2017

- Raimo Voipio, Chairman
- Yrjö Neuvo, Vice Chairman
- Petri Castrén
- Petra Lundström
- Mikko Niinivaara
- Kaarina Ståhlberg
- Pertti Torstila
- Ville Voipio

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

RISK MANAGEMENT

The objective of Vaisala's risk management is to identify and manage material risks related to strategy implementation and business operations. Vaisala has a risk management policy, which has been approved by the Board of Directors and which covers the company's strategic, operational, hazard, and financial risks. The policy aims at ensuring the safety of the company's personnel, operations, and products, as well as the continuity and compliance of business operations. The Board of Directors defines and approves risk management principles and policies and assesses the effectiveness of risk management. The Audit Committee reviews compliance with risk management policy and processes.

Risk Management Steering Group comprises key internal stakeholders. The Steering Group is responsible for the operational oversight of the risk management process and for assuring that all significant risks are identified and reported and risks are acted upon on all necessary organizational levels and in all geographical locations.

Risk management is integrated into key business processes and operations. This is accomplished by incorporating applicable risk identification, assessment, management, and risk reporting actions into the core processes. The most significant risks are reported to the Vaisala Management Group quarterly and to the Audit Committee annually.

FINANCIAL RISK MANAGEMENT

Vaisala is exposed to various financial risks the core of which are interest rate risk, foreign exchange rate risk, refinancing and liquidity risks as well as financial and customer credit risks. Vaisala aims to limit the effect of these risks to statement of income, financial position and cash flow. Vaisala's financial risk management is based on the treasury and credit policies approved by the Board of Directors.

Interest rate risk

Interest rate risk refers to uncertainty in statement of income, financial position and cash flow arising from interest rate fluctuation. Vaisala does not have significant interest-bearing liabilities or receivables other than cash at hand, therefore interest rate risk is limited. A change of one percent point in the interest rate would not affect Group's result or equity materially.

Foreign exchange risk

Foreign exchange risk refers to uncertainty in statement of income, financial position and cash flow arising from exchange rate fluctuation. Vaisala operates globally and is exposed to transaction and translation risk in many currencies. Transaction risk refers to income and expense flows in foreign currency. Translation risk refers to translation of statement of income and statement of financial position of foreign subsidiaries into euros.

Vaisala's sales is denominated in various currencies. Of the Group's sales 45% is in EUR, 34% in USD, 6% in CNY, 5% in JPY and 4% in GBP. costs and purchases occur mostly in EUR and USD. The Group policy is to hedge maximum of position that consists of order book, purchase orders and net receivables with foreign exchange derivatives. Vaisala does not hedge forecasted cash flows beyond order book or apply hedge accounting in accordance with IFRS.

Intra-group loans and deposits are initiated in subsidiaries' local currencies. Vaisala does not hedge intra-group loans, deposits or equities of foreign subsidiaries. Translation of subsidiaries' equities into euros caused translation adjustment of EUR -3.2 (-0.0) million. The most significant translation risk exposures are in USD.

Foreign exchange sensitivity analysis in accordance with IFRS 7 is based on the foreign currency nominated receivables, loans, cash and liabilities of group companies. calculation does not include internal loans, order book or forecasted cash flows but includes foreign exchange derivatives in their nominal value. 10% strengthening of currencies against EUR would have had an effect of EUR -1.0 (-2.0) million on Vaisala's result after taxes and equity. The most significant foreign exchange exposures against EUR are presented in the following table.

Foreign exchange exposures against EUR

	2017	2016
USD	-17.1	-31.1
INR	1.1	1.0
CAD	0.6	2.1

Refinancing and liquidity risk

Refinancing and liquidity risks refer to uncertainty in maintaining good liquidity. Vaisala's cash at hand amounted to EUR 91.3 (72.4) million. The parent company also has unused EUR 20.0 million uncommitted credit facility. Additionally, the subsidiaries have EUR 1.4 million credit limits, which can be drawn in guarantees. Currently, EUR 0.0 (0.0) million has been drawn from this facility. Vaisala does not have any other material external interest-bearing liabilities.

Financial credit risk

Financial credit risk refers to uncertainty in financial institutions' capability to meet financial liabilities against Vaisala. Financial credit risk exposure relates to cash at hand and financial derivatives. Vaisala's cash at hand amounted to EUR 91.3 (72.4) million and the nominal value of financial derivatives to EUR 38.8 (50.2) million. Vaisala invests cash and executes derivative contracts only with counterparties who are accepted by the Board of Directors and who have good credit worthiness. Counterparty creditworthiness is evaluated constantly. The maturities of cash investments are less than one month as of December 31, 2017.

Trade receivables credit risk

Trade receivables credit risk refers to risk that customers may not pay their payables. Credit risk is managed by using letters of credit, advance payments and bank guarantees as terms of payment as well as following creditworthiness of customers. Management estimates that the Group does not have material credit risk concentrations, because no individual customer or customer group represents an excessive risk, resulting from global diversification of the Group's customer pool. Recognized credit losses and related reversals arising from trade receivables for the financial year amounted to EUR 0.5 (-1.2) million. Bad debts are written off when official announcement of receivership, liquidation or bankruptcy is received confirming that the receivable will not be honored.

Further information about risk management is available in the Annual Report's sections Governance/Risk Management and on the company's website at www.vaisala.com/investors.

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 3o, 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.

Major shareholders Dec 31, 2017

	A shares	K shares	Total	% of shares	% of votes
Novametor Oy	1,389,000	498,396	1,887,396	10.36	13.75
Finnish Academy of Science and Letters	209,536	878,880	1,088,416	5.97	21.53
Mandatum Life Insurance Company Ltd.	629,250	137,400	766,650	4.21	4.09
Weisell-säätiö	720,000	0	720,000	3.95	0.87
Nordea Nordic Small Cap Fund	699,842	0	699,842	3.84	0.85
Ilmarinen Mutual Pension Insurance Company	636,440	0	636,440	3.49	0.77
Voipio Mikko	333,000	301,156	634,156	3.48	7.69
Caspers Anja	203,280	281,468	484,748	2.66	7.06
Voipio Raimo	256,100	227,148	483,248	2.65	5.81
Voipio Tauno	295,760	157,652	453,412	2.49	4.17
Vaisala Corporation	372,364	0	372,364	2.04	0.45
Voipio Lauri	280,846	41,688	322,534	1.77	1.35
Voipio Riitta	280,846	41,688	322,534	1.77	1.35
Voipio Ville	197,343	48,356	245,699	1.35	1.41
Voipio Mari	195,743	48,356	244,099	1.34	1.41
Total	**6,699,350**	**2,662,188**	**9,361,538**	**51.37**	**72.56**
Nominee registered	2,830,283	0	2,830,283	15.54	3.43

Ownership structure (series A and K shares) Dec 31, 2017

	Shares	% of shares
Households	7,276,387	39.94
Outside Finland and nominee registered	2,854,588	15.67
Private companies	2,717,109	14.91
Financial and insurance institutions	2,477,562	13.60
Non-profit organizations	2,037,355	11.18
Public sector organizations	855,363	4.70
Total	**18,218,364**	**100.00**

Ownership distribution (series A and K shares) Dec 31, 2017

	Shareholders	% of shareholders	Shares	% of shares
1–100	4,056	51.65	201,169	1.10
101–500	2,731	34.78	684,162	3.76
501–1,000	527	6.71	401,812	2.21
1,001–5,000	410	5.22	857,753	4.71
5,001–10,000	43	0.55	298,967	1.64
10,001–50,000	49	0.62	1,249,757	6.86
50,001–100,000	10	0.13	769,082	4.22
100,001–500,000	18	0.23	4,623,898	25.38
500,001–	9	0.12	9,131,764	50.12
Total	**7,853**	**100.00**	**18,218,364**	**100.00**
Nominee registered	8	2,835,726		15.57

SHAREHOLDERS' AGREEMENTS

The Board of Directors is not aware of any agreements concerning the ownership of the company's shares and the use of their voting rights.

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.

Corporate Governance Statement includes more details on the shareholdings of the Board of Directors and the Management Group.

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 company's website at www.vaisala.com/investors.

NON-FINANCIAL INFORMATION

Disclosure of non-financial information in accordance with Finnish Accounting Act chapter 3 a is presented in the Annual Report's sections Business Model, Dashboard, Environment and Social responsibility.

CORPORATE GOVERNANCE STATEMENT

Corporate Governance Statement is published as a part of the Annual Report as well as a separate report on the company's website at 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's 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 divided 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.

Vantaa, February 7, 2018

Vaisala Corporation
Board of Directors

The forward-looking statements in this Board of Directors' Report 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 Statements 2017

The audited financial statements comprise the group income statement, statement of comprehensive income, consolidated statement of financial position, statement of changes in equity, statement of cash flows and notes, as well as the parent company's income statement, balance sheet, cash flow statement and notes to the financial statements.

Consolidated Financial Statements, IFRS

CONSOLIDATED STATEMENT OF INCOME

EUR million	Note	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Net sales	1, 2, 3	332.6	319.1
Cost of sales	5, 16	-158.5	-154.3
Gross profit		**174.0**	**164.8**
Sales, marketing and administrative costs	5, 7, 16	-93.7	-103.4
Research and development costs	5, 7, 8, 16	-39.6	-38.0
Other operating income and expenses	4	0.1	-1.0
Operating result		**40.9**	**22.3**
Share of result in associated company	24	0.1	0.1
Financial income and expenses, net	9	-2.8	-0.3
Result before taxes		**38.1**	**22.1**
Income taxes	10	-10.9	-3.3
Result for the period		**27.2**	**18.8**
Earnings per share for result attributable to the equity holders of the parent company			
Earnings per share, EUR	11	1.52	1.05
Diluted earnings per share, EUR		1.50	1.03

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	Note	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Items that will not be reclassified to result			
Actuarial loss on post-employment benefits*	6	0.0	-0.0
Total		**0.0**	**-0.0**
Items that may be reclassified subsequently to result			
Currency translation differences		-3.2	0.0
Total		**-3.2**	**0.0**
Total other comprehensive income		**-3.2**	**-0.0**
Total comprehensive income		**24.1**	**18.8**

* The figures are presented net of taxes.

The notes are an essential part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR million	Note	Dec 31, 2017	Dec 31, 2016
Assets			
Non-current assets			
Intangible assets	16	20.6	20.0
Property, plant, and equipment	16	40.4	41.4
Investments		0.1	0.1
Investment in associated company	24	0.9	0.8
Long-term receivables	18	0.7	0.7
Deferred tax assets	10	7.6	10.8
Non-current assets, total		**70.3**	**73.8**
Current assets			
Inventories	13	28.6	32.1
Trade and other receivables	12	83.1	75.4
Income tax receivables		0.5	1.4
Cash and cash equivalents	20	91.3	72.4
Current assets, total		**203.5**	**181.2**
Total assets		**273.8**	**255.0**

EUR million	Note	Dec 31, 2017	Dec 31, 2016
Shareholders' equity and liabilities			
Shareholders' equity	17		
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 equity		**185.4**	**178.5**
Non-current liabilities			
Post-employment benefit obligations	6	2.5	2.4
Deferred tax liabilities	10	0.5	0.0
Provisions for other liabilities and charges	15	0.2	0.0
Other non-current liabilities	19	2.7	1.3
Non-current liabilities, total		**5.8**	**3.7**
Current liabilities			
Interest-bearing liabilities	19	-	0.0
Advances received		4.6	4.0
Income tax liabilities		1.4	0.4
Provisions for other liabilities and charges	15	1.3	1.8
Trade and other payables	14	75.3	66.6
Current liabilities, total		**82.5**	**72.8**
Total liabilities		**88.4**	**76.5**
Total shareholders' equity and liabilities		**273.8**	**255.0**

The notes are an essential part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

EUR million	Note	Share capital	Other reserves	Treasury shares	Translation differences	Retained earnings	Total equity
Shareholders' equity Jan 1, 2016		**7.7**	**1.1**	**-4.3**	**2.9**	**173.9**	**181.3**
Result for the period	17					18.8	18.8
Other comprehensive income	17		-0.0		0.0	-0.0	-0.0
Dividend paid	17					-17.1	-17.1
Reclassification	17		0.0			-0.0	-
Purchase of treasury shares	17			-5.3			-5.3
Share-based payments	7, 17		0.8	0.0			0.9
Shareholders' equity Dec 31, 2016		**7.7**	**2.0**	**-9.6**	**2.9**	**175.6**	**178.5**
Result for the period	17					27.2	27.2
Other comprehensive income	17		-0.0		-3.1	0.0	-3.2
Dividend paid	17					-17.8	-17.8
Return of unpaid dividends to shareholders' equity	17					0.1	0.1
Reclassification	17		0.0			-0.0	-
Purchase of treasury shares	17			-0.8			-0.8
Share-based payments	7, 17		1.0	0.3			1.4
Shareholders' equity Dec 31, 2017		**7.7**	**3.0**	**-10.1**	**-0.2**	**185.1**	**185.4**

CONSOLIDATED CASH FLOW STATEMENT

EUR million	Note	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Cash flow from operating activities			
Cash receipts from customers	1, 2	330.6	320.1
Cash paid to suppliers and employees		-272.6	-268.3
Financials paid, net	9	-1.8	-0.7
Income taxes paid, net	10	-7.1	-9.4
Total cash flow from operating activities		**49.2**	**41.8**
Cash flow from investing activities			
Acquisitions	22	-2.0	-
Capital expenditure on fixed assets	16	-8.5	-7.7
Divestments		0.3	1.4
Total cash flow from investing activities		**-10.2**	**-6.4**
Total cash flow from financing activities			
Dividend paid	17	-17.9	-17.1
Purchase of treasury shares	17	-0.8	-5.3
Change in loan receivables		0.0	0.0
Change in leasing liabilities	19	0.0	-0.0
Total 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 the period		72.4	59.2
Change 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 the period	20	**91.3**	**72.4**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BASIC INFORMATION

Vaisala is a global leader in environmental and industrial measurement. Building more than 80 years of experience, Vaisala contributes to a better quality of life by providing a comprehensive range of innovative observation and measurement products and services for chosen weather-related and industrial markets.

The parent company, Vaisala Corporation, is a Finnish public limited company, domiciled in Vantaa, Finland. The registered address is Vanha Nurmijärventie 21, FI-01670 Vantaa, Finland (P.O. Box 26, FI-00421 Helsinki). The company's Business ID is 0124416-2.

These financial statements have been approved for publication by the Board of Directors of Vaisala Corporation on February 7, 2018. Under the Finnish Companies Act, shareholders have the right to approve, reject or make changes to the financial statements in the Annual General Meeting to be held after the publication. A copy of the consolidated financial statements is available on the company website at www.vaisala.com/investors or at the parent company head office at the address Vanha Nurmijärventie 21, FI-01670 Vantaa, Finland (P.O. Box 26, FI-00421 Helsinki).

ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Vaisala's consolidated financial statements have been prepared according to the International Financial Reporting Standards (IFRS) as adopted by EU. All the obligatory IAS and IFRS standards as well as the SIC and IFRIC Interpretations in effect on December 31, 2017 have been followed in the preparation. The notes to the consolidated financial statements are also in accordance with the Finnish accounting and corporate law.

The consolidated financial statements are presented in millions of euros, if not otherwise stated. Financial statements are based on original acquisition costs if not otherwise stated in the accounting principles outlined below. All presented figures have been rounded and consequently the sum of individual figures may deviate from the presented sum. Figures from previous years are presented in parenthesis in the text section.

CONSOLIDATION PRINCIPLES

The consolidated financial statements include the parent company Vaisala Corporation and those subsidiaries in which the parent company directly or indirectly owns more than 50% of the votes or in which the parent company otherwise exercises control. Subsidiaries acquired or founded during the financial period are consolidated from the date on which the Group has acquired control and are no longer consolidated from the date that control ceases.

Acquisitions of subsidiaries are accounted for using acquisition cost method. The acquisition cost is the fair value of transferred assets, issued equity instruments and liabilities arising or assumed. All transaction costs are expensed. Identifiable acquired assets as well as assumed liabilities and contingent liabilities are valued initially at their fair values on the date of acquisition, irrespective of whether there are minority interests or not. The amount by which the acquisition cost exceeds the Group share of the fair value of the acquired identifiable net assets is recognized as goodwill. If the acquisition cost is lower than the acquired subsidiary's net assets, the difference is entered directly into the statement of income. Changes in contingent liabilities after initial recognition are recognized in other operating income or expenses.

Internal transactions, unrealized margins on internal deliveries, internal receivables and liabilities, as well as the internal dividends are eliminated. Unrealized losses on internal transactions are also eliminated unless costs are not recoverable or the loss results from an impairment. The consolidated financial statements are prepared applying consistent accounting principles to the same transactions and other events, which are implemented under the same conditions.

The share of profits or losses of associated companies, i.e. companies of which Vaisala owns 20–50% and over which it has significant influence, are included in the consolidated financial statements using the equity method. If Vaisala's share of an associated company's losses exceeds the book value of the investment, the investment is entered in the statement of financial position at zero value and further losses are not recognized unless the Group has incurred obligations on behalf of the associated company. Unrealized gains on transactions between the Group and its associated companies have been eliminated to the extent of the Group's interest in the associated companies.

The Group's share of associated companies' results is presented in the statement of income as a separate item before 'financial income and expenses'. Investments in associated companies are originally entered into the accounts at their acquisition cost and the book value increased or decreased by the share of post-acquisition profits or losses. Distribution of profit received from an investment reduces the book value of the investment.

FOREIGN CURRENCY ITEMS

Items relating to the consolidated result and financial position are measured using the currency which is the main currency of each entity's operating environment "functional currency". The consolidated financial statements have been presented in euros, which is the parent company's functional and presentation currency.

Transactions in foreign currencies are recognized at the rates of exchange on the date of transaction. Receivables and payables in foreign currency have been valued at the closing rates quoted by the European Central Bank on the closing date. Exchange rate differences resulting from the settlement of monetary items or from the presentation of items in the financial statements at different exchange rates from which they were originally recognized during the financial period, or presented in the previous financial statements, are recognized as financial income or expenses in the financial period in which they arise.

Balance sheets of subsidiaries, whose functional currency is other than euro, have been translated into euros using the closing rates quoted by the European Central Bank on the closing date. In translating statement of incomes, monthly average exchange rates have been used. Exchange rate differences resulting from the translation of statement of income items at monthly average rates and from the translation of balance sheet items at exchange rates on the closing date as well as translation differences in elimination of shareholders' equity on the closing date are recognized as a separate item under comprehensive income. When a foreign subsidiary or associated company is sold, the accumulated translation difference is recognized in the statement of income as part of the gain or loss on the sale.

Goodwill or fair value adjustments arising on the acquisition of an independent foreign entity are treated as that entity's foreign currency assets and liabilities and are translated at the period end rate.

NEW AND AMENDED IFRS STANDARDS ADOPTED IN 2017

The following revised IFRSs have been adopted from January 1, 2017 in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years unless specifically noted below, but may affect the accounting for future transactions and events.

Amendments to IAS 7 *Disclosure Initiative*. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. Group does not have liabilities arising from financing activities.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*. The amendments clarify how an entity should evaluate whether there will be sufficient taxable profits against which it can utilize a deductible temporary difference. The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to IFRSs 2014–2016 Cycle. In the annual improvement process the non-urgent but necessary amendments to IFRS are collected and issued annually. The nature of the improvements depends on the standards, but they do not have material impact on the consolidated financial statements. The Group has applied the amendments to IFRS 12 included in this Annual Improvements to IFRSs Cycle in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group (see note 28). IFRS 12 states that an entity needs not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests. The application of these amendments has had no effect on the Group's consolidated financial statements as none of the Group's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

ACCOUNTING PRINCIPLES REQUIRING MANAGEMENT DISCRETION AND THE MAIN UNCERTAINTY FACTORS RELATING TO ESTIMATES

In the preparation of financial statements the company management makes estimates and assumptions relating to the future. The actual outcomes may differ from the estimates and assumptions made. In addition, discretion has to be exercised in applying the accounting principles of the financial statements. Estimates made and discretion exercised are based on previous experience and other factors, such as assumptions about future events. Estimates made and discretion exercised are examined regularly.

The key areas in which estimates have been made and discretion has been exercised are related to fair value allocation of purchase price in business combinations (notes 16 and 22), revenue recognition (note 3), impairment testing (note 16) and allowances for excess and obsolete inventory (note 13). Other estimates are related mainly to environmental, litigation, warranty, credit and tax risks, the determination of pension obligations as well as the utilization of deferred tax assets against future taxable income.

FINANCIAL DEVELOPMENT

1. Business Segments

ACCOUNTING PRINCIPLES

Vaisala has a market segment based reporting model. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, is the company's Management Group.

The operating segments consist of businesses for which the allocated resources and results are reviewed by Vaisala's management team on the basis of the operating result. Discontinued operations and items beyond business segments are excluded. Pricing between segments takes place at the fair price. Vaisala has two Business Areas; Weather and Environment and Industrial Measurements.

Weather and Environment Business Area serves weather dependent markets and customers. Customers consist of national meteorological institutes, airport operators, road and rail operators and defense forces, among others. In the private sector, Weather and Environment Business Area serves customers in the energy and maritime industry. The products of the Business Area serve and support the customers' decision making in all weather conditions.

Industrial Measurements Business Area serves customers who operate in tightly controlled and demanding areas where the measurement of precise environmental conditions is required to increase operational quality, productivity and energy savings.

REVENUE RECOGNITION PRINCIPLES

Revenue from the sale of goods is recognized when significant risks and rewards of owning the goods are transferred to the buyer. Product revenue recognition is typically based on delivery terms. Revenue for rendering of services is recognized when the service has been performed. Vaisala recognizes project revenue separately for hardware and service in accordance with their pro rata selling prices with the exception of long-term projects. Accounting principles for long-term projects are presented in note 3, Long-Term Projects. When recognizing net sales, indirect taxes and discounts, for example, have been deducted from sales revenue. Possible exchange rate differences are recognized in the financial income and expenses.

Revenue arising from rents is recognized on an accrual basis in accordance with the substance of the relevant agreements. Interest income is recognized on a time-proportion basis, taking account of the effective yield of the asset item, and dividend income is recognized when the Group's right to receive payment is established.

NET SALES

Vaisala's net sales are divided into products, projects and services.

Products include product and delivery systems as well as spare parts.

Projects are typically integrated deliveries where Vaisala delivers a detection system, which consists of products, services and software. Large product deliveries or a number of separate deliveries can also be classified as projects due to their complexity.

Services include, among others, maintenance, calibration and repair services, modernization services and decision support solutions for weather critical operations.

2017 EUR million	Weather and Environment	Industrial Measurements	Other operations	Vaisala total
Products	112.0	98.7		210.7
Projects	76.4			76.4
Services	33.8	11.6		45.4
Net sales	**222.2**	**110.3**	**0.0**	**332.6**
Operating result	**18.2**	**22.8**	**-0.2**	**40.9**
Share of result in associated company				0.1
Financial income and expenses				-2.8
Result before taxes				**38.1**
Income taxes				-10.9
Result for the financial year				**27.2**

2016 EUR million	Weather and Environment	Industrial Measurements	Other operations	Vaisala total
Products	115.5	93.0		208.5
Projects	65.0			65.0
Services	34.9	10.7		45.6
Net sales	**215.4**	**103.7**	**0.0**	**319.1**
Operating result	**3.4**	**21.6**	**-2.7**	**22.3**
Share of result in associated company				0.1
Financial income and expenses				-0.3
Result before taxes				**22.1**
Income taxes				-3.3
Result for the financial year				**18.8**

2. Geographical Segments

Vaisala's business segments operate in geographical areas which are EMEA, Americas and APAC.[1)]

2017 EUR million	Net sales, by destination country[2)]	Net sales, by location country[3)]	Non-current assets[3)]
EMEA	107.7	267.2	38.9
of which Finland	9.3	236.0	38.5
Americas	127.3	120.2	22.1
of which United States	97.3	113.4	22.0
APAC	97.5	50.3	1.6
Eliminations		-105.2	
Total	**332.6**	**332.6**	**62.7**

2016 EUR million	Net sales, by destination country[2)]	Net sales, by location country[3)]	Non-current assets[3)]
EMEA	92.0	244.3	35.3
of which Finland	7.5	214.5	35.0
Americas	140.9	135.5	26.1
of which United States	110.5	129.0	25.9
APAC	86.2	47.1	1.6
Eliminations		-107.8	
Total	**319.1**	**319.1**	**63.0**

1) EMEA = Europe, Middle East and Africa, Americas = North and Latin Americas, APAC = Asia Pacific.

2) Sales to external customers have been presented as net sales by destination country.

3) Net sales and non-current assets have been presented by the Group's and associated companies' countries of location.

3. Long-Term Projects

ACCOUNTING PRINCIPLES

Revenues from long-term projects are recognized using the percentage of completion method, when the outcome of the project can be estimated reliably. The stage of completion is determined for each project by reference to the relationship between the costs incurred for work performed to date and the estimated total costs of the project or the relationship between the working hours performed to date and the estimated total working hours.

Expenses related to a project whose revenue is not yet recognized are entered as long-term projects in progress in inventories. If expenses arising and revenue recognized are larger than the sum invoiced for the project, the difference is presented in the statement of financial position item “trade and other receivables”. If expenses arising and gains recognized are smaller than the sum invoiced for the project, the difference is presented in the item “trade and other payables”.

When the outcome of a long-term project cannot be estimated reliably, project costs are recognized as expenses in the same period when they arise and project revenues only to the extent of project costs incurred where it is probable that those costs will be recoverable. When it is probable that total costs necessary to complete the project will exceed total project revenue, the expected loss is recognized as an expense immediately.

ACCOUNTING PRINCIPLES REQUIRING MANAGEMENT DISCRETION AND THE MAIN UNCERTAINTY FACTORS RELATING TO ESTIMATES

The Group uses the percentage of completion method in recognizing revenue for long-term projects. Revenue recognition according to percentage of completion is based on estimates of expected revenue and costs as well as on a determination of the progress of the percentage of completion. Changes can arise to recognized revenue and profit if estimates of a project’s total costs and total income are adjusted. The cumulative effect of adjusted estimates is recognized in the period in which the change becomes probable and it can be estimated reliably.

Long-term projects

EUR million	2017	2016
Net sales recognized as revenue according to percentage of completion (in financial year)	7.9	0.6
Amount recognized as revenue during the financial year and previous years for long-term projects in progress	8.4	8.8
Total costs of incomplete long-term projects	3.6	6.7
Net amount of recognized costs, profits and losses from long-term projects	4.2	1.9
Order book Dec 31	22.5	0.6
Specification of assets and liabilities		
Materials and supplies in inventory	0.6	0.0
Amount recognized as revenue during financial year and previous years for long-term projects in progress	8.4	8.8
Receivables netted against advances received	-3.7	-8.1
Receivables netted against advances invoiced	-2.9	-0.0
Receivables from long-term project customers	**1.9**	**0.7**
Deferred income recognized	0.6	0.1

4. Other Operating Income and Expenses

ACCOUNTING PRINCIPLES

Other operating income consists mainly of gains on the disposal of assets as well as income other than actual performance-based sales, such as gains on the disposal of business operations and indemnities. Other operating expenses consist mainly of losses on the disposal of assets and expenses relating to restructuring.

Other operating income

EUR million	2017	2016
Gain on the disposal of fixed assets	0.1	0.0
Gain on the disposal of Transportation business unit	-	1.0
Indemnities	0.5	0.0
Other	0.2	0.1
Total	**0.8**	**1.1**

Other operating expenses

EUR million	2017	2016
Loss on the disposal of fixed assets	0.0	0.0
Restructuring expenses	0.6	2.1
Total	**0.7**	**2.1**
Other operating income and expenses, net	**0.1**	**-1.0**

5. Personnel Expenses and Number of Personnel

Personnel expenses

EUR million	2017	2016
Salaries	103.8	102.8
Share-based payments	3.9	2.3
Social costs	9.5	11.3
Pensions		
Defined benefit pension schemes	0.0	0.0
Defined contribution pension schemes	12.7	11.9
Total	**129.9**	**128.4**

Personnel expenses by function

EUR million	2017	2016
Procurement and production	43.2	44.2
Sales, marketing and administration	55.1	54.4
Research and development	31.5	29.8
Total	**129.9**	**128.4**

Personnel, average by Business Area

	2017	2016
Weather and Environment	659	693
Industrial Measurements	316	293
Other operations	617	604
Total	**1,592**	**1,590**

Personnel, average by geographical area

	2017	2016
Finland	1,001	961
EMEA (excluding Finland)	107	112
Americas	348	383
APAC	136	135
Total	**1,592**	**1,590**

Share-based payments are disclosed in Note 7, Share-Based Payments.

The key management compensation in total is disclosed in Note 25, Related Party Transactions.

6. Pension Obligations

ACCOUNTING PRINCIPLES

Vaisala has a number of pension schemes in different parts of the world, which are based on local conditions and practices. These pension schemes are classified either as defined contribution or defined benefit plans. Under defined contribution plans, expenses are recognized in the statement of income in the financial period in which the contribution is payable. TyEL pension cover managed in an insurance company is a defined-contribution plan.

In defined benefit pension plans, liability recognized from the plan is the present value of the defined benefit obligation as of the period end date and it is adjusted by the fair value of the plan assets and by the unamortized portion of past service cost. Actuaries, who are independent from Vaisala, calculate the defined benefit obligation by applying the projected unit credit method under which the estimated future cash flows are discounted to their present value using the interest rates approximating high quality corporate bonds. The cost of retirement is charged in the statement of income concurrently with the service rendered by the personnel. Actuarial gains and losses are recognized in comprehensive statement of income.

DEFINED BENEFIT PLANS

The defined benefit plans are in the parent company. Vaisala Pension Fund was closed on January 1, 1983. The pension fund liability was transferred to a pension insurance company on December 31, 2005, and the fund was dissolved in 2006. The company retains, however, an obligation under IAS 19 for future index and salary increases in terms of individuals covered by the Pension Fund who are employed by the company.

In 2015, the defined benefit plan computation was recognized using gross method, which means that assets and liabilities of beneficiaries and paid up policyholders are presented separately. This change did not affect the result.

Defined benefit pension liability

EUR million	2017	2016
Fair value of funded obligations	5.7	5.7
Fair value of assets	-4.9	-4.9
Net liability in the statement of financial position Dec 31	**0.8**	**0.8**

Amounts recognized in the statement of income and the statement of other comprehensive income

EUR million	2017	2016
Current service cost	0.0	0.0
Interest	0.0	0.0
Expense recognized in the statement of income	**0.0**	**0.0**
Net actuarial gain and loss	-0.0	0.1
Total recognized in the statement of income and the statement of other comprehensive income	**0.0**	**0.1**

Pension costs in the statement of income have been recognized in sales, marketing and administrative costs.

Present value of the obligation

EUR million	2017	2016
Changes in the present value of obligation		
Present value of obligation Jan 1	5.7	5.7
Current service cost	0.0	0.0
Interest cost	0.1	0.1
Remeasurements		
Actuarial gain (-) / loss (+) arising from changes in financial assumptions	0.3	0.3
Experience adjustment	0.0	-0.1
Benefits paid	-0.4	-0.4
Present value of obligation Dec 31	**5.7**	**5.7**

Changes in the fair value of plan assets

EUR million	2017	2016
Fair value of plan assets Jan 1	4.9	5.0
Interest income on assets	0.1	0.1
Net return on plan assets	0.3	0.1
Benefits paid	-0.4	-0.4
Contributions	-0.0	0.0
Fair value of plan assets Dec 31	**4.9**	**4.9**

Changes of liabilities presented in the statement of financial position

EUR million	2017	2016
Liabilities Jan 1	0.7	0.7
Expense (+) / income (-) recognized in statement of income	0.0	0.0
Total recognized in other comprehensive income	-0.0	0.1
Contributions paid	0.0	-0.0
Liabilities Dec 31	**0.8**	**0.7**

Actuarial assumptions used

	2017	2016
Discount rate, %	1.12	1.45
Expected yield from assets belonging to the scheme, %	2.49	2.30
Rate of inflation, %	1.53	1.34
Annual adjustments to pensions, %	1.77	1.58

Sensitivity of the net liability changes in the principal assumptions

Assumption	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25%	2.43% decrease	2.55% increase
Salary increase rate	0.25%	0.15% increase	0.15% decrease
Pension increase rate	0.25%	17.40% increase	16.97% decrease

Assumption	Increase by one year	Decrease by one year
Life expectancy at birth	4.52% increase	4.33% decrease

The above analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the net liability using the above assumptions, the same method has been applied as when measuring the net liability in the statement of financial position.

7. Share-Based Payments

ACCOUNTING PRINCIPLES

Share-based payments are recognized as costs during the vesting period in line with IFRS 2. The costs are based on the estimate of the amount of shares to be paid at the end of vesting period. Assumptions that estimates are based on shall be updated when changes in them occur and cost effect of assumptions are recognized through statement of income.

Expenses arising from share-based incentive plans

EUR million	2014	2015	2016	2017	Total
Share-based incentive plan 2014	0.2	0.3	0.6	0.1	1.2
Share-based incentive plan 2015		0.5	1.1	1.6	3.2
Share-based incentive plans 2016			0.7	1.2	1.9
Share-based incentive plan 2017				1.1	1.1
Total	**0.2**	**0.8**	**2.4**	**4.0**	**7.4**

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.

8. Research and Development Expenses

ACCOUNTING PRINCIPLES

Research and development expenses are recognized as costs in the financial year in which they incur, except for machinery and equipment acquired for research and development use, which are depreciated using the straight-line method. Costs related to development of new products and processes are not capitalized because future earnings obtained from them are only assured when the products come to market. According to IAS 38, an intangible asset is entered in the statement of financial position only when it is probable that the company will derive financial benefit from the asset. Moreover, it is typical for the industry that it is not possible to distinguish the research stage of an internal project that aims to create an asset from its development stage.

The statement of income includes research and development costs of EUR 39.6 (38.0) million in 2017.

9. Financial Income and Expenses

ACCOUNTING PRINCIPLES

Vaisala capitalizes borrowing costs that relate to qualifying assets directly attributable to acquisition, construction or production of the assets as part of the cost of the asset in question. Other borrowing costs are booked as an expense. At the moment, Vaisala does not have capitalized borrowing costs.

Financial income

EUR million	2017	2016
Interest and financial income	0.3	0.2
Realized and unrealized gains arising from changes in fair values of derivative contracts and hedging activities	5.5	0.6
Other foreign exchange gains	1.7	4.5
Total	**7.5**	**5.3**

Financial expenses

EUR million	2017	2016
Interest expenses		
Short- and long-term liabilities	0.2	0.1
Finance lease agreements	0.0	0.0
Other financial expenses	0.2	0.2
Realized and unrealized losses arising from changes in fair values of derivative contracts and hedging activities	1.3	2.1
Other foreign exchange losses	8.6	3.2
Total	**10.3**	**5.6**
Financial income and expenses, net	**-2.8**	**-0.3**

Other foreign exchange gains and losses include gains and losses from revaluation of receivables and liabilities.

10. Income Taxes

ACCOUNTING PRINCIPLES

The Group tax expense includes taxes of Group companies based on taxable profit for the financial year, together with tax adjustments for previous years and changes in deferred taxes. In financial reporting, deferred taxes are calculated for all temporary differences between the carrying amount of an asset or liability and its tax base, and measured with enacted income tax rates. Largest temporary differences arise from provisions, accruals for operating expenses, depreciations and amortizations, accruals for share-based incentive plans and tax losses carried forward. Deferred tax assets are recognized to the extent that it is probable that these can be utilized against future taxable profits.

Income taxes

EUR million	2017	2016
Tax based on taxable income for the financial period	8.2	7.7
Taxes from previous financial years	0.5	0.3
Change in deferred tax assets and liabilities	2.2	-4.7
Total	**10.9**	**3.3**

Reconciliation statement between statement of income tax item and taxes calculated at the tax rate of the Group country of domicile

EUR million	2017	2016
Result before taxes	38.1	22.1
Taxes calculated at the Finnish tax rate	7.6	4.4
Effect of foreign subsidiaries' tax rates	1.1	-1.0
Non-deductible expenses and tax-free revenue	-0.1	-0.1
Taxes from previous years	0.5	0.3
Other direct taxes	0.0	0.0
Deferred tax adjustments	1.8	-0.2
Other	-0.1	-0.1
Total	**10.9**	**3.3**
Effective tax rate	**28.6%**	**14.8%**

Re-measurement of deferred tax assets reflects greatly the decrease in the US federal income tax rate from 35% to 21% from the beginning of 2018. The value of deferred tax assets in Vaisala Inc. decreased by approximately EUR 1.3 million.

On December 31, 2017 Vaisala's French subsidiary, Vaisala SAS, had EUR 1.0 million tax loss carried forward, which has not been recognized fully in previous years. Based on the company's financial performance, the deferred tax asset was recognized in full amount in 2017.

Deferred taxes in the statement of financial position

EUR million	2017	2016
Deferred tax assets	7.6	10.8
Deferred tax liabilities	-0.5	-0.0
Total	**7.1**	**10.8**

Gross change in deferred taxes recognized in the statement of financial position

EUR million	2017	2016
Deferred taxes Jan 1	10.8	5.7
Items recognized in statement of income	-2.2	4.7
Effect of acquired subsidiaries	-0.5	-
Translation differences	-1.0	0.3
Items recognized in statement of comprehensive income	-0.0	0.1
Deferred taxes Dec 31	**7.1**	**10.8**

Changes in deferred taxes during 2017

EUR million	Jan 1, 2017	Recognized in statement of income	Effect of acquired subsidiaries	Translation differences	Recognized in statement of comprehensive income	Dec 31, 2017
Deferred tax assets						
Internal margin of inventories and fixed assets	1.1	-0.6				0.6
Employee benefits	1.8	0.5		-0.2	-0.0	2.1
Unused tax losses	2.9	-0.5		-0.0		2.4
Timing difference of amortization on intangible items	0.8	0.0		-0.5		0.3
Other temporary timing differences	4.2	-1.7		-0.3		2.2
Total	**10.8**	**-2.2**		**-1.0**	**-0.0**	**7.6**
Deferred tax liabilities						
Timing difference of amortization on intangible items			0.5			0.5
Other	0.0					0.0
Total	**0.0**		**0.5**			**0.5**
Deferred tax assets, net	**10.8**	**-2.2**	**-0.5**	**-1.0**	**-0.0**	**7.1**

Changes in deferred taxes during 2016

EUR million	Jan 1, 2016	Recognized in statement of income	Translation differences	Recognized in statement of comprehensive income	Dec 31, 2016
Deferred tax assets					
Internal margin of inventories and fixed assets	1.4	-0.3			1.1
Employee benefits	1.1	0.7			1.8
Unused tax losses	2.9	-0.0			2.9
Timing difference of amortization on intangible items	0.7	0.0	0.0		0.8
Other temporary timing differences	4.1	-0.1	0.2	0.1	4.2
Total	**10.2**	**0.2**	**0.3**	**0.1**	**10.8**
Deferred tax liabilities					
Timing difference between accounting and taxation	0.2	-0.2			0.0
Timing difference of amortization on intangible items	4.3	-4.3	-0.0		0.0
Other	0.0	0.0			0.0
Total	**4.5**	**-4.5**	**-0.0**		**0.0**
Deferred tax assets, net	**5.7**	**4.7**	**0.3**	**0.1**	**10.8**

Other temporary timing differences consist mainly of provisions and accruals of operating expenses.

11. Earnings per Share

ACCOUNTING PRINCIPLES

Earnings per share is calculated by dividing the result for the period attributable to the parent company's shareholders by weighted average number of issued shares during the financial year. Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding during the financial year with the diluted effect of potential shares from the share-based payments.

Earnings per share

	2017	2016
Result attributable to shareholders of the parent company, EUR million	27.2	18.8
Weighted average number of shares outstanding, 1,000 pcs	17,847	17,955
Effect of share-based incentive plans, 1,000 pcs	329	248
Weighted average diluted number of shares, 1,000 pcs	18,176	18,203
Earnings per share, EUR	1.52	1.05
Diluted earnings per share, EUR	1.50	1.03

NET WORKING CAPITAL

12. Trade Receivables and Other Receivables

Accounting principles of trade receivables and other receivables are presented in Note 19, Financial Assets and Liabilities.

Trade receivables and other receivables

EUR million	2017	2016
Trade receivables	60.4	60.0
Loan receivables	0.0	0.0
Advances paid	1.3	0.2
Value-added tax receivables	2.3	2.8
Other receivables	0.9	1.3
Receivables from long-term project customers	2.2	0.7
Unbilled receivables	12.0	7.1
Derivative contracts	1.5	0.3
Other prepaid expenses and accrued income	2.5	3.0
Total	**83.1**	**75.4**

The fair value of the trade and other receivables is equivalent to their carrying amounts.

Age analysis for trade receivables

EUR million	2017	Provi-sion	Net 2017	2016	Provi-sion	Net 2016
Invoices not due	40.5		40.5	38.7		38.7
Due less than 30 days	12.3		12.3	12.6		12.6
Due 31–90 days	4.9		4.9	7.6		7.6
Due over 90 days	4.4	1.6	2.7	3.5	2.4	1.0
Total	**62.0**	**1.6**	**60.4**	**62.4**	**2.4**	**60.0**

In 2017, recognized credit losses and related reversals arising from trade receivables for the financial year amounted to EUR 0.5 (-1.2) million.

Trade receivables by currency

EUR million	2017	2016
EUR	29.1	18.3
USD	20.3	30.6
GBP	3.2	2.4
JPY	3.5	2.9
AUD	0.6	1.4
CNY	1.0	1.0
Others	2.8	3.3
Total	**60.4**	**60.0**

13. Inventories

ACCOUNTING PRINCIPLES

Inventories are stated at the lower of standard cost and net realizable value. Inventory cost includes the cost of materials, direct labor and a proportion of production overhead. An allowance is recorded for excess inventory and obsolescence based on the lower of cost or net realizable value.

ACCOUNTING PRINCIPLES REQUIRING MANAGEMENT DISCRETION AND THE MAIN UNCERTAINTY FACTORS RELATING TO ESTIMATES

Allowances for inventory are recognized for excesses, obsolescence and decreases in net realizable value below inventory cost. Estimation and judgment are required in determining the value of the allowance for excess and obsolete inventory. Management analyses demand estimates and determines allowances for excess and obsolete inventory. Changes in the estimates can result in revisions of the inventory valuation.

Inventories

EUR million	2017	2016
Materials, supplies and finished goods	26.5	27.6
Project inventories	2.1	4.5
Total	**28.6**	**32.1**

The cost of inventories against realized net sales recognized as an expense was EUR 93.6 (89.6) million.

Vaisala wrote down inventories and recognized excess and obsolescence allowances for slow moving and old inventory to their estimated net realizable value which resulted in a loss of EUR 1.8 (3.5) million.

14. Trade Payables and Other Liabilities

ACCOUNTING PRINCIPLES

Trade payables are recognized under accrual basis and because of short maturity, the carrying amount approximates to their fair value. Trade and other payables are classified as current liabilities if they are due within 12 months from the balance sheet date or are to be settled within the normal operating business cycle. Accounting principles for derivative contracts are presented in note 19, Financial Assets and Liabilities.

Trade payables and other liabilities

EUR million	2017	2016
Trade payables	12.8	10.7
Personnel cost accruals	26.7	22.9
Accrued revenue	24.9	20.3
Financial derivatives	0.3	1.5
Other accrued expenses and deferred income	5.5	5.4
Other short-term liabilities	5.0	5.7
Total	**75.3**	**66.6**

Trade payables arise from ordinary course of business and they relate to purchases of inventories, fixed assets and other goods and services. Personnel cost accruals are mainly related to bonuses and unused holidays. Accrued revenue includes amounts that have been invoiced but not yet recognized as revenue.

15. Provisions

ACCOUNTING PRINCIPLES

Provisions are recognized when Vaisala has a legal or constructive obligation as the result of a prior event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are valued at the present value of expenses required to cover the obligation. The discount factor used in calculating the present value is selected so that it reflects the market view of the time value of money and the risks related to the obligations at the time of examination. If it is possible that Vaisala will be reimbursed for part of the obligation by some third party, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The amount of provisions is estimated at each closing date and the amount is changed to correspond to the best estimate at the given time. A provision is reversed when the probability of financial settlement has been removed. A change in provisions is recognized in the same item of the statement of income in which the provision was originally recognized.

Provisions can relate to restructuring of operations, loss-making agreements, warranties, legal disputes and other commitments.

Restructuring provisions are recognized when a detailed and appropriate plan relating to them has been prepared and the company has begun to implement the plan or has announced it will do so. Restructuring provisions generally comprise lease termination penalties and employee termination payments.

A provision for a loss-making agreement is recognized when unavoidable expenditure required to fulfil obligations exceeds the benefits obtainable from the agreement.

Warranty provision contains the estimated cost to repair or replace products still under warranty. Provision is calculated based on historical experience and estimated cost to cover the liability.

Long-term provisions

EUR million	2017	2016
Provisions Jan 1	0.0	0.2
Increase in provisions	0.2	0.0
Translation differences	-0.0	-
Transfer to short-term provisions	-	-0.2
Provisions Dec 31	**0.2**	**0.0**

Short-term provisions

EUR million	2017	2016
Provisions Jan 1	1.8	0.4
Transfer from long-term provisions	-	0.2
Increase in provisions	0.5	2.5
Used provisions	-1.0	-1.3
Provisions Dec 31	**1.3**	**1.8**

In 2017 provisions included mainly restructuring, project loss and warranty provisions. In 2016 provisions included a provision for a donation to the New Children's hospital in Helsinki, Finland as well as restructuring and warranty provisions. In 2015, Vaisala recognized a provision of EUR 0.4 million for a radar donation to Colorado State University's CHILL Radar Engineering Research Center. This provision was reversed in 2016.

INTANGIBLE AND TANGIBLE ASSETS

16. Intangible and Tangible Assets

ACCOUNTING PRINCIPLES

GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Vaisala's share of the net assets of the acquired subsidiary or associated company at the date of acquisition. Goodwill is calculated in the currency of the operating environment of the acquired entity. If the acquisition cost is lower than the value of the acquired subsidiary's net asset value, the difference is entered directly into the statement of income. Goodwill is not amortized, but tested annually for possible impairment. For this purpose goodwill has been attributed to cash-generating units. Vaisala's total goodwill is allocated to the cash-generating unit formed by the Weather and Environment Business Area. Goodwill is valued at acquisition cost less impairment losses. Impairment costs are expensed.

OTHER INTANGIBLE ASSETS

Other intangible assets include e.g. patents, trademarks and software licenses. They are valued at their original acquisition cost and amortized using the straight-line method over their useful life. Intangible assets that have an indefinite useful life are not amortized, but are tested for impairment annually. These intangible assets are not material. Intangible assets of the acquired subsidiaries are valued at their fair values at the date of acquisition.

Estimated useful lives for intangible assets are:

Intangible rights	3–5 years
Software	3–5 years
Other intangible assets	3–5 years

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprise mainly land and buildings as well as machinery and equipment. The asset values are based on original acquisition cost less accumulated depreciation as well as possible impairment losses. The cost of self-constructed assets includes materials and direct work as well as a proportion of overhead costs attributable to construction work. If a tangible asset consists of several parts which have useful lives of different lengths, the parts are treated as separate assets. Accordingly, expenses relating to the renewal of a part are capitalized and the part remaining in connection with the renewal is recognized as an expense. In other cases, expenditures that arise later are included in the carrying amount of the tangible assets only if it is probable that the future financial benefit connected with the asset is for the benefit of Vaisala and that the acquisition cost can be reliably determined. Other repair and maintenance expenses are recognized through profit and loss when they are realized.

Depreciation is calculated using the straight-line method and is based on the estimated useful life of the asset. Land is not depreciated. Estimated useful lives for various assets are:

Buildings and structures	5–40 years
Machinery and equipment	3–8 years
Other tangible assets	3–8 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if necessary, in connection with each financial statement to reflect changes in the expectation of economic benefit. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in the operating result.

Public grants received for tangible asset investments are recognized as a reduction in the carrying amounts of tangible assets. Grants are recognized in the form of smaller depreciations during the useful life of the asset.

Depreciation of a tangible asset is discontinued when the tangible asset is classified as being for sale in accordance with the IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*.

LEASE AGREEMENTS

Lease agreements of tangible assets in which Vaisala has a substantial part of the risks and rewards of ownership are classified as finance leases. Finance leases are booked into tangible assets at the start of the lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments. An asset acquired under a finance lease is depreciated over the shorter of the useful life of the asset or the lease term. Lease payments are allocated between the liability and finance charges so that a constant interest rate on the outstanding finance balance is achieved. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities.

Lease agreements where the lessor retains a significant portion of the risks and rewards of ownership are treated as other leases. Payments made under other leases are charged to the statement of income on a straight-line basis over the period of the lease.

IMPAIRMENT

On each closing date, Vaisala reviews asset items for any indication of impairment losses. The need for impairment is examined at the cash-generating unit level, i.e. at the lowest unit level which is mainly independent of other units and whose cash flows are separate and highly independent from the cash flows of other, corresponding, units. If there are such indications, the amount recoverable from the said asset item is assessed. The recoverable amount is also assessed annually for the following asset items irrespective of whether there are indications of impairment: goodwill, intangible assets which have an indefinite useful life, as well as incomplete intangible assets.

The recoverable amount is the higher of the asset item's fair value less the cost arising from disposal and its value in use. When determining value in use, the expected future cash flows are discounted based on their present values at discount interest rates, which reflect the average capital cost before taxes of the country and business sector in question (WACC = weighted average cost of capital). The special risks of the assets in question are also taken into account in the discount interest rates. In terms of individual asset items which do not independently generate future cash flows, the recoverable amount is determined for the cash-generating unit to which the said asset item belongs.

An impairment loss is recognized as an expense in the statement of income when the carrying amount is greater than the recoverable amount. The impairment loss is reversed if a change in conditions has occurred and the recoverable amount of the asset has changed since the date when the impairment loss was recognized. The impairment loss is not reversed, however, by more than that which the carrying amount of the asset (less depreciation) would be without the recognition of the impairment loss. Impairment losses recognized for goodwill are not reversed under any circumstances.

ACCOUNTING PRINCIPLES REQUIRING MANAGEMENT DISCRETION AND THE MAIN UNCERTAINTY FACTORS RELATING TO ESTIMATES

IFRS 3 requires the acquirer to recognize an intangible asset separately from goodwill, if the recognition criteria are fulfilled. Recognition of an intangible asset at fair value requires management estimates of future cash flows. Where possible, management has used available market values as the basis of acquisition cost recognition in determining fair values. When this is not possible, which is typical particularly with intangible assets, valuation is based principally on the historic cost of the asset item and its intended use in business operations. Valuations are based on discounted cash flows as well as estimated disposal and repurchase prices and require management estimates and assumptions about the future use of asset items and the effect on the company's financial position. Changes in the emphasis and direction of company operations can in future result in changes to the original valuation. Vaisala tests goodwill annually for possible impairment and reviews whether there are indications of impairment according to the accounting principle presented above. The recoverable amounts of cash-generating units have been determined in calculations based on value in use. Although assumptions used according to the view of the company's management are appropriate, the estimated recoverable amounts might differ substantially from those realized in future.

Intangible assets

EUR million	Goodwill	Other intangible assets	Total
Acquisition cost Jan 1, 2017	16.5	50.1	66.6
Translation difference	-2.0	-2.6	-4.6
Increases		0.7	0.7
Business combinations	1.7	2.4	4.1
Decreases		-12.2	-12.2
Acquisition cost Dec 31, 2017	**16.2**	**38.4**	**54.5**
Accumulated amortization and impairment Jan 1, 2017		46.6	46.6
Translation difference		-2.6	-2.6
Accumulated amortization of decreases and transfers		-12.2	-12.2
Amortization in financial year		2.2	2.2
Accumulated amortization and impairment Dec 31, 2017		**33.9**	**33.9**
Carrying amount Dec 31, 2017	**16.2**	**4.4**	**20.6**

Intangible assets

EUR million	Goodwill	Other intangible assets	Total
Acquisition cost Jan 1, 2016	16.1	65.3	81.4
Translation difference	0.5	1.2	1.7
Increases		1.5	1.5
Decreases	-0.1	-18.2	-18.3
Transfers between items		0.4	0.4
Acquisition cost Dec 31, 2016	**16.5**	**50.1**	**66.6**
Accumulated amortization and impairment Jan 1, 2016		47.4	47.4
Translation difference		1.4	1.4
Accumulated amortization of decreases and transfers		-18.1	-18.1
Amortization in financial year		5.4	5.4
Impairments in financial year		10.5	10.5
Accumulated amortization and impairment Dec 31, 2016		**46.6**	**46.6**
Carrying amount Dec 31, 2016	**16.5**	**3.5**	**20.0**

GOODWILL IMPAIRMENT TESTING

Vaisala assesses the value of goodwill for impairment annually or more frequently in case facts and circumstances indicate a risk of impairment. The assessment is done using discounted cash flow methodology which is applied to five year forecasts that are approved by Vaisala management. The recoverable amount of cash-generating unit is based on value in use calculations. Vaisala's total goodwill is allocated to the cash-generating unit formed by the Weather and Environment Business Area.

In Weather and Environment cash-generating unit recoverable amount exceeds book value by EUR 358 million. Weather and Environment business sales are expected to grow annually 2-10% next five years. Terminal growth rate is based on 2% growth assumption and Weighted Average Cost of Capital (WACC) is 8.7%. Calculations show that with other assumptions unchanged cash-generating unit can withstand sales deteriorating 17%, profitability deteriorating 11% or discount rate increase 34%.

Property, plant and equipment

EUR million	Land and waters	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost Jan 1, 2017	3.2	54.8	77.6	0.0	3.5	139.1
Translation difference	-0.2	-0.8	-3.3		0.0	-4.4
Increases		1.1	1.5	0.0	5.9	8.5
Business combinations			0.0			0.0
Decreases		-0.1	-8.9			-8.9
Transfers between items		0.2	5.1		-5.3	0.0
Acquisition cost Dec 31, 2017	**2.9**	**55.2**	**72.0**	**0.1**	**4.1**	**134.2**
Accumulated depreciation and impairment Jan 1, 2017		34.1	63.7			97.8
Translation difference		-0.5	-2.2			-2.7
Accumulated depreciation of decreases and transfers		-0.1	-8.7			-8.7
Depreciation in financial year		2.4	5.0			7.4
Impairments in financial year		0.0	0.2			0.2
Accumulated depreciation and impairment Dec 31, 2017		**35.9**	**58.0**			**93.9**
Carrying amount Dec 31, 2017	**2.9**	**19.2**	**14.0**	**0.1**	**4.1**	**40.4**

On December 31, 2017, the carrying amount of machinery and equipment used in production was EUR 9.2 (9.4) million.

Property, plant and equipment

EUR million	Land and waters	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost Jan 1, 2016	3.1	54.4	76.3	0.0	6.0	139.9
Translation difference	0.1	0.0	0.5		0.0	0.6
Increases		0.7	2.1		3.4	6.2
Decreases		-1.0	-5.9			-6.9
Transfers between items		0.7	4.6		-5.9	-0.7
Acquisition cost Dec 31, 2016	**3.2**	**54.8**	**77.6**	**0.0**	**3.5**	**139.1**
Accumulated depreciation and impairment Jan 1, 2016		32.7	63.1			95.8
Translation difference		-0.0	0.4			0.4
Accumulated depreciation of decreases and transfers		-1.0	-5.6			-6.6
Depreciation in financial year		2.4	5.7			8.1
Impairments in financial year		0.0	0.1			0.1
Accumulated depreciation and impairment Dec 31, 2016		**34.1**	**63.7**			**97.8**
Carrying amount Dec 31, 2016	**3.2**	**20.8**	**13.9**	**0.0**	**3.5**	**41.4**

Depreciation, amortization and impairments by function

EUR million	2017	2016
Procurement and production	3.9	4.5
Sales, marketing and administration	5.2	19.0
Research and development	0.6	0.6
Total	**9.7**	**24.1**

Depreciation, amortization and impairments by asset group 2017

EUR million	Depreciation and amortization	Impairments	Total
Intangible rights	2.0		2.0
Other intangible assets	0.1		0.1
Buildings and structures	2.4		2.4
Machinery and equipment	5.0	0.2	5.2
Total	**9.5**	**0.2**	**9.7**

Depreciation, amortization and impairments by asset group 2016

EUR million	Depreciation and amortization	Impairments	Total
Intangible rights	4.3	2.2	6.5
Other intangible assets	1.1	8.3	9.4
Buildings and structures	2.4	0.0	2.4
Machinery and equipment	5.7	0.1	5.8
Total	**13.5**	**10.6**	**24.1**

In 2016, Vaisala recognized a EUR 10.5 million write-down of intangible assets. The intangible assets were from the acquisitions of Second Wind Systems Inc. and 3TIER Inc. in 2013. The write-down was due to Vaisala's slower than anticipated market penetration in the renewable energy market and related weakening of expected return on Vaisala's Energy business investment.

CAPITAL STRUCTURE

17. Shareholders' Equity

§ ACCOUNTING PRINCIPLES

The equity consists of share capital, reserve fund, fund of invested non-restricted equity, translation differences and retained earnings.

Shares issued by the parent company are presented as share capital. Expenses related to the share issues or acquisition of own shares are presented as a reduction item of equity. If the company buys back own shares, the consideration paid including direct costs is deducted from equity.

The Board of Directors' proposal for dividend distribution is not recognized in the financial statements. The dividends are recognized only on the basis of the Annual General Meetings' approval.

SHARES AND SHARE CAPITAL

Vaisala has 18,218,364 shares, of which 3,389,331 are series K shares and 14,829,033 are series A shares. The shares do not have nominal value. A maximum of 68,490,017 shares shall be series K shares and a maximum of 68,490,017 shares shall be series A shares, with the provision that the total number of shares shall be at least 17,122,505 and not more than 68,490,017. The series K shares and 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 shares have the same rights to dividend. Series K shares can be converted to series A shares according to specific rules stated in the Articles of Association. In 2017, 20 series K shares were converted to series A shares. This conversion was registered into the Trade Register on August 24, 2017.

On December 31, 2017 and 2016, the fully paid and registered share capital of Vaisala Corporation amounted to EUR 7,660,807.86. Maximum share capital is EUR 28,800,000.

Share capital and reserves

EUR million	Number of shares 1,000	Share capital	Other reserves	Treasury shares	Total
Dec 31, 2015	**18,026**	**7.7**	**1.1**	**-4.3**	**4.4**
Share-based compensation	2		0.8	0.0	0.9
Purchase of treasury shares	-177			-5.3	-5.3
Transfer			0.0		0.0
Translation difference			-0.0		-0.0
Dec 31, 2016	**17,851**	**7.7**	**2.0**	**-9.6**	**0.0**
Share-based compensation	23		1.0	0.3	1.4
Purchase of treasury shares	-23			-0.8	-0.8
Return of treasury shares	-5				
Transfer			0.0		0.0
Translation difference			-0.0		-0.0
Dec 31, 2017	**17,846**	**7.7**	**3.0**	**-10.1**	**0.6**
Own shares held by the company	372				
Total	**18,218**				

Other reserves consist of the reserve fund and the fund of invested non-restricted equity. Share-based payments are also booked in other reserves. Reserve fund, EUR 0.4 (0.5) million, contains items based on the local rules of other Group companies. Restrictions based on local rules apply to the distributability of the reserve fund. The fund of invested non-restricted equity includes funds transferred from the share premium fund. On December 31, 2017 the balance was EUR 0.1 (0.1) million.

The translation differences fund consists of translation differences arising from the conversion of the statement of income and statement of financial position of foreign units.

The result for the financial year is entered in retained earnings.

OWN SHARES HELD BY THE COMPANY

The own shares (treasury shares) fund includes the acquisition cost of own shares held by Vaisala, and it is presented as a reduction in retained earnings.

Treasury shares

	Number of shares	Purchase price EUR million
Treasury shares Dec 31, 2015	**191,550**	**4.3**
Distribution of treasury shares to key employees	-1,500	-0.0
Purchase of treasury shares	176,827	5.3
Treasury shares Dec 31, 2016	**366,877**	**9.6**
Distribution of treasury shares to key employees	-22,506	-0.3
Purchase of treasury shares	23,173	0.8
Return of treasury shares	4,820	-
Treasury shares Dec 31, 2017	**372,364**	**10.1**

Vaisala Annual General meeting decided on March, 28, 2017 that the rights to shares in Vaisala joint book-entry account are forfeited. The 4,820 shares on the joint book-entry account were transferred to Vaisala Corporation by the decision of the Board of Directors. 20 series K shares were converted to series A shares.

On December 31, 2017 Vaisala had 372,364 series A shares (366,877) in its possession that represent approximately 2.0% (2.0) of share capital and 0.5% (0.4) of voting rights. The consideration paid for the series A shares was EUR 10.1 million.

Treasury shares can be used as consideration in possible acquisitions or in other arrangements that are part of the company's business, to finance investments, as part of the company's incentive program, or be retained, conveyed, or cancelled by the company.

DIVIDEND

For 2016 a dividend of 1.00 euros per share was paid, a total of EUR 17.8 million.

At the Annual General Meeting to be held on April 10, 2018 the payment of a dividend of 1.10 euros per share and additional dividend of EUR 1.00 per share will be proposed by the Board of Directors, representing a total dividend of approximately EUR 37.5 million. The proposed dividend has not been recognized as a dividend liability in these financial statements.

18. Long-Term Receivables

Long-term receivables

EUR million	2017 values in statement of financial position	Fair values	2016 values in statement of financial position	Fair values
Long-term deposits	0.7	0.7	0.7	0.7
Total	**0.7**	**0.7**	**0.7**	**0.7**

Long-term deposits consist mainly of rental guarantees.

19. Financial Assets and Liabilities

ACCOUNTING PRINCIPLES

IAS 39 classifies a group's financial assets into the following categories: financial assets measured at fair value through profit and loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Categorization is made on the basis of the purpose for which the financial assets were acquired and they are categorized in connection with the original acquisition. Transaction costs have been included in the original carrying amount of the financial assets when the item in question is not valued at fair value through profit and loss. All purchases and sales of financial assets are recognized on the clearance date.

Derecognition of financial assets takes place when the Group has lost a contractual right to receive the cash flows or when it has transferred substantially the risks and rewards outside the Group. On every closing date the Group assesses whether there is objective evidence that the value of a financial asset item or group of asset items has been impaired. If such evidence exists, the impairment is recognized as financial expenses in the statement of income.

The recoverable amount of financial assets is either the fair value or the present value of expected future cash flows discounted at the original effective interest rate. Short-term receivables are not discounted.

Financial assets recognized at fair value through profit and loss are financial assets that are held for trading purposes such as derivative instruments to which the Group does not apply hedge accounting under IAS 39 as well as money market fund investments consisting of the short-term investment of liquid assets. The fair value of income fund investments has been determined based on price quotations published in an active market, namely the bid quotations on the closing date. Realized and unrealized gains and losses arising from changes in fair value are recognized in the statement of income in the period in which they arise. Financial assets held for trading as well as those maturing within 12 months are included in current assets.

Loans and other receivables are assets not belonging to derivative assets whose payments are fixed and quantifiable and which are not quoted on an active market and which the company does not hold for trading purposes. This category includes Group financial assets which have arisen through the transfer of money, goods or services to debtors. They are valued at amortized cost and they include short-term and long-term financial assets, the latter if they mature after more than 12 months. If there are indications of value impairment, the carrying amount is estimated and reduced immediately to correspond with the recoverable amount.

Trade receivables are valued initially at fair value and thereafter at their anticipated realizable value, which is the original invoicing value less the estimated impairment of these receivables. An impairment for trade receivables is made when there are good grounds to expect that the Group will not receive all its receivables on original terms. A debtor's significant financial difficulties, probability of bankruptcy, default on payments, or a more than 180 day delay in the making of payments are evidence of an impairment of trade receivables. The magnitude of the impairment loss to be recognized in the statement of income is determined as the difference of the carrying amount of receivables and the present value of estimated future cash flows. If the amount of impairment loss decreases in some later financial period and the reduction can be objectively considered to be related to an event after the recognition of the impairment, the recognized loss is reversed through profit and loss.

Cash and cash equivalents are carried in the statement of financial position at original cost. Cash and cash equivalents comprise cash on hand and deposits held at call with banks.

Financial liabilities are recognized at fair value on the basis of the original consideration received. Transaction costs have been included in the original carrying amount of the financial liabilities. Later, all financial liabilities are valued at amortized cost using the effective yield method. Financial liabilities include long-term and short-term liabilities.

All derivative contracts are initially recognized at cost and subsequently remeasured at their fair value. Forward foreign exchange contracts are valued at their fair value using the market prices of forward contracts at the closing date. Derivatives are included in the statement of financial position as other receivables and payables. Unrealized and realized gains and losses arising from changes in the fair value are recognized in the statement of income in 'financial income and expenses" in the period in which they arise. The Group has sales in a number of foreign currencies, of which the most significant are the USD, CNY, JPY and GBP. The Group does not apply hedge accounting under IAS 39 to forward foreign exchange contracts that hedge sales in foreign currencies. The Group has a number of investments in foreign subsidiaries whose net assets are exposed to foreign currency risk. The Group does not hedge the foreign exchange risk of subsidiaries' net assets.

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. A sale is considered highly probable when Group Management is committed to a plan to sell the asset, the asset can be sold immediately in its current condition with general and common terms and the sale will be completed within one year from the date of classification.

Before classification as held for sale, assets are measured according to the IFRS standard applying for them. After classification they are stated at the lower of carrying amount and fair value less selling expenses. These assets are not depreciated after classification. Non-current assets classified as held for sale are presented separately from other assets in the statement of financial position.

Assets and liabilities as per statement of financial position 2017

EUR million	Assets/liabilities recognized at fair value through profit and loss and derivatives used for hedging	Loans and receivables	Financial liabilities at amortized cost	Carrying amount of statement of financial position items	Fair value	Note
Financial assets						
Long-term receivables		0.7		0.7	0.7	18
Trade receivables and other receivables	1.5	81.6		83.1	83.1	12
Cash and cash equivalents		91.3		91.3	91.3	20
Total	**1.5**	**173.6**		**175.1**	**175.1**	
Financial liabilities						
Non-interest bearing long-term liabilities			2.7	2.7	2.7	19
Trade payables and other liabilities	0.3		75.0	75.3	75.3	14
Total	**0.3**		**77.7**	**78.0**	**78.0**	

Assets and liabilities as per statement of financial position 2016

EUR million	Assets/liabilities recognized at fair value through profit and loss and derivatives used for hedging	Loans and receivables	Financial liabilities at amortized cost	Carrying amount of statement of financial position items	Fair value	Note
Financial assets						
Long-term receivables		0.7		0.7	0.7	18
Trade receivables and other receivables	0.3	75.1		75.4	75.4	12
Cash and cash equivalents		72.4		72.4	72.4	20
Total	**0.3**	**148.2**		**148.5**	**148.5**	
Financial liabilities						
Non-interest bearing long-term liabilities			1.3	1.3	1.3	19
Interest-bearing short-term liabilities			0.0	0.0	0.0	19
Trade payables and other liabilities	1.5		65.1	66.6	66.6	14
Total	**1.5**		**66.4**	**67.9**	**67.9**	

At the end of 2017 and 2016, Vaisala did not have any interest bearing loans. Vaisala has no loans that would mature after five years or a longer period.

Maturity dates of finance lease liabilities

EUR million	2017	2016
Finance lease liabilities - total amount of minimum lease payments		
Up to 1 year	-	0.0
Future financial expense	-	0.0
Present value of finance lease liabilities	**-**	**0.0**
Present value of minimum payments of finance lease liabilities		
Up to 1 year	-	0.0
Total	**-**	**0.0**

Derivative contracts

EUR million	2017	2016
Capital value of off-balance sheet contracts made to hedge against exchange rate and interest rate risks		
Currency forwards	38.8	50.2
Capital value, total	**38.8**	**50.2**

Nominal value of derivative contracts in currencies

Currency	2017 currency million	EUR million	2016 currency million	EUR million
USD	37.0	31.7	51.0	46.3
CNH	20.0	2.5	-	-
JPY	310.0	2.3	350.0	3.0
GBP	0.8	0.8	-	-
CAD	1.2	0.8	-	-
AUD	1.0	0.6	1.4	1.0
Total		**38.8**		**50.2**

Maturity of derivative contracts

EUR million	2017	2016
Less than 90 days	15.2	12.2
Over 90 days and less than 120 days	4.8	6.0
Over 120 days and less than 180 days	7.7	11.2
Over 180 days and less than 360 days	11.2	20.8
Total	**38.8**	**50.2**

Fair value of off-balance sheet contracts made to hedge against exchange rate and interest rate risks

EUR million	2017	2016
Currency forwards	1.2	-1.2

Fair value of the derivative contracts is based on information that are observable for the assets or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). In addition to the quoted prices Vaisala will prepare own assessment using commonly acceptable valuation techniques. Hence Vaisala's derivative contracts belongs to the level 2 according to IFRS 7. In 2017, there were no transfers between the hierarchy levels.

20. Cash and Cash Equivalents

Accounting principles of cash and cash equivalents are presented in Note 19, Financial Assets and Liabilities.

Cash and cash equivalents

EUR million	2017	2016
Cash and cash equivalents	91.3	72.4

The fair values of cash and cash equivalents are equivalent to their carrying amounts.

21. Contingent Liabilities and Pledges Given

Contingent liabilities and pledges given

EUR million	2017	2016
For own loans/commitments		
Bank guarantees issued for obligations	17.5	11.9
Rental and leasing contracts	6.1	9.3
Total	**23.6**	**21.3**

On December 31, 2017 Vaisala had commitments related to purchases of tangible assets for EUR 0.8 million. In addition, Vaisala is committed to purchase land from the City of Vantaa for a price of EUR 1.5 million, provided that the city plan amendment is approved.

Vaisala has operating leases for offices, warehouse spaces, land, cars and office equipment, among others. Some of the contracts contain renewal options for various periods of time.

In 2017, the rental expenses were EUR 4.3 (4.8) million.

At the end of 2017 and 2016, there were no material assets leased under financial lease arrangements.

OTHER NOTES

22. Business Combinations

BUSINESS COMBINATIONS IN 2017

On October 26, 2017, Vaisala purchased a Finnish IT company, Vionice Oy, specialized in computer vision and image processing. The deal follows Vaisala's Weather and Environment Business Area's strategy in which the company stated that it is looking for both organic growth and growth through smart acquisitions that fit the focus segments and a selective expansion to environmental measurements. Vaisala will bring Vionice's product portfolio globally to its road and rail customers. In addition, Vaisala intends to utilize Vionice's computer vision platform in a fast and agile manner and will spread the capability of the Vionice team and its offering more widely into Vaisala's Weather and Environment customer segments. Vaisala's ownership of Vionice after the acquisition is 100%.

In 2016, Vionice's net sales were EUR 0.2 million.

Net sales of the acquired company between October 27, 2017 and December 31, 2017 were EUR 0.1 million and operating result EUR 0.1 million. Had the acquisition taken place on January 1, 2017, Vaisala net sales would have been EUR 332.7 million and operating profit EUR 40.6 million.

The acquisition price was EUR 3.1 million. Of the purchase price, EUR 2.2 million was paid at the time of purchase and the conditional consideration to be paid in 2019–2021 is EUR 1.5 million. Goodwill was recognized for EUR 1.7 million and was allocated to the cash-generating unit formed by the Weather and Environment Business Area.

Acquisition related costs were immaterial.

The values of the assets and liabilities arising from the acquisition were as follows:

EUR 1,000	Fair value recognized on acquisition
Goodwill	1,674
Technology (incl. in Intangible Assets)	2,292
Customer relationships (incl. in Intangible Assets)	143
Other intangible assets	0
Tangible assets	3
Trade receivables and other receivables	67
Cash and cash equivalents	213
Total assets	**4,391**
Deferred tax liabilities	487
Non-current liabilities	166
Current liabilities	40
Total liabilities	**693**
Net assets	**3,699**
Purchase price paid in cash	-2,200
Cash and cash equivalents acquired	213
Total net cash outflow on acquisition	**-1,987**

BUSINESS COMBINATIONS IN 2016

In 2016, there were no business combinations.

23. Subsidiaries

Subsidiaries	Country	Group ownership %, 2017	Group ownership %, 2016
Vaisala Holding Oy	Finland	100	100
Vionice Oy	Finland	100	-
Vaisala Limited	United Kingdom	100	100
Vaisala Pty Ltd.	Australia	100	100
Vaisala GmbH	Germany	100	100
Vaisala KK	Japan	100	100
Vaisala Inc.	United States	100	100
Vaisala China Ltd	China	100	100
Vaisala Canada Inc.	Canada	100	100
Tycho Technology Inc.	United States	100	100
Vaisala S.A.	Argentina	-	100
Vaisala SAS	France	100	100
Vaisala Sdn Bhd	Malaysia	100	100
Vaisala Servicos De Marketing Ltda	Brazil	100	100
3TIER R&D India Pvt Ltd	India	100	100
Vaisala East Africa Limited	Kenya	100	100
Vaisala Mexico Limited, S. de R.L. de C.V	Mexico	100	-

24. Associated Company

The accounting principles are presented in the chapter Consolidation Principles.

The Group has one associated company, SAS Meteorage. SAS Meteorage is a French company, which maintains lightning detection networks and sells information related to lightning strikes. Ownership in Meteorage supports Vaisala's role in being part of the global lightning detection community.

Company name	Place of incorporation and principal place of business	Share of ownership	Measurement method
SAS Meteorage	France	35%	Equity method

Summarized financial information of the associated company

EUR million	2017	2016
Non-current assets	2.5	2.7
Current assets	2.1	1.9
Non-current liabilities	0.6	0.8
Current liabilities	1.4	1.3
Net assets	**2.5**	**2.4**
Vaisala's share of net assets	0.9	0.8
Net sales	3.2	3.1
Result for the period	0.2	0.2

The information presented in the table is based on latest available financial information.

Carrying value of investments in associated company

EUR million	2017	2016
Carrying value at Jan 1	0.8	0.8
Share of result	0.1	0.1
Dividend received	-0.0	-0.0
Translation differences	-	-0.0
Carrying value at Dec 31	**0.9**	**0.8**

The carrying value of the associated company does not include goodwill.

Transactions with associated company and receivables and liabilities

EUR million	2017	2016
Sales	0.2	0.3
Receivables	0.1	-

25. Related Party Transactions

Related parties of Vaisala Group are the parent company, subsidiaries, associated company, members of Board of Directors and Management Group. Related party transactions are based on market price of goods and services and common market terms. Related party information is presented only to extent it is not eliminated in group consolidation.

The subsidiaries are presented in note 23, Subsidiaries and the associated company in note 24, Associated Company. Transactions with the associated company and receivables and liabilities are presented in note 24, Associated Company.

Employee benefits of management

EUR 1,000	2017	2016
Salary and bonuses of the President and CEO		
Forsén Kjell		
Salary	512	494
Bonuses	323	178
Share-based payments	639	315
Obligatory pension	126	135
Voluntary pension	120	116
Total	**1,720**	**1,238**
Other Group Management		
Salaries	1,363	1,129
Bonuses	650	355
Share-based payments	1,580	846
Obligatory pensions	320	275
Voluntary pensions	228	195
Total	**4,142**	**2,800**

Age of retirement for the President and CEO is 62 years. The President and CEO has a compensation based retirement plan. Notice period, severance pay and conditions of other severance compensations: 6 months for the employee, 12 months for the employer, compensation equal to the salary.

Remuneration to members of the Board of Directors 2017

EUR 1,000		Annual remuneration	Compensation, Audit Committee	Compensation, Remuneration and Human Resources Committee	Total
Castrén Petri (since Mar 28, 2017)	Member of the Board	26	4		30
Lundström Petra	Member of the Board	35	1		36
Neuvo Yrjö	Vice Chairman of the Board	35		4	39
Niinivaara Mikko	Member of the Board	35	5	4	44
Ståhlberg Kaarina	Member of the Board	35	8		43
Torstila Pertti	Member of the Board	35		4	39
Voipio Raimo	Chairman of the Board	45		4	49
Voipio Ville	Member of the Board	35			35
Total		**281**	**18**	**16**	**315**

Remuneration to members of the Board of Directors 2016

EUR 1,000		Annual remuneration	Compensation, Audit Committee	Compensation, Remuneration and Human Resources Committee	Total
Lundström Petra	Member of the Board	35	6		41
Neuvo Yrjö	Vice Chairman of the Board	35		5	40
Niinivaara Mikko	Member of the Board	35	6	3	44
Ståhlberg Kaarina (since Apr 5, 2016)	Member of the Board	26	8		34
Torkko Maija (until Apr 5, 2016)	Member of the Board	9	2	1	11
Torstila Pertti	Member of the Board	35			35
Voipio Raimo	Chairman of the Board	45		5	50
Voipio Ville	Member of the Board	35			35
Total		**255**	**21**	**14**	**290**

The president and CEO and the members of the Board have not been granted loans nor have guarantees or commitments been given on their behalf.

26. Auditor's Fees

Auditor's Fees

EUR million	2017	2016
Audit fees	0.3	0.3
Tax advice	0.0	0.0
Statements	0.0	0.0
Other fees	0.2	0.1
Total	**0.5**	**0.4**

27. Financial Risk Management

Vaisala is exposed to various financial risks the core of which are interest rate risk, foreign exchange rate risk, refinancing and liquidity risks as well as financial and customer credit risks. Vaisala aims to limit the effect of these risks to statement of income, financial position and cash flow. Vaisala's financial risk management is based on the treasury and credit policies approved by the Board of Directors.

INTEREST RATE RISK

Interest rate risk refers to uncertainty in statement of income, financial position and cash flow arising from interest rate fluctuation. Vaisala does not have significant interest-bearing liabilities or receivables other than cash at hand, therefore interest rate risk is limited. A change of one percent point in the interest rate would not affect Group's result or equity materially.

FOREIGN EXCHANGE RISK

Foreign exchange risk refers to uncertainty in statement of income, financial position and cash flow arising from exchange rate fluctuation. Vaisala operates globally and is exposed to transaction and translation risk in many currencies. Transaction risk refers to income and expense flows in foreign currency. Translation risk refers to translation of statement of income and statement of financial position of foreign subsidiaries into euros.

Vaisala's sales is denominated in various currencies. Of the Group's sales 45% is in EUR, 34% in USD, 6% in CNY, 5% in JPY and 4% in GBP. Costs and purchases occur mostly in EUR and USD. The Group policy is to hedge maximum of position that consists of order book, purchase orders and net receivables with foreign exchange derivatives. Vaisala does not hedge forecasted cash flows beyond order book or apply hedge accounting in accordance with IFRS.

Intra-group loans and deposits are initiated in subsidiaries' local currencies. Vaisala does not hedge intra-group loans, deposits or equities of foreign subsidiaries. Translation of subsidiaries' equities into euros caused translation adjustment of EUR -3.2 (-0.0) million. The most significant translation risk exposures are in USD.

Foreign exchange sensitivity analysis in accordance with IFRS 7 is based on the foreign currency nominated receivables, loans, cash and liabilities of group companies. Calculation does not include internal loans, order book or forecasted cash flows but includes foreign exchange derivatives in their nominal value. 10% strengthening of currencies against EUR would have had an effect of EUR -1.0 (-2.0) million on Vaisala's result after taxes and equity. The most significant foreign exchange exposures against EUR are presented in the following table.

Foreign exchange exposures against EUR

EUR million	2017	2016
USD	-17.1	-31.1
INR	1.1	1.0
CAD	0.6	2.1

REFINANCING AND LIQUIDITY RISKS

Refinancing and liquidity risks refer to uncertainty in maintaining good liquidity. Vaisala's cash at hand amounted to EUR 91.3 (72.4) million. The parent company also has unused EUR 20.0 million uncommitted credit facility. Additionally, the subsidiaries have EUR 1.4 million credit limits, which can be drawn in guarantees. Currently, EUR 0.0 (0.0) million has been drawn from this facility. Vaisala does not have any other material external interest-bearing liabilities.

FINANCIAL CREDIT RISK

Financial credit risk refers to uncertainty in financial institutions' capability to meet financial liabilities against Vaisala. Financial credit risk exposure relates to cash at hand and financial derivatives. Vaisala's cash at hand amounted to EUR 91.3 (72.4) million and the nominal value of financial derivatives to EUR 38.8 (50.2) million. Vaisala invests cash and executes derivative contracts only with counterparties who are accepted by the Board of Directors and who have good credit worthiness. Counterparty creditworthiness is evaluated constantly. The maturities of cash investments are less than one month as of December 31, 2017.

TRADE RECEIVABLES CREDIT RISK

Trade receivables credit risk refers to risk that customers may not pay their payables. Credit risk is managed by using letters of credit, advance payments and bank guarantees as terms of payment as well as following creditworthiness of customers. Management estimates that the Group does not have material credit risk concentrations, because no individual customer or customer group represents an excessive risk, resulting from global diversification of the Group's customer pool. Recognized credit losses and related reversals arising from trade receivables for the financial year amounted to EUR 0.5 (-1.2) million. Bad debts are written off when official announcement of receivership, liquidation or bankruptcy is received confirming that the receivable will not be honored.

28. Application of New and Revised IFRSs in Issue but not yet Effective

IASB has published the following new or revised standards which the Group has not yet adopted and which may have an effect on the consolidated financial statements of the Group. The Group will adopt each standard as from the effective date, or if the effective date is other than the first day of the reporting period, from the beginning of the next reporting period after the effective date.

IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 *Financial Instruments* (effective in the EU for annual periods beginning on or after January 1, 2018). IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition

of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Group does not have significant financial instruments except trade receivables and foreign currency forwards. Vaisala does not apply hedge accounting either.

The Group expects to apply 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, management anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognized for these items. According to management estimate the effect is not material and it will be recognized directly to the equity and trade receivables. Comparison periods will not be adjusted retrospectively. Vaisala will disclose 2018 opening balance sheet including IFRS 9 adjustment during the first quarter of 2018.

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 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 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 the first quarter of 2018.

IFRS 16 LEASES

IFRS 16 *Leases* (effective in the EU for annual periods beginning on or after January 1, 2019). IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 *Leases* and the related Interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by IFRS 16.

On December 31, 2017, the Group had non-cancellable operating lease commitments of EUR 6.1 million. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in note 21. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognize a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognized in the Group's consolidated financial statements and the directors are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the directors complete the review.

Vaisala does not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognized in the Group's consolidated financial statements.

Vaisala will apply practical expedients when adopting the standard and does not restate comparison periods retrospectively.

OTHER STANDARDS

Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (effective for annual periods beginning on or after 1 January 2018).

The amendments clarify the following:

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.

The application of the amendments in the future is not anticipated to have a significant impact on the Group's consolidated financial statements. The amendments have not yet been endorsed for use in the EU.

Amendments to IAS 40 *Transfers of Investment Property* (effective for annual periods beginning on or after January 1, 2018). The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties). Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply. The amendments have not yet been endorsed for use in the EU. The application of these amendments is anticipated to have an impact on the Group's consolidated financial statements in future periods should there be a change in use of any of its properties.

Annual Improvements to IFRSs 2014-2016 Cycle (effective for annual periods beginning on or after January 1, 2018). The Annual Improvements include amendments to a number of IFRSs which are not yet mandatorily effective for the Group. They are summarized below. The package also includes amendments to IFRS 12 which is mandatorily effective for the Group in the current year. The amendments to IFRS 1 delete certain short-term exemptions in IFRS 1 because they are redundant. The reporting period to which the exemptions applied have already passed and as such, these exemptions are no longer applicable.

The amendments to IAS 28 clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted. Both sets of amendments are effective for annual periods beginning on or after January 1, 2018. The amendments have not yet been endorsed for use in the EU. The application of the amendments in the future is not anticipated to have any impact on the Group's consolidated financial statements as the Group is not a first-time adopter of IFRS or a venture capital organization. Furthermore, the Group does not have any associate or joint venture that is an investment entity.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (effective for annual periods beginning on or after January 1, 2018). IFRIC 22 addresses how to determine the ´the date of the transaction´ for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue). The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application. The Interpretation has not yet been endorsed for use in the EU. The application of the amendments in the future is not anticipated to have an impact on the Group's consolidated financial statements. This is because the Group already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

IFRIC 23 *Uncertainty over Income Tax Treatments* (effective for annual periods beginning on or after January 1, 2019). The Interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

Early adoption of the Interpretation is permitted. The Interpretation has not yet been endorsed for use in the EU. Vaisala is currently assessing the impact of the Interpretation on the consolidated financial statements of the Group.

Amendments to IFRS 9 *Prepayment Features with Negative Compensation* (effective for annual periods beginning on or after January 1, 2019). The amendments will change the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. The amendments are to be applied retrospectively and early application is permitted. The amendments have not yet been endorsed for use in the EU. The Group is currently assessing the impact of the amendments on the consolidated financial statements of the Group.

Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* (effective for annual periods beginning on or after January 1, 2019). The amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. Earlier application of the amendments is permitted. The amendments have not yet been endorsed for use in the EU. The Group is currently assessing the impact of the amendments on the consolidated financial statements of the Group.

Annual Improvements to IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after January 1, 2019). The improvements make amendments to the following standards:

- IFRS 3 and IFRS 11: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12: The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises.
- IAS 23: The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

The Group is currently assessing the impact of the amendments on the consolidated financial statements of the Group. The amendments have not yet been endorsed for use in the EU.

IFRS 17 *Insurance Contracts* (effective for annual periods beginning on or after January 1, 2021). IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. The standard supersedes IFRS 4 *Insurance Contracts* and is to be applied retrospectively unless impracticable. Earlier adoption permitted if both IFRS 15 and IFRS 9 have also been applied. The standard has not yet been endorsed for use in the EU. The application of the standard in the future is not anticipated to have an impact on the Group's consolidated financial statements as the Group does not hold any insurance contracts.

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The application of these amendments is anticipated to have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Parent Company Financial Statements, FAS

PARENT COMPANY INCOME STATEMENT

The parent company financial statements are prepared in accordance with the principles of Finnish Accounting Standards (FAS).

EUR million	Note	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Net sales	2	235.8	214.5
Cost of production and procurement	5, 6	-120.3	-110.9
Gross profit		**115.5**	**103.6**
Cost of sales and marketing	5, 6	-25.3	-25.4
Cost of administration			
Research and development costs	5, 6	-30.8	-28.0
Other administrative costs	5, 6	-26.9	-25.1
Other operating income	4	0.5	0.0
Operating result		**33.0**	**25.1**
Financial income and expenses	7	-0.4	4.6
Result before appropriations and taxes		**32.7**	**29.7**
Appropriations		-	1.0
Result before taxes		**32.7**	**30.7**
Direct taxes	8	-6.8	-6.8
Result for the financial year		**25.8**	**23.9**

PARENT COMPANY BALANCE SHEET

EUR million	Note	Dec 31, 2017	Dec 31, 2016
ASSETS			
Non-current assets			
Intangible assets	9		
Intangible rights		1.8	3.0
Other long-term expenditure		0.1	0.1
Total intangible assets		**2.0**	**3.1**
Property, plant and equipment	9		
Land and waters		1.3	1.3
Buildings		22.6	23.3
Machinery and equipment		10.5	9.8
Other tangible assets		0.1	0.0
Advance payments and construction in progress		3.7	3.2
Total property, plant and equipment		**38.1**	**37.5**
Investments	9		
Shares in subsidiaries		22.7	19.0
Other shares		0.1	0.1
Total investments		**22.8**	**19.1**
Total non-current assets		**62.8**	**59.7**

EUR million	Note	Dec 31, 2017	Dec 31, 2016
Current assets			
Long-term receivables			
Other receivables		0.0	0.0
Total long-term receivables		**0.0**	**0.0**
Inventories			
Materials, consumables and finished goods		23.0	22.6
Project inventories		1.2	3.1
Total inventories		**24.2**	**25.7**
Short-term receivables			
Trade receivables	17	42.8	32.4
Loan receivables	17	26.2	37.0
Other receivables	10	2.5	1.5
Prepaid expenses and accrued income	11, 17	16.2	13.8
Total short-term receivables		**87.7**	**84.9**
Cash and cash equivalents		79.9	61.1
Total current assets		**191.7**	**171.6**
Total assets		**254.6**	**231.3**

PARENT COMPANY BALANCE SHEET

EUR million	Note	Dec 31, 2017	Dec 31, 2016
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	14		
Share capital		7.7	7.7
Fund of invested non-restricted equity		0.3	0.1
Retained earnings		141.1	135.4
Result for the financial year		25.8	23.9
Total shareholders' equity		**174.9**	**167.0**
Provisions	13	0.1	0.0
Liabilities			
Non-current			
Other non-current liabilities	15	1.7	0.5
Current			
Advances received		3.1	2.3
Trade payables	17	12.4	10.2
Current loans	17	14.4	13.5
Other current liabilities		1.9	2.2
Short-term provisions	13	0.9	1.0
Accrued expenses and deferred income	16, 17	45.2	34.6
Current liabilities total		**77.9**	**63.8**
Total liabilities		**79.7**	**64.3**
Total shareholders' equity and liabilities		**254.6**	**231.3**

PARENT COMPANY CASH FLOW STATEMENT

EUR million	Note	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Cash flow from operating activities			
Cash receipts from customers		226.1	224.8
Cash paid to suppliers and employees		-183.9	-183.2
Cash flow from operating activities before financial items and taxes	7	**42.2**	**41.6**
Paid financial items, net	7	1.1	1.1
Dividend received from business operations	7	1.0	1.4
Income taxes paid		-6.7	-7.9
Cash flow from operating activities		**37.6**	**36.3**
Cash flow from investing activities			
Investments in shares		-2.2	-
Investments in intangible assets	9	-0.3	-1.5
Investments in property, plant and equipment	9	-6.2	-4.2
Divestments	9	0.2	0.1
Repayments on loan receivables		7.4	0.0
Cash flow from investing activities		**-1.1**	**-5.6**

EUR million	Note	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Cash flow from financing activities			
Loans received	17	1.0	3.7
Purchase of treasury shares	14	-0.8	-5.3
Dividend paid	14	-17.8	-17.1
Cash flow from financing activities		**-17.7**	**-18.7**
Change in liquid funds increase (+) / decrease (-)		**18.8**	**12.0**
Liquid funds at Jan 1		61.1	49.1
Liquid funds at Dec 31		**79.9**	**61.1**

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1. Accounting Principles

The financial statements of the parent company have been prepared according to the Finnish accounting standards (FAS). Financial statement data are based on original acquisition costs if not otherwise stated in the accounting principles outlined below.

NON-CURRENT ASSETS

The balance sheet values of fixed assets are stated at historical cost, less accumulated depreciation and amortization, with the exception of the office and factory premises in Vantaa, which were revalued in years 1981–1988 by a total of EUR 5.7 million. Despite of the revaluations, the asset value is significantly less than the market value of the office and factory premises. The cost of self-constructed assets also includes overhead costs attributable to construction work. Interest is not capitalized on fixed assets. Depreciation and amortization is calculated on a straight-line basis over the expected useful lives of the assets, except for land, which is not depreciated. Estimated useful lives for various assets are:

Intangible rights	3–5 years
Buildings and structures	5–40 years
Machinery and equipment	3–8 years
Other tangible assets	3–8 years

INVENTORIES

Inventories are stated at the lower of standard cost of acquisition and manufacturing or net realizable value. Inventory cost includes the cost of materials, direct labor and a proportion of production overhead. An allowance is recorded for excess inventory and obsolescence based on the lower of cost or net realizable value.

FOREIGN CURRENCY ITEMS

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the date of transaction. Receivables and payables in foreign currency are valued at the closing rates quoted by the European Central Bank at the balance sheet date.

All foreign exchange gains and losses, including foreign exchange gains and losses on trade receivables and payables, are recorded as financial income and expenses in the income statement.

DERIVATIVE CONTRACTS AND HEDGING ACTIVITIES

All derivative contracts are initially recognized at cost and subsequently remeasured at their fair value. Forward foreign exchange contracts are valued at their fair value using the closing rates quoted by the European Central Bank on the closing date. Derivative contracts are included in the statement of financial position as other receivables and payables. Unrealized and realized gains and losses arising from changes in fair value are recognized in the statement of income in ‘financial income and expenses” in the period during which they arise. Vaisala has sales in a number of foreign currencies, of which the most significant are the USD, JPY and GBP. Vaisala does not apply hedge accounting to forward foreign exchange contracts that hedge sales in foreign currencies.

PENSION COSTS

Pension costs are recorded according to the Finnish regulations. The additional pension coverage of parent company personnel is arranged by the Vaisala Pension Fund that was closed on January 1, 1983. The pension fund liability was transferred to a pension insurance company on December 31, 2005 and the fund was dissolved in 2006. The pension liability of the fund is fully covered.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are booked as cost in the financial period in which they occur.

INCOME TAXES

Income taxes consist of taxes for the financial year. Direct taxes in the income statement include estimated taxes payable or refundable on tax returns for the financial year and adjustments to tax accruals related to previous years.

REVENUE RECOGNITION PRINCIPLES

Sales of goods and services rendered

Revenue from the sale of goods is recognized when significant risks and rewards of owning the goods are transferred to the buyer. Revenue recognition generally takes place when the transfer has taken place. Revenue for rendering of services is recognized when the service has been performed. When recognizing net sales, indirect taxes and discounts, for example, have been deducted from sales revenue. Possible exchange rate differences are recognized in the financial income and expenses.

Long-term projects

Revenues from long-term projects are recognized using the percentage of completion method, when the outcome of the project can be estimated reliably. The stage of completion is determined for each project by reference to the relationship between the costs incurred for work performed to date and the estimated total costs of the project or the relationship between the working hours performed to date and the estimated total working hours.

When the outcome of a long-term project cannot be estimated reliably, project costs are recognized as expenses in the same period when they arise and project revenues only to the extent of project costs incurred where it is probable that those costs will be recoverable. When it is probable that total costs necessary to complete the project will exceed total project revenue, the expected loss is recognized as an expense immediately.

Other operating income and expenses

Other operating income consists mainly of gains on the disposal of assets as well as income other than actual performance-based sales, such as indemnities. Other operating expenses usually consist of losses on the disposal of assets.

2. Net Sales

Net sales by market area

EUR million	2017	2016
EMEA	93.2	77.9
of which Finland	9.1	7.5
Americas	65.3	67.8
of which United States	41.7	45.7
APAC	77.3	68.9
Total	**235.8**	**214.5**

Net sales by function

EUR million	2017	2016
Weather and Environment	117.2	91.5
Industrial Measurements	24.9	23.7
Net sales from subsidiaries	93.7	99.3
Total	**235.8**	**214.5**

3. Long-Term Projects

EUR million	2017	2016
Net sales recognized as revenue according to percentage of completion (in financial period)	8.1	0.6
Amount recognized as revenue during financial year and previous years for long-term projects in progress	8.6	8.8
Total costs of incomplete long-term projects	4.0	6.7
Net amount of recognized costs, profits and losses from long-term projects	4.0	1.9
Order book Dec 31	11.1	0.6
Specification of balances in the statement of financial position		
Materials and supplies in inventory	0.6	0.0
Amount recognized as revenue during financial year and previous years for long-term projects in progress	8.6	8.8
Receivables netted against advances received	-3.5	-8.1
Receivables netted against advances invoiced	-3.4	-0.0
Receivables from long-term project customers	**1.7**	**0.7**
Deferred income recognized	0.6	0.1

Accounting principles for long-term projects are presented in note Accounting Principles, chapter Long-term projects.

4. Other Operating Income and Expenses

Other operating income

EUR million	2017	2016
Gains on the disposal of fixed assets	0.0	0.0
Other operating income		
Indemnities	0.4	0.0
Total	**0.5**	**0.0**

In 2017 and 2016, Vaisala did not have any other operating expenses.

5. Personnel Expenses and Number of Personnel

Personnel costs

EUR million	2017	2016
Wages and salaries	62.3	56.2
Pension costs	10.6	9.7
Other personnel costs	2.5	3.3
Total	**75.3**	**69.2**

Personnel average

	2017	2016
In Finland	1,000	961
Outside Finland	5	6
Total	**1,005**	**967**

Personnel Dec 31

	2017	2016
In Finland	1,011	971
Outside Finland	5	5
Total	**1,016**	**976**

Salary and bonuses of the President and CEO

EUR 1,000	2017	2016
Forsén Kjell		
Salary	512	494
Bonus	323	178
Share-based payments	639	315
Obligatory pension	126	135
Voluntary pension	120	116
Total	**1,720**	**1,238**

The retirement age of the President and CEO is 62 years. The President and CEO has a compensation based retirement plan. Notice period, severance pay and conditions of other severance compensation: 6 months for the employee, 12 months for the employer, compensation equal to the salary.

Remuneration to members of the Board of Directors 2017

EUR 1,000		Annual remuneration	Compensation, Audit Committee	Compensation, Remuneration and Human Resources Committee	Total
Castrén Petri (since Mar 28, 2017)	Member of the Board	26	4		30
Lundström Petra	Member of the Board	35	1		36
Neuvo Yrjö	Vice Chairman of the Board	35		4	39
Niinivaara Mikko	Member of the Board	35	5	4	44
Ståhlberg Kaarina	Member of the Board	35	8		43
Torstila Pertti	Member of the Board	35		4	39
Voipio Raimo	Chairman of the Board	45		4	49
Voipio Ville	Member of the Board	35			35
Total		**281**	**18**	**16**	**315**

Remuneration to members of the Board of Directors 2016

EUR 1,000		Annual remuneration	Compensation, Audit Committee	Compensation, Remuneration and Human Resources Committee	Total
Lundström Petra	Member of the Board	35	6		41
Neuvo Yrjö	Vice Chairman of the Board	35		5	40
Niinivaara Mikko	Member of the Board	35	6	3	44
Ståhlberg Kaarina (since Apr 5, 2016)	Member of the Board	26	8		34
Torkko Maija (until Apr 5, 2016)	Member of the Board	9	2	1	11
Torstila Pertti	Member of the Board	35			35
Voipio Raimo	Chairman of the Board	45		5	50
Voipio Ville	Member of the Board	35			35
Total		**255**	**21**	**14**	**290**

Cash loans, securities or contingent liabilities were not granted to the President and CEO or to the Board of Directors.

6. Depreciation, Amortization and Impairments

EUR million	2017	2016
Amortization of intangible assets	1.8	3.5
Depreciation of property, plant and equipment	5.1	5.3
Impairments on intangible assets	0.0	0.0
Total	**6.9**	**8.8**

7. Financial Income and Expenses

EUR million	2017	2016
Dividend income		
From Group companies	1.0	1.4
Other interest and financial income		
From Group companies	1.6	2.6
From others	5.7	0.8
Interest and other financial expenses		
To Group companies	-0.1	-0.0
To others	-1.4	-2.2
Foreign exchange gains and losses	-7.1	2.0
Total	**-0.4**	**4.6**

8. Income Taxes

EUR million	2017	2016
Taxes from the financial period	6.8	6.7
Taxes from previous years	-0.0	0.0
Total	**6.8**	**6.8**

9. Fixed Assets and Other Long-Term Investments

Intangible assets 2017

EUR million	Intangible rights	Other long-term expenditure	Total
Acquisition cost Jan 1, 2017	33.1	0.1	33.2
Increases	0.3		0.3
Decreases	-0.5		-0.5
Transfers between items	0.4		0.4
Acquisition cost Dec 31, 2017	**33.3**	**0.1**	**33.4**
Accumulated amortization and write-downs Jan 1, 2017	30.1	0.0	30.1
Accumulated amortization of decreases and transfers	-0.5		-0.5
Amortization for the financial period	1.8		1.8
Accumulated amortizations and write-downs Dec 31, 2017	**31.5**	**0.0**	**31.5**
Balance sheet value Dec 31, 2017	**1.8**	**0.1**	**2.0**

Intangible assets 2016

EUR million	Intangible rights	Other long-term expenditure	Total
Acquisition cost Jan 1, 2016	32.3	0.1	32.4
Increases	1.4		1.4
Decreases	-0.9		-0.9
Transfers between items	0.3		0.3
Acquisition cost Dec 31, 2016	**33.1**	**0.1**	**33.2**
Accumulated amortization and write-downs Jan 1, 2016	27.5	0.0	27.5
Accumulated amortization of decreases and transfers	-0.9		-0.9
Amortization for the financial period	3.5		3.5
Accumulated amortizations and write-downs Dec 31, 2016	**30.1**	**0.0**	**30.1**
Balance sheet value Dec 31, 2016	**3.0**	**0.1**	**3.1**

Property, plant and equipment 2017

EUR million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost Jan 1, 2017	1.2	47.4	54.2	0.0	3.2	106.0
Increases		1.0	-0.1	0.0	5.7	6.7
Decreases			-4.8		-0.1	-4.8
Transfers between items		0.1	4.2		-5.2	-0.8
Acquisition cost Dec 31, 2017	**1.2**	**48.5**	**53.5**	**0.1**	**3.7**	**107.0**
Accumulated depreciation and write-downs Jan 1, 2017		29.7	44.4			74.2
Accumulated depreciation of decreases and transfers			-4.7			-4.7
Depreciation for the financial period		1.8	3.2			5.1
Write-downs			0.0			0.0
Accumulated depreciation and write-downs Dec 31, 2017		**31.6**	**43.0**			**74.6**
Revaluation	0.1	5.6				5.7
Balance sheet value Dec 31, 2017	**1.3**	**22.6**	**10.5**	**0.1**	**3.7**	**38.1**

Property, plant and equipment 2016

EUR million	Land and waters	Buildings	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost Jan 1, 2016	1.2	46.8	51.8	0.0	5.7	105.5
Increases		0.0	0.9		3.3	4.2
Decreases		-0.1	-2.8		-0.4	-3.3
Transfers between items		0.7	4.4		-5.3	-0.3
Acquisition cost Dec 31, 2016	**1.2**	**47.4**	**54.2**	**0.0**	**3.2**	**106.0**
Accumulated depreciation and write-downs Jan 1, 2016		28.0	43.8			71.8
Accumulated depreciation of decreases and transfers		-0.1	-2.8			-2.9
Depreciation for the financial period		1.9	3.4			5.3
Write-downs			0.0			0.0
Accumulated depreciation and write-downs Dec 31, 2016		**29.7**	**44.4**			**74.2**
Revaluation	0.1	5.6				5.7
Balance sheet value Dec 31, 2016	**1.3**	**23.3**	**9.8**	**0.0**	**3.2**	**37.5**

On December 31, 2017, the carrying amount of machinery and equipment used in production was EUR 7.7 (7.6) million.

Investments 2017

EUR million	Subsidiary shares	Other shares and holdings	Total
Acquisition cost Jan 1, 2017	19.0	0.1	19.1
Increases	3.7		3.7
Balance sheet value Dec 31, 2017	**22.7**	**0.1**	**22.8**

Investments 2016

EUR million	Subsidiary shares	Other shares and holdings	Total
Acquisition cost Jan 1, 2016	19.0	0.1	19.1
Increases	0.0		0.0
Balance sheet value Dec 31, 2016	**19.0**	**0.1**	**19.1**

10. Other Receivables

EUR million	2017	2016
Advances paid	1.1	0.1
Value added tax receivables	1.1	1.1
Other	0.3	0.4
Total	**2.5**	**1.5**

11. Deferred Assets

EUR million	2017	2016
Tax related assets	0.3	0.2
Deferred revenue	10.7	9.3
Financial derivatives	1.5	0.3
Other deferred assets	3.8	4.0
Total	**16.2**	**13.8**

The change in the fair value of the financial derivatives has been booked in financial income and expenses in the income statement.

12. Deferred Tax Assets and Liabilities

Deferred tax assets

EUR million	2017	2016
Deferred depreciation	0.3	0.3
Share-based payments	1.2	0.7
Provisions	0.2	0.2
Total	**1.7**	**1.1**

Deferred taxes have not been booked in the parent company's balance sheet. Deferred taxes arising from revaluation have not been recognized. If realized, the tax effect of revaluation would be EUR 1.1 million at the current 20% tax rate.

13. Provisions

Long-term provisions

EUR million	2017	2016
Provisions Jan 1	-	-
Increases	0.1	-
Provisions Dec 31	**0.1**	**-**

Short-term provisions

EUR million	2017	2016
Provisions Jan 1	1.0	0.2
Increases	0.0	0.9
Decreases	-0.2	-0.0
Provisions Dec 31	**0.9**	**1.0**

In 2017 and 2016, provisions included mainly warranty provision and donation provision for children's hospital.

14. Shareholders' Equity

The parent company's shares are divided into series, with 3,389,331 series K shares (20 votes/share) and 14,829,033 series A shares (1 vote/share). In accordance with the Company Articles, series K shares can be converted into series A shares through a procedure defined in detail in the Company Articles. In 2017, 20 series K shares were converted to series A shares. This conversion was registered to the Trade Register on August 24, 2017.

EUR million	2017	2016
Share capital		
A shares	6.4	6.4
K shares	1.3	1.3
Share capital Dec 31	**7.7**	**7.7**
Fund of invested non-restricted equity Jan 1	0.1	0.1
Gain on transfer of treasury shares	0.2	-
Fund of invested non-restricted equity Dec 31	**0.3**	**0.1**
Retained earnings Jan 1	159.4	157.8
Dividend paid	-17.8	-17.1
Purchase of treasury shares	-0.8	-5.3
Sale of treasury shares	0.3	0.0
Retained earnings Dec 31	**141.1**	**135.4**
Result for the financial year	25.8	23.9
Total equity	**174.9**	**167.0**

Distributable funds

EUR million	2017	2016
Retained earnings	141.1	135.4
Result for the financial year	25.8	23.9
Fund of invested non-restricted equity	0.3	0.1
Total	**167.2**	**159.4**

15. Non-Current Liabilities

The Parent company has long-term non-interest bearing liabilities, EUR 1.7 million, of which EUR 0.5 million will mature in 2018 and 2019. Long-term contingent liabilities related to the acquisition of a subsidiary, EUR 1.1 million, will mature or will be reversed in 2019 and 2020.

The company has no loans that would mature after five years or a longer period.

16. Accrued Expenses and Deferred Income

EUR million	2017	2016
Personnel cost accruals	20.1	15.5
Deferred revenue	19.7	14.3
Financial derivatives	0.3	1.5
Other accrued expenses and deferred income	5.1	3.3
Total	**45.2**	**34.6**

The change in the fair value of the financial derivatives has been booked in financial income and expenses in the income statement.

17. Receivables and Liabilities from Other Companies in Vaisala Group

EUR million	2017	2016
Current loan receivables	26.2	37.0
Trade receivables	12.9	10.5
Other receivables	0.0	-
Prepaid expenses and accrued income	3.5	8.5
Total receivables	**42.7**	**56.1**
Current loans	14.4	13.5
Trade payables	1.0	1.1
Other liabilities	0.0	-
Accrued expenses and deferred income	2.6	1.4
Total liabilities	**18.0**	**15.9**

18. Contingent Liabilities and Pledges Given

Contingent liabilities and pledges given

EUR million	2017	2016
For own debt or liability		
Bank guarantees issued for obligations	17.5	11.9
For Group companies		
Guarantees	0.4	0.9
Leasing liabilities		
Payable during the financial year	0.1	0.1
Payable later	0.1	0.1
Total leasing liabilities	**0.2**	**0.2**
Total contingent liabilities and pledges given	**18.1**	**13.1**

Derivative contracts

EUR million	2017	2016
Capital of off-balance sheet contracts made to hedge against exchange rate and interest risks		
Currency forwards	38.8	50.2
Total capital	**38.8**	**50.2**

19. Auditor's Fees

EUR million	2017	2016
Auditor's fees	0.2	0.2
Statements	0.0	0.0
Tax advice	0.0	0.0
Other fees	0.2	0.1
Total	**0.4**	**0.3**

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 to 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.

Signing of the Board of Directors' Report and Financial Statements

Vantaa, February 7, 2018

Petri Castrén	Petra Lundström	Yrjö Neuvo Vice Chairman of the Board
Mikko Niinivaara	Kaarina Ståhlberg	Pertti Torstila
Raimo Voipio Chairman of the Board	Ville Voipio	Kjell Forsén President and CEO

Auditor's Report

To the Annual General Meeting of Vaisala Oyj

REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Vaisala Oyj (business identity code 0124416-2) for the year ended 31 December, 2017. The financial statements comprise the income statement, statement of comprehensive income, consolidated statement of financial position, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's income statement, balance sheet, cash flow statement and notes to the financial statements.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial performance and financial position in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

BASIS FOR OPINION

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 19 to the parent company's financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

KEY AUDIT MATTER

Revenue recognition of product and project sales

Refer to Notes 1, 2 and 3.

- Vaisala group net sales EUR 332,6 million consists of product, service and project sales. Product and project sales account for EUR 287,1 million of the net sales.
- Revenue for products is recognized when the significant risks and rewards of ownership of the product has been transferred to the customer. Large number of sales contracts and different nature of terms of contracts increase the risk of misstatement in timing of revenue recognition.
- Project sales include long term projects for which revenue is recognised using the percentage of completion method. Long term projects require continuing estimation of the project progress, project costs and project profitability as well as of the risks associated with the fulfilment of the contract.
- This matter is a significant risk of material misstatement referred to in EU Regulation No 537/241, point (c) of Article 10(2).

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

- Our audit procedures included an assessment of revenue recognition process and assessment of controls relating to timing of revenue recognition.
- We have reviewed Vaisala´s accounting manual and principles regarding different types of revenue contracts to evaluate, whether they are in line with IFRS accounting principles.
- We have audited the accurate timing and the amount of revenue arising from the sales of products and from the long term projects recognised using percentage of completion method.
- As a part of our audit procedures covering the revenue recognition principles of product sales, we have compared the sales transactions recorded in accounting to the related sales agreements and delivery documentation.
- Regarding to the long term projects we have compared the project calculations to the existing agreements and to the possible amendments to the agreements.
- We have audited the project estimates prepared and reviewed by the management as well as the realization of these estimates and assessed the level of completion based on the documentation received.
- We have evaluated the appropriateness of the presentation in the financial statements.

Inventory valuation

Refer to Note 13.

- Vaisala group inventory EUR 28,6 million consists mostly of high technology products, which are subject to research and development and which are associated with the excess and obsolescence risk.
- Risk is increased because some products have long life cycle.
- As disclosed in the note 13 Vaisala has written down inventories and recognized excess and obsolescence allowances for slow moving and old inventory.
- Estimation and judgment are required in determining the value of the allowance for excess and obsolete inventory. Management analyses the future demand estimates of the products to determine allowance.
- This matter is a significant risk of material misstatement referred to in EU Regulation No 537/241, point (c) of Article 10(2).

- Our audit procedures included an assessment of Vaisala inventory process and assessment of controls relating inventory valuation.
- We have assessed the valuation principles used by the group and analysed the slow moving inventory to be able to assure the accuracy of obsolesce provision accounting.
- We have audited inventory valuation by comparing the accounting values to the acquisition and manufacturing costs as well as to the net realizable values to evaluate that value of inventory do not exceed the lower of the acquisition and manufacturing costs or net realizable value.
- We have assessed management judgements and estimates regarding the future life-cycle and demand of products.
- We have evaluated the appropriateness of the presentation in the financial statements.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER FOR THE FINANCIAL STATEMENTS

The Board of Directors and the Chief Executive Officer are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Chief Executive Officer are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Chief Executive Officer are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES IN THE AUDIT OF FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Chief Executive Officer 's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER REPORTING REQUIREMENTS

INFORMATION ON OUR AUDIT ENGAGEMENT

We were first appointed as auditors by the Annual General Meeting on March 26, 2014, and our appointment represents a total period of uninterrupted engagement of 4 years.

OTHER INFORMATION

The Board of Directors and the Chief Executive Officer are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

OTHER OPINIONS

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of distributable funds is in compliance with the Limited Liability Companies Act. We support that the Board of Directors of the parent company and the Chief Executive Officer should be discharged from liability for the financial period audited by us.

Vantaa, February 7, 2018

Deloitte Oy
Audit Firm

Merja Itäniemi
Authorised Public Accountant (KHT)

SUSTAINABILITY

Reporting Principles

Vaisala has reported on non-financial indicators in corporate reports annually since 2008. This is the tenth report to apply the reporting framework of Global Reporting Initiative (GRI), and the second one to include reporting guidance of the International Integrated Reporting Framework.

NON-FINANCIAL REPORTING

The EU directive 2014/95/EU on Non-Financial and Diversity Information applies to Vaisala. This section of the annual report encompasses the Non-financial Information that is required by the directive. This includes how we manage our responsibility towards the environment, our employees, our social responsibility, and our anti-corruption and anti-bribery compliance.

INTEGRATED REPORTING

Vaisala applies the Integrated Reporting framework, as defined by the International Integrated Reporting Council (IIRC), in its annual report. The primary purpose of an Integrated Report is to describe how a company creates value over time. We started our work towards this goal in 2016; and our aim is to develop our operations through exploring the different types of value Vaisala creates for its stakeholders.

IMPLEMENTING THE GRI GUIDELINES

To maintain transparency and consistency in our sustainability reporting, Vaisala applies the Global Reporting Initiative's (GRI) G4 guidelines, and our report is in accordance with the guideline's Core criteria. The GRI reference index is on page 182 of this report.

Following the GRI boundary guidelines, our financial and human resource data is reported for the entire Group and in all locations. The scope of our environmental data is divided into Key Environmental Performance Indicators, which cover the manufacturing sites; and Carbon Footprint, which covers manufacturing sites and offices with more than 15 employees; and indirect sources.

We also report sustainability information directly to selected organizations. We prioritize reporting to CDP, Global Compact, our customers, institutional investors, and ESG rating agencies.

INDEPENDENT ASSURANCE

According to our reporting process, we seek assurance for the report from a third-party assurance provider. An independent third party, Deloitte Oy, has externally assured standard disclosures for 2017 and indicators with a reference to external assurance in the GRI content index.

MATERIALITY

Vaisala's management reviews the material aspects, stakeholders, value creation model, and megatrends annually as part of the reporting process. The material issues have been incorporated into Vaisala's value creation model and are reported throughout the Annual Report. The GRI reference index includes indicators that have been determined material to Vaisala in the materiality review process, which is based on the GRI G4 Core Guidelines.

The latest update to the stakeholder review and materiality assessment was done in the fall of 2017. A more in-depth study was commissioned in 2016, when an external consultancy carried out a survey by interviewing investors, customers, employees, research partners, and Vaisala management.

The Sustainability section of this report gathers all material non-financial reporting indicators, which are then cross-referenced in the GRI index on page 182.

Read more
The GRI reference index is on page 182 of this report.

Environment

Vaisala wants to be involved in establishing a sound foundation for environmental observations to advance safety of people and property as well as productivity of our customers. Accordingly, the main purpose of most of our products is to contribute to these ends. Our industrial products and solutions provide our customers with means of improving their operational performance, and our weather measurement systems increase safety and predictability in weather critical operations.

ENVIRONMENTAL ASPECTS

In Vaisala, we minimize negative environmental impacts by improving efficiency of our product portfolio, business operations, and supply chain in a systematic way. The foundation of Vaisala's environmental management is shaped by two principal themes: climate change and scarcity of resources. Environmental aspects review and impact assessments are carried out regularly as part of the environmental management system. Our key environmental aspects have been determined as energy consumption, waste treatment, water consumption, and indirect emissions, such as those arising from sourced components, business travel, logistics, energy consumption during product use, and product disposal at end of its life cycle.

RENEWABLE ENERGY GAINING GROUND

We believe in a future where societies are powered by renewable energy. Vaisala is a member of RE100, a global initiative, which encourages the world's most influential companies to make a 100% renewable energy commitment with a clear timeframe for reaching that goal. To minimize our own impact on climate, we are committed to using 100% renewable electricity in our facilities by 2020. After years of improving the energy efficiency of our operations, this commitment was a natural step for us towards even more environmentally conscious operations. Although our manufacturing sites both in Finland and in the United States already produce clean energy by operating their own solar arrays, we still need to purchase most of our electricity from local energy companies.

During 2017, 91% of the electricity we consumed came from renewable energy sources, mostly wind power. At the year-end, 94% of our electricity consumption came from renewable sources. Actions towards the 100% renewable electricity goal have already reduced our emissions that relate to electricity consumption (Scope 2, Market Based) by more than 85% or 5,587 metric tons of CO_2e compared to the 2014 baseline. The combined Scope 1–2 reduction was -84% compared to the 2014 baseline. The Location Based Scope 2 emission were 4,544 t CO_2e in 2017.

HIGH STANDARDS FOR MATERIAL SAFETY

In 2016–2017 alone, our product engineers analyzed over 20,000 components used in our product portfolio. We set strict requirements on the materials that make up Vaisala products to ensure that they are safe for people and the environment. We analyze components early on in the new product development process, so we can eliminate unwanted substances from the final product or substitute them. We work with our suppliers to verify that components delivered to Vaisala only contain safe materials and choose new suppliers carefully after certifying they meet our strict requirements.

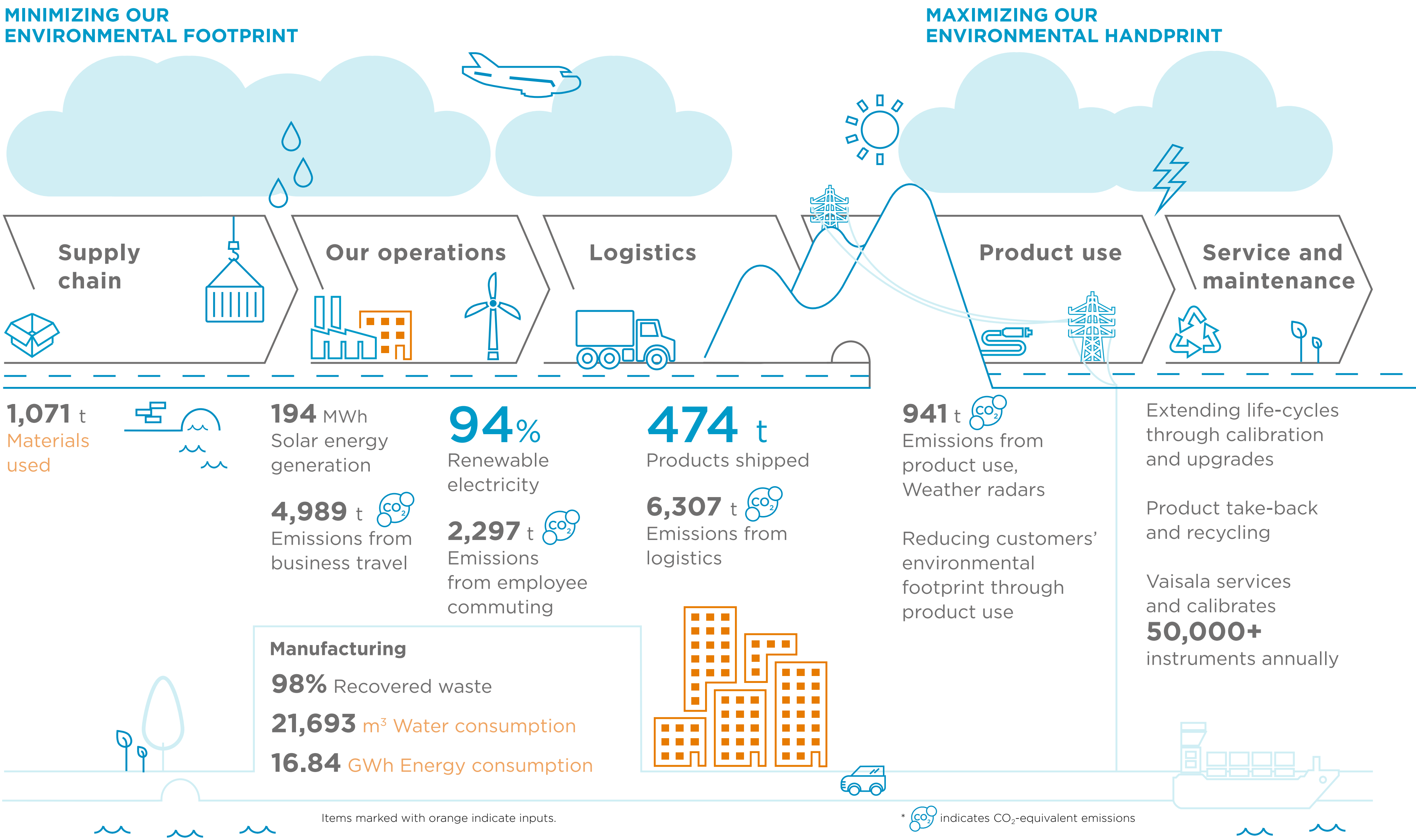
-85%
Reduced carbon emissions from 2014 baseline (Scope 2)

94%
Renewable electricity

98%
Waste recovery rate, manufacturing sites

92%
Employees working on ISO 14001 certified sites

VAISALA'S ENVIRONMENTAL IMPACTS



Items marked with orange indicate inputs.

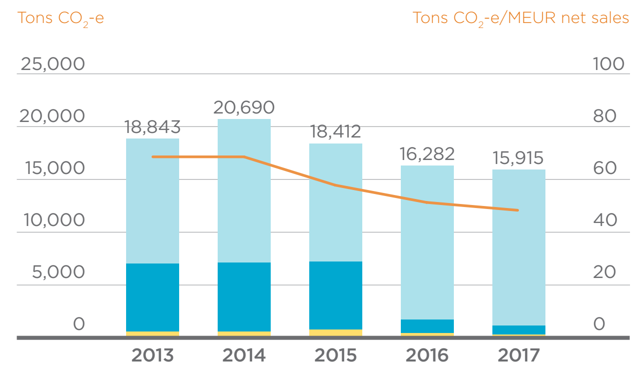
* indicates CO_2-equivalent emissions

RESPONSIBLE USE OF NATURAL RESOURCES

Our manufacturing processes are not water intensive as such, but our sensor manufacturing process does require significant amounts of process water. On site, we have a state-of-the-art water cleaning facility, which purifies municipal water for use in our in-house cleanroom. All process water is also treated before draining, and closed loop processes are used whenever possible.

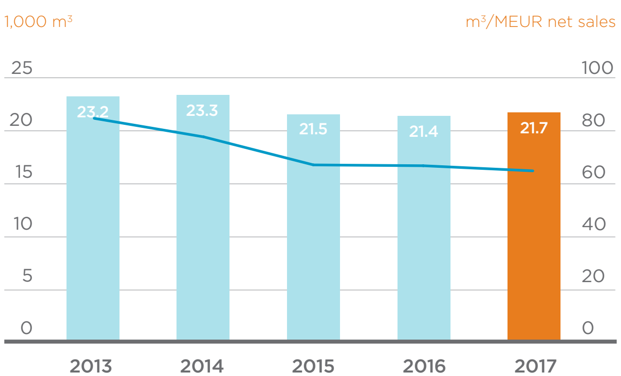
In 2017, we were able to maintain our waste recovery rate at a solid 98% at our manufacturing sites. This means that only 2% of our total waste ended up in landfills; the rest was recovered as materials or energy. At our main manufacturing site in Finland, for example, waste is sorted into 14 different categories to make further treatment and recovery as efficient and easy as possible.

CARBON FOOTPRINT

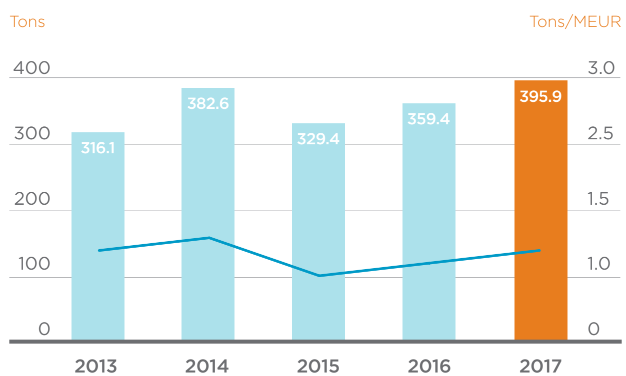


	2013	2014	2015	2016	2017
Scope 1	601	626	816	477	220
Scope 2	6,462	6,536	4,366	1,257	949
Scope 3	11,780	13,528	13,231	14,548	14,746

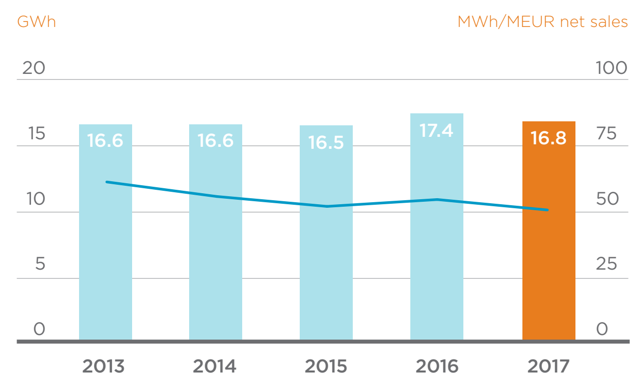
WATER, MANUFACTURING SITES



WASTE, MANUFACTURING SITES



ENERGY, MANUFACTURING SITES



ENVIRONMENTAL MANAGEMENT

The Vaisala Environmental Management System (EMS) is an integral part of our global management system structure. The EMS has been ISO 14001 certified ever since 2004. The certification covers not only all our manufacturing sites but many of our offices as well. In fact, as many as 92% of our employees work ia ISO 14001 certified offices. All certified offices are audited by an independent third party and are a part of our internal audit program.

The EMS helps us identify the most significant environmental impacts at each of our sites and set relevant corporate and local environmental objectives. Currently, seven offices, housing 88% of our staff, have made the commitment to take their environmental practices to the next level. They have formed green teams of volunteers to champion the improvement actions needed to accomplish this.

Although the focus of this internal program has been on conserving energy and minimizing waste, the offices have come up with numerous other actions to protect the environment, including nature clean-up events, promotion of green commuting, and participation in programs to support wildlife and local habitats.

Key Environmental Performance Indicators, Carbon Footprint		Unit	2013	2014	2015	2016	2017
Scope 1:	Service fleet	tCO_2e	601	626	816	477	220
Scope 2:	Purchased electricity and heat, market based	tCO_2e	6,462	6,536	4,366	1,257	949
Scope 3:	Business travel, rental cars, upstream and downstream logistics, waste, commuting, products	tCO_2e	11,780	13,528	13,231	14,548	14,746
	Total	**tCO_2e**	**18,843**	**20,690**	**18,412**	**16,282**	**15,915**

Key Environmental Performance Indicators, Manufacturing	Unit	2013	2014	2015	2016	2017
Energy Consumption	GWh	16.6	16.6	16.5	17.4	16.8
Energy saved as a result of energy efficiency actions, cumulative since 2009	GWh	6.5	8.3	10.1	11.9	13.7
Renewable electricity at year end	%		22.3%	82.9%	88.1%	93.7%
Water Use, Manufacturing	$1{,}000m^3$	23.2	23.3	21.5	21.4	21.7
Landfill Waste	t	31.7	9.1	7.1	6.9	7.1
Hazardous Waste	t	20.3	19.6	22.6	19.9	20.0
Recoverable Waste	t	284.4	373.4	322.3	352.4	388.7
Total Waste	**t**	**316.1**	**382.6**	**329.4**	**359.4**	**395.9**
Waste Recovery Rate	%	90.0%	97.6%	97.9%	98.1%	98.2%

SCOPE OF ENVIRONMENTAL REPORTING

Vaisala's carbon footprint comprises various components from the corporate value chain. The carbon footprint is divided into three scopes according to the Greenhouse Gas Protocol Account and Reporting Standard. Data collection and reporting scope for our carbon footprint is more extensive than for the Group's Environmental Key Performance Indicators (EKPIs). Data is collected from offices with more than 15 employees.

Scope 1 includes field service and other vehicles owned by Vaisala. Scope 2 includes purchased electricity and heat. Scope 3 consists of business flights rental cars, inbound and outbound logistics, energy consumption of installed base of weather radars, employee commuting, and waste treatment (only from Finlan d, which accounts for 87% of the Group's total waste). Business travel includes flights as well as travel by rail and rental cars.

METHODOLOGY AND ASSUMPTIONS

Energy, water and waste data are collected from various sources. If on-site monitoring is not available, service providers' invoices are used. Electricity and heating invoices are used for the reference documents for energy consumption. Solar energy generation as well as water consumption are measured with on-site meters. Waste data is obtained from bills and waste operator customer portals when available. All energy efficiency improvement actions have been calculated individually using the best available information from for instance equipment manufacturers and applying the financial control method outlined in "The GHG Protocol: A Corporate Accounting and Reporting Standard".

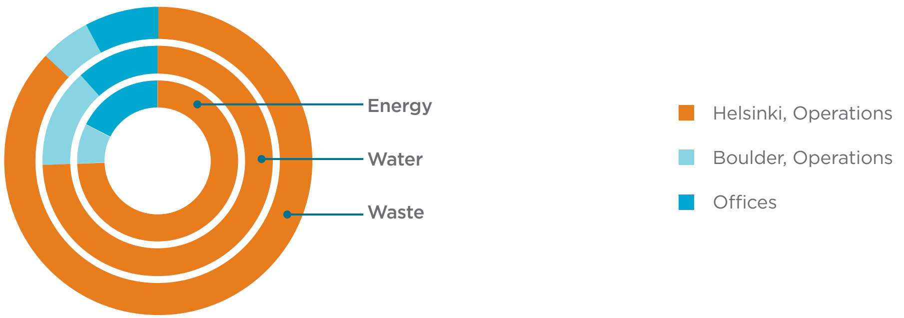
The environmental figures for 2017 are estimates based on actual data for the first 10 months of the year. Data for November–December 2017 are estimated based on actual last twelve months data. There is no reason to believe that there would be significant change between the estimate and actual 2017 figures.

EMISSION FACTORS

Greenhouse gas emissions are calculated by using the best available conversion factors. These factors come from various reliable sources including DEFRA emission factor database and GHG Protocol calculation tools. Some emission factors are from more specific sources such as logistics partners and local energy utility companies, and emission factors of our fleet from vehicle manufacturers. Emission factors are updated regularly. We report our energy footprint mainly according to market-based emission factors. Sites using 100% renewable energy sources use 0,0 gCO_2-e/kWh market-based emission factors.

The carbon footprint includes all greenhouse gases converted into CO_2-e using Global Warming Potential GWP-100. As our GHG accounting has improved and expanded, we have calculated the carbon footprint retroactively in order to maintain comparability over the reporting periods.

ENVIRONMENTAL IMPACTS MANUFACTURING VS. OFFICES



Social responsibility

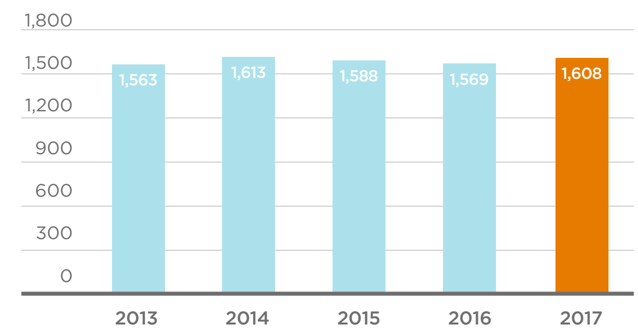
Social responsibility in Vaisala covers responsibility for personnel, occupational health and safety, labor conditions, human rights, anti-corruption, and anti-bribery.

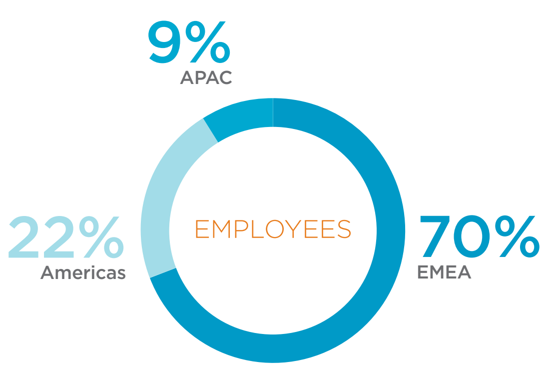
PERSONNEL

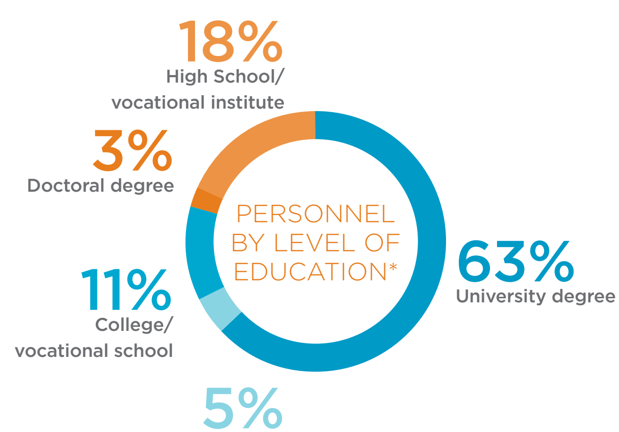
The total number of employees at the end of 2017 was 1,608 (1,569). The average number of personnel employed during 2017 was 1,592 (1,590). The average age of personnel was 43 years. At the year-end, 70% of employees were men and 30% female. Employees in research and development amounted to 20% of personnel and employees in manufacturing to 14%. At the year-end, 92% of employees were permanent and 8% were temporary.

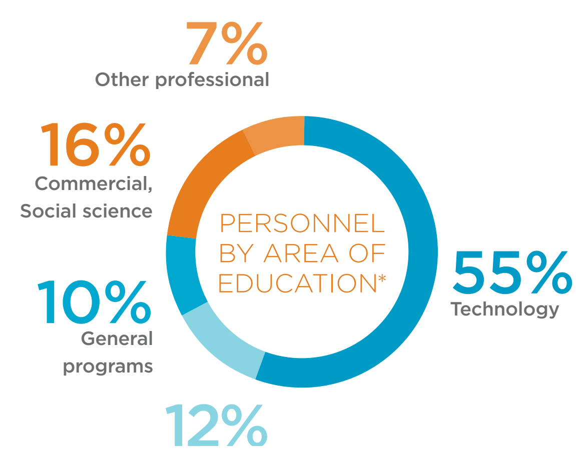
During 2017, 119 permanent employees were recruited and 105 left the company. The turnover rate for permanent employees was 7.1% and the recruitment rate was 8.0%. By the end of the year, eleven employees had retired at the average age of 63.

PERSONNEL, AT YEAR-END





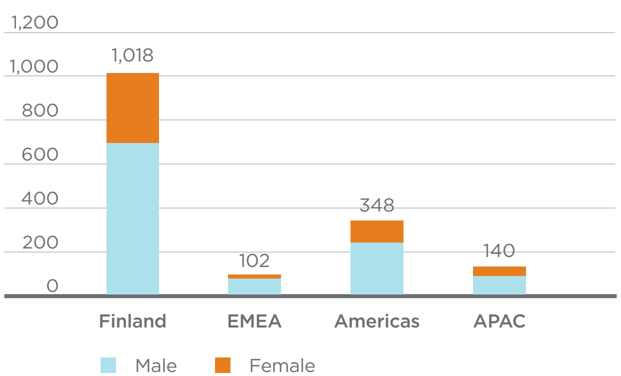




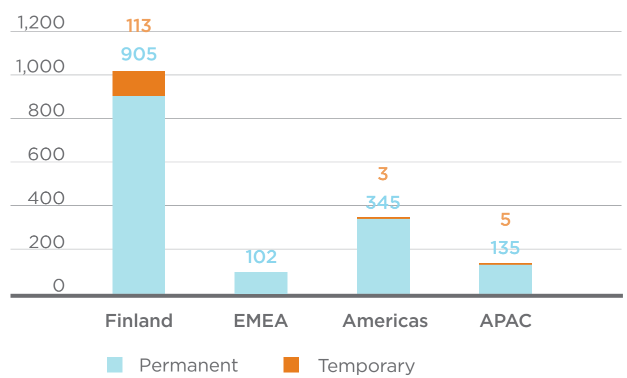
EMEA: Europe, Middle-East and Africa, Americas: North and South America, APAC: Asia-Pacific region

*Covers 81% of permanent employees

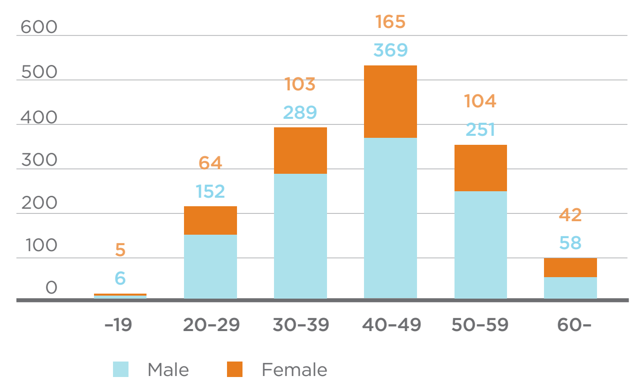
PERSONNEL BY REGION AND GENDER



PERSONNEL BY REGION AND CONTRACT



PERSONNEL BY AGE GROUP AND GENDER



Recruitments

	-19	20-29	30-39	40-49	50-59	60-	Total
Male	12	83	38	25	7	1	
Female	8	39	12	13	6	1	
Total	**20**	**122**	**50**	**38**	**13**	**2**	**245**

Recruitments by region

	Finland	EMEA	Americas	Asia and Australia	Total
Permanent	61	5	36	17	**119**
Temporary	116	2	7	1	**126**

Turnover

	-19	20-29	30-39	40-49	50-59	60-	Total
Male	10	58	23	16	15	10	
Female	3	34	13	12	6	7	
Total	**13**	**92**	**36**	**28**	**21**	**17**	**207**

Turnover by region

	Finland	EMEA	Americas	Asia and Australia	Total
Permanent	40	11	42	12	**105**
Temporary	90	5	7	0	**102**
Total	**130**	**16**	**49**	**12**	**207**

EMEA: Europe, Middle-East and Africa, Americas: North and South America,
APAC: Asia-Pacific region

MAJOR CHANGES DURING THE REPORTING PERIOD

In 2017, Vaisala acquired Finnish IT company Vionice that specializes in computer vision and artificial intelligence. Vionice was established in 2014 as a spin-off from the Computer Vision Laboratory at Lappeenranta University of Technology.

As part of the continuous development of our digital solutions operations, Vaisala committed into a migration of its services from own data centers into the cloud. This led to a re-aligning and to a reduction of 10 positions. The re-aligning included also recruitments of new competences in software development and IT solutions management.

In an effort to increase customer intimacy and proximity to market, Vaisala opened up two new offices. The hub in Nairobi, Kenya serves the African market in the Weather and Environment business. The new office in Mexico City, Mexico serves both Industrial Measurements and Weather and Environment customers.

COLLECTIVE AGREEMENTS AND TRADE UNIONS

Vaisala recognizes Technology Industries of Finland as its trade union. Vaisala's employees in Finland are covered by three collective agreements: the collective agreement for employees in technology industries, the collective agreement for salaried employees in technology industries, and the collective agreement for senior salaried employees in technology industries.

Salaries and wages paid by the company are based on local collective and individual agreements, individual performance, and the requirements of each job. The base salaries are supplemented by performance-based bonus systems, which cover all Vaisala personnel.

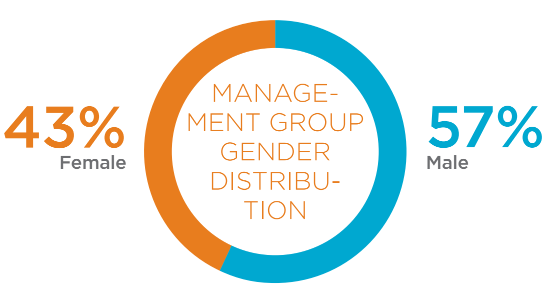
DIVERSITY, EQUALITY AND INCLUSIVENESS

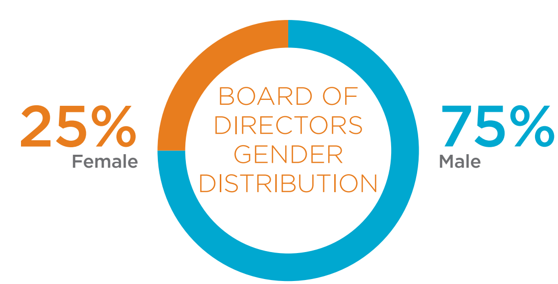
We demonstrate equal employment opportunity in all recruitment, hiring, and working practices such as training and development. In North America, Vaisala Inc. is an Equal Opportunity Employer (EOE). Qualified applicants are considered for employment without regard to age, race, color, religion, gender, marital status, national origin, sexual orientation, disability, or veteran status. If an applicant needs assistance or an accommodation during the application process because of a disability, the company is pleased to provide it. No applicant will be penalized as a result of such a request.

According to the Finnish Non-Discrimination Act, section 4, an employer must create a plan to advance equality. The goal is that people at Vaisala work within a safe, caring, communal and accessible operating culture.

The equality plan is a plan on how Vaisala, as an employer, in the course of their operations, shall promote equality and prevent and address discrimination. The goal of our equality plan is that Vaisala's personnel, jobseekers and the subcontractors operating within Vaisala's guidance and offices, as well as leased personnel, will work and be treated equally, independently of their attributes.

Equality and fairness are also important elements of Vaisala's compensation policy. We do not distinguish between gender or other non-professional attributes in employee compensation or benefits plans.





OCCUPATIONAL HEALTH AND SAFETY

INJURY RATE RECORD LOW THIRD YEAR IN A ROW

Our goal of zero injuries is a step closer again. In 2017, there were four (three in Americas, one in EMEA) injuries with 5 lost days in total, resulting in an injury rate of 1.31 per million working hours. The target rate was 1.8. This was a 44% reduction in the injury rate compared to 2016. Moreover, 2017 was the first year that not a single injury occurred in Vaisala's operations in Finland. There were also no recorded injuries in the APAC region.

PROACTIVE REPORTING AND INVESTIGATION

We encourage a proactive approach to reporting health and safety hazards at the workplace. Employees are also urged to suggest safety improvements to the workplace and working methods. To prevent injuries and a recurrence of incidents, reported non-conformities are investigated to find their root causes. When these have been found, corrective actions are implemented promptly.

Reporting frequency of hazards and near misses increased by 80% compared to the previous year. We have a target of one reported near miss or hazard per 15 employees. These reports allow us to intervene early in hazards and risks and give us several opportunities to prevent injuries.

A globally harmonized reporting procedure and database ensures efficient health and safety performance follow-up and increased transparency.

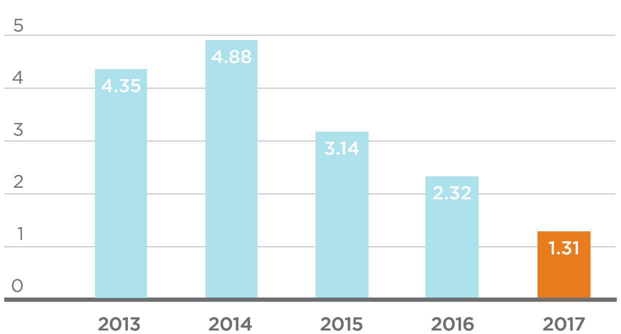
HEALTH AND SAFETY COLLABORATION

We have increased collaboration between the personnel and employer through the founding of new Health and Safety Committees in several Vaisala locations.

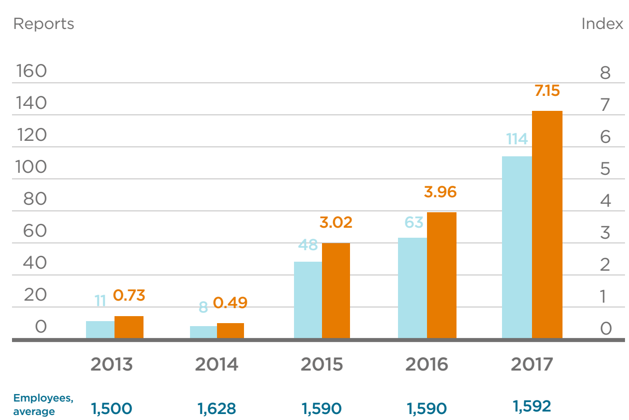
In our operations in Finland, Canada, Germany, and Seattle, USA, it is a statutory requirement for the employer and employees to meet in health and safety committees. Moreover, we have started new committees in Birmingham, UK, and Boulder, USA, in 2017. In 2018, the objective is to have new committees in Boston, USA, and Tokyo, Japan, and Beijing, China.

The committees meet at least four times annually. Currently, the representatives in Health and Safety Committees make up 2.6% of the total workforce, representing 83% of personnel. We intend to have at least one non-management employee representative on each site of more than ten employees.

INJURIES PER MILLION WORKING HOURS (TRI)



PROACTIVE OHS REPORTING INDEX
OF REPORTS PER 100 EMPLOYEES



VAISALA CODE OF CONDUCT

The Code of Conduct is the core of Vaisala business conduct and reflects Vaisala Values: Integrity, Strong Together, Innovation and Renewal, and Customer Focus. All our employees, together with our partners, distributors and agents, are required to comply with the Code of Conduct at all times. Longstanding Vaisala Code of Conduct was updated in 2015, along with the update of the International Anti-Corruption Policy in 2016, in order to further promote understanding of the importance of ethical behavior and to ensure compliance.

All Vaisala employees are required to complete online Code of Conduct trainings periodically. At the end of 2017, 97% of the personnel had completed the training. All new employees acknowledge their compliance with the Code of Conduct and Anti-Corruption Policy as part of their employment agreement, and they take part in introduction programs concerning various company policies, including the Code of Conduct. In 2017, Vaisala created an internal Policy Portal to facilitate easy access to certain key policies and guidelines.

Violation of the Code of Conduct by employees can lead to disciplinary actions up to and including termination of employment.

Due to the wide geographical reach of Vaisala's business, we operate in various countries with a demanding business climate. Consequently, special attention is paid to the business partner selection, where the preliminary desktop investigation is usually followed by a more thorough due diligence, performed either by Vaisala's own personnel or by external consultants. Agreements with our business partner typically contain strict clauses on immediate termination in case of any breach of the principles of the Code of Conduct or the International Anti-Corruption Policy. Both documents are integral parts of the signed agreements.

INTERNATIONAL ANTI-CORRUPTION POLICY

Vaisala condemns corruption and maintains a zero-tolerance approach towards all corruptive practices. Our International Anti-Corruption Policy strictly forbids offering, giving, soliciting, arranging, demanding or accepting bribes, whether directly or through third parties. Detailed guidelines on acceptable hospitality and entertainment are included in the International Anti-Corruption Policy. Periodical Code of Conduct trainings cover topics relevant to the International Anti-Corruption Policy, too.

Vaisala's Travel & Travel Expenses Policy has been aligned with the other policies and guidelines. Violation of the International Anti-Corruption Policy by employees can lead to disciplinary actions up to and including termination of employment.

SUPPLIER CODE OF CONDUCT

The Supplier Code of Conduct reflects Vaisala's values and the Code of Conduct, and is based on principles created by the International Labor Organization (ILO), the United Nations Global Compact initiative, and the Responsible Business Alliance (formerly EICC). The Supplier Code of Conduct contains requirements from standards and policies formulated by the above-mentioned organizations, as well as those of the Business Social Compliance Initiative (BSCI) and Social Accountability International (SAI).

RISK MANAGEMENT AND DUE DILIGENCE

Vaisala does business in more than 150 countries annually. To serve its customers as efficiently as possible, Vaisala conducts business through a network of partners, such as distributors, agents and re-sellers in over 100 countries, all of which have different regulatory and legal framework.

Compliance with Code of Conduct is continuously monitored by regional/business unit heads and immediate supervisors and is also subject to internal audit. If any Vaisala employee becomes aware of or suspects a violation of the Code of Conduct or International Anti-Corruption Policy, they are required to report their concerns through a communication channel which provides anonymity. Vaisala provides a whistleblowing channel for both employees and external stakeholders to report on suspected breaches of Vaisala's Code of Conduct, or their other concerns. The channel operates by e-mail and regular mail and accepts both anonymous and signed messages.

Vaisala has a Compliance Committee whose task is to handle compliance issues brought into its attention. The Committee consists of members from the Legal Department, Finance & Control and Human Resources and is headed by Senior Vice President for Compliance and Risk Management.

In 2017, Vaisala has performed several internal audits and investigations based on whistleblowing information on alleged fraud or other unethical behavior. Roughly half of the finished audits by external auditors have proven no or minor breaches of Vaisala's ethical codes and have not led into any severe disciplinary actions. Two audits have given rise to disciplinary actions, further clarified guidance and further training. Some audits are currently pending.

There were no confirmed complaints or sanctions by authorities during 2017. Specifically, no incidents of corruption, anti-competitive behavior, anti-trust or monopoly practices or any other breach of legislation or regulations were confirmed during 2017. Furthermore, there were no reported concerns or breaches of human rights, labor rights, or environmental legislation in the adjacent supply chain.

MANAGING HUMAN RIGHTS ISSUES

Vaisala respects human rights as defined in the United Nations' Universal Declaration of Human Rights and endorses the International Labour Organization's Declaration of Fundamental Principles and Rights at Work.

Internal supply chain risk assessments suggest that risks for adverse impacts of human rights are most likely to be found beyond the third tier of suppliers. Typical issues are the same as in other electronic manufacturing supply chains, including but not limited to: unpaid or excessive overtime, dangerous working conditions, bonded labor, and low wages. Risks in Vaisala's supply chain are mitigated by carefully choosing preferred suppliers and working closely with first tier suppliers, insisting on policies that go beyond what would be required by local legislation.

CONFLICT MINERALS

Vaisala does not condone infringement of human rights or breaches of labor laws in any part of its supply chain and takes appropriate measures to ensure that the risks of any violations of the company's Code of Conduct or its Supplier Code of Conduct are minimized in the adjacent supply chain. Moreover, due to the enforcement of Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, suppliers to Vaisala must ensure that proper precautions are taken in order not to source any materials that have their origin in conflict areas, including but not limited to the tin, tungsten, tantalum, and gold mined in the Democratic Republic of Congo (DRC) or in adjoining countries.

Read more on Vaisala's website
Read more about Vaisala's policies www.vaisala.com/standards-and-policies
Vaisala Whistleblowing Channel can be reached at wbc@vaisala.com

Responsible Supply Chains

Vaisala's supply chain management aims to create sustainable competitive advantage and innovations through collaboration. Our excellence in a high-mix, low-volume business model depends on effective management of hundreds of suppliers and numerous strategic subcontractors. To live up to our customer promise and stakeholder expectations, a reliable and responsible supply chain is a necessity for Vaisala. We have stringent requirements for our suppliers, and we work together with them in the way that allows for improvement in both organizations.

TYPICAL PRODUCT SUPPLY CHAIN

Vaisala's direct suppliers are located close to its manufacturing sites. We source components and mechanical parts primarily from Finland, Western Europe, and the United States, and to a lesser extent from a few Asian countries. Raw materials used in our own sensor factory are currently sourced exclusively from Europe. The upstream supply chains resemble those of other typical global electronic manufacturing industry supply chains.

In addition to the sensor factory in Helsinki, Finland, which produces sensors for all product families, Vaisala's manufacturing involves assembly, configuration, and calibration of electronic and mechanical equipment. Typically, our products are highly customized according to customer specifications, and therefore all products are made to order, thus keeping inventories of finished goods low. Final products are shipped directly to customers from the manufacturing sites in Helsinki and in Boulder, Colorado.

Product life cycles range typically from one to over 20 years, with scheduled recalibrations and maintenance during that time. Recalibration and maintenance are performed at one of our four service centers or in many cases on-site. At the end of the product life cycle, customers are instructed to follow the best available local practices for recycling electronic equipment, or to return products to Vaisala for recycling. We are required by the European Union Waste Electrical and Electronic Equipment (WEEE) Directive to finance the take-back, reuse, and recycling of products that are placed on the EU market.

SUPPLIER MANAGEMENT MODEL

Vaisala's Supplier Management Model classifies suppliers into four categories: potential, approved, preferred, and strategic suppliers. The classification defines the relationship between Vaisala and the supplier and outlines the management model for each category. All suppliers are required to meet a set of criteria before they can become our supplier. Supplier requirements are based on the classification, country risk analysis, and spend. Moreover, suppliers are required to comply with Vaisala's Supplier Code of Conduct as part of their contract.

To evaluate ESG risks in the supply chain, we apply a Supplier Sustainability Self-assessment Questionnaire (SAQ) as part of the supplier scoring for all supplier categories. The SAQ forms a part of the supplier assessment and exposes risks in labor and human rights as well as environmental issues in the supply chain. If a supplier's

Key figures of Vaisala's direct supply chain

392 suppliers in 30 countries

-54% reduction from the 856 suppliers in 2013, through strategic consolidation

87% of suppliers rated on ESG metrics (based on spend), target 90% in 2017 (80%, 2016)

89% of supplier (based on spend) have signed the Supplier Code of Conduct

7 new suppliers in 2017

57% of new suppliers scored on ESG metrics, target is 100%

scores are in the lowest category, a corrective action plan must be put in place at once and business relations with the supplier may cease. New suppliers will not be approved, if they score below expectations. The SAQ scoring is discussed bi-annually or when needed with each supplier.

The consolidation of the supply chain continued in 2017 with the aim of increasing our collaboration with existing suppliers. At the end of 2017, Vaisala had 392 direct suppliers. Our 2017 target was that at least 90% of total euros spent on direct suppliers would be covered by ESG analysis, and the target was almost met at 87%. There were seven new suppliers in 2017, four of them had an SAQ score before the end of the reporting period , and six had signed the Supplier Code of Conduct.

EARLY SUPPLIER INVOLVEMENT

Vaisala's suppliers are the experts of their own technologies, which are essential for the quality of our products. We benefit most from this expertise when we involve suppliers in product development and design early on. Manufacturability, consistent quality, total cost of ownership, and performance can be improved through Early Supplier Involvement (ESI).

Applying ESI in new product development projects can become a key contributor in mitigating risks and enabling the development of a totally new Vaisala product in a very short timeframe. It benefits both Vaisala and the supplier, as re-engineering costs can be kept down, manufacturing times are faster, and both parties learn in the process. In Vaisala, we value reliability and continuous improvement highly, and ESI has proved an efficient method to implement them.

Blog: First Ever Vaisala Supplier Awards

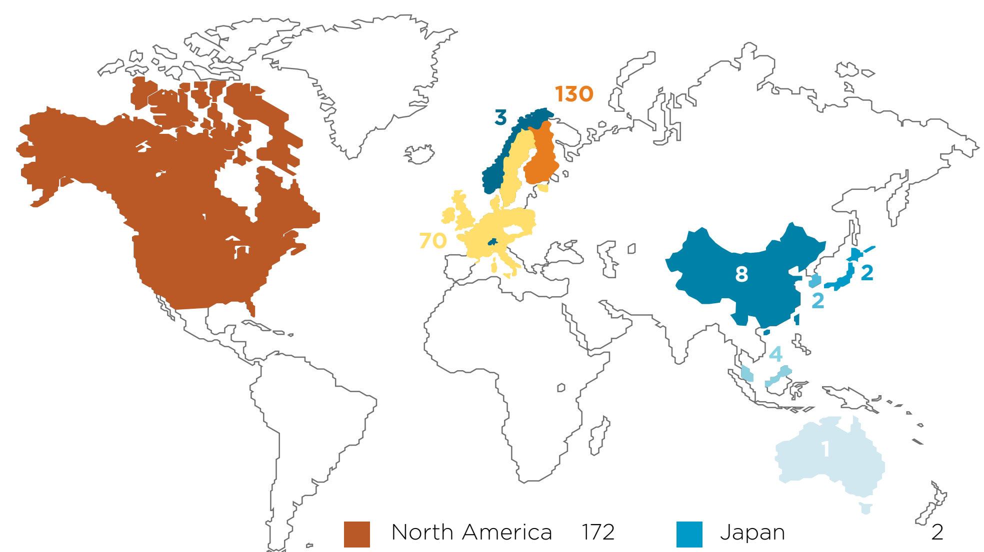
Read more
Read the full story and list of winners on www.vaisala.com/annualreport

FIRST SUPPLIER DAYS ORGANIZED

In 2017, we organized a two-day supplier event with training sessions, workshops, and networking. The aim of the Supplier Day is to deepen cooperation between Vaisala and our key suppliers. Opening up our strategies and business models to our suppliers helps them understand how to align themselves better with Vaisala and make our collaboration more fruitful for both parties. The event was concluded with the first ever Vaisala Supplier Awards ceremony that celebrated mutual success in five categories: Sustainable Business, Quality, Technology, Customer Service, and Delivery.

Read more
Read more about Vaisala's supplier management at www.vaisala.com/suppliers

VAISALA'S DIRECT SUPPLIERS BY REGION



North America	172
Finland	130
Other EU	70
Other Europe	3
China	8
Japan	2
South Korea	2
South-East Asia	4
Australia	1
Total	**392**

UN Global Compact

Vaisala joined the UN Global Compact in 2008 and has committed itself to following the ten guiding principles of the initiative. Consequently, we report on our progress on an annual basis. Vaisala is an active member in its local UNGC network, the Global Compact Nordic Network. Involvement in the local network gives us the possibility to influence the network's activities and benchmark our efforts against other companies. Our sustainability reports have qualified for the Global Compact Advanced differentiation level since its introduction in 2010.

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights.	Embedded in Vaisala's Code of Conduct and Supplier Code of Conduct. Mandatory regular Code of Conduct training for the entire personnel.
Principle 2: Make sure that they are not complicit in human rights abuses.	Mandatory regular Code of Conduct training for the entire personnel.

Labor Standards

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	Embedded in Code of Conduct and Supplier Code of Conduct. Employee representatives, according to local legislation.
Principle 4: The elimination of all forms of forced and compulsory labor.	Covered in Code of Conduct and Supplier Code of Conduct.
Principle 5: The effective abolition of child labor.	Covered in Code of Conduct and Supplier Code of Conduct.
Principle 6: The elimination of discrimination in respect of employment and occupation.	Covered in Code of Conduct and Supplier Code of Conduct.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges.	We systematically identify and evaluate our environmental impacts and hazards to mitigate any negative effects they might incur.
Principle 8: Undertake initiatives to promote greater environmental responsibility.	Participates in WWF Finland's Green Office program and refurbishes facilities to meet green standards. Committed to 100% renewable energy by 2020.
Principle 9: Encourage the development and diffusion of environmentally friendly technologies.	We constantly develop Best Available Technology (BAT) products to meet the increasing demand for highly accurate measuring instruments, e.g. for climate change research.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.	Covered in Code of Conduct, Supplier Code of Conduct, and Vaisala's International Anti-Corruption Policy. Vaisala's management enforces a strict zero-tolerance policy on all forms of bribery and corruption.

Signing of Non-financial Information

Disclosure of non-financial information in accordance with Finnish Accounting Act is presented in the Annual Report's sections Business Model, Dashboard, Environment and Social Responsibility.

Vantaa, February 7, 2018

Petri Castrén	Petra Lundström	Yrjö Neuvo Vice Chairman of the Board
Mikko Niinivaara	Kaarina Ståhlberg	Pertti Torstila
Raimo Voipio Chairman of the Board	Ville Voipio	Kjell Forsén President and CEO

Independent Limited Assurance Report

TO THE MANAGEMENT OF VAISALA OYJ

We have been engaged by Vaisala Oyj (hereafter Vaisala) to provide a limited assurance on Vaisala's corporate responsibility GRI indicators for the reporting period of January 1, 2017 to December 31, 2017, which are presented in the Annual Report 2017 (hereafter: Responsibility Information). Further information about the scope of the assurance engagement can be found in the GRI index on pages 182–189.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation of the Responsibility Information in accordance with the Reporting criteria as set out in Vaisala's reporting principles on page 164 of the GRI Non-Financial Information report and the Sustainability Reporting Guidelines (G4 Core) of the Global Reporting Initiative. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the Responsibility Information that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate criteria and making estimates that are reasonable in the circumstances.

ASSURANCE PROVIDER'S RESPONSIBILITY

Our responsibility is to express a limited assurance conclusion on the Responsibility Information based on our engagement. We conducted our assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) to provide limited assurance on performance data and statements within the Responsibility Information.

This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance whether any matters come to our attention that cause us to believe that the Responsibility Information has not been prepared, in all material respects, in accordance with the Reporting criteria.

We did not perform any assurance procedures on the prospective information, such as targets, expectations and ambitions, disclosed in the Responsibility Information. Consequently, we draw no conclusion on the prospective information. Our assurance report is made in accordance with the terms of our engagement with Vaisala. We do not accept or assume responsibility to anyone other than Vaisala for our work, for this assurance report, or for the conclusions we have reached.

A limited assurance engagement with respect to responsibility related data involves performing procedures to obtain evidence about the Responsibility Information. The procedures performed depend on the practitioner's judgment, but their nature is different from, and their extent is less than, a reasonable assurance engagement. It does not include detailed testing of source data or the operating effectiveness of processes and internal controls and consequently they do not enable us to obtain the assurance necessary to become aware of all significant matters that might be identified in a reasonable assurance engagement.

Our procedures on this engagement included:

- Conducting interviews with senior management responsible for corporate responsibility at Vaisala to gain an understanding of Vaisala's targets for corporate responsibility as part of the business strategy and operations;
- Reviewing internal and external documentation to verify to what extent these documents and data support the information included in the Responsibility Information and evaluating whether the information presented in the Responsibility Information is in line with our overall knowledge of corporate responsibility at Vaisala;
- Conducting interviews with employees responsible for the collection and reporting of the Responsibility Information and reviewing of the processes and systems for data gathering, including the aggregation of the data for the Responsibility Information;

- Performing analytical review procedures and testing data on a sample basis to assess the reasonability of the presented responsibility information;
- Performing site visits to Vantaa in Finland and Tokyo in Japan to review compliance to reporting policies, to assess the reliability of the responsibility data reporting process as well as to test the data collected for responsibility reporting purposes on a sample basis;
- Assessing that the Responsibility Information has been prepared in accordance with the Sustainability Reporting Guidelines (G4 Core) of the Global Reporting Initiative.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

OUR INDEPENDENCE, QUALITY CONTROL AND COMPETENCES

We complied with Deloitte's independence policies which address and, in certain cases, exceed the requirements of the International Federation of Accountants Code of Ethics for Professional Accountants in their role as independent assurance providers and in particular preclude us from taking financial, commercial, governance and ownership positions which might affect, or be perceived to affect, our independence and impartiality and from any involvement in the preparation of the report. We have maintained our independence and objectivity throughout the year and there were no events or prohibited services provided which could impair our independence and objectivity.

Deloitte Oy applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. This engagement was conducted by a multidisciplinary team including assurance and sustainability expertise with professional qualifications. Our team is experienced in providing sustainability reporting assurance.

CONCLUSION

On the basis of the procedures we have performed, nothing has come to our attention that causes us to believe that the information subject to the assurance engagement is not prepared, in all material respects, in accordance with the Sustainability Reporting Guidelines (G4 Core) of the Global Reporting Initiative or that the Responsibility Information is not reliable, in all material respects, with regard to the Reporting criteria.

Our assurance statement should be read in conjunction with the inherent limitations of accuracy and completeness for responsibility information.

Helsinki 7.2.2018

Deloitte Oy

Merja Itäniemi
Authorized Public Accountant

Lasse Ingström
Authorized Public Accountant

GRI Content Index

The Global Reporting Initiative content index is provided to assist the reader in navigating through the annual report and to compare it to the GRI G4 Guidelines. The report is in accordance with the Core criteria of the guidelines. Standard disclosures for 2017, and indicators with a reference to external assurance in the GRI content index, have been externally assured by an independent third party, Deloitte Oy. The independent assurance report is on page 180 of this report. For more information about the guidelines, please see www.globalreporting.org

	Description	Reference	Reasons for Omission	Assurance	Global Compact Principle
General Standard Disclosures					
G4-1	CEO's statement	8–9			
Organizational Profile					
G4-3	Name of the organization	3			
G4-4	Primary brands, products, and services	3			
G4-5	Location of the organization's headquarters	25			
G4-6	Number of countries where the organization operates	3			
G4-7	Nature of ownership and legal form	48			
G4-8	Markets served	3			
G4-9	Scale of the organization	3			
G4-10	Workforce information	170–172		•	Principle 6
G4-11	Report the percentage of total employees covered by collective bargaining agreements	172		•	Principle 3
G4-12	Describe the organization's supply chain	176			
G4-13	Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain	172			
G4-14	Approach to the precautionary principle	64–67, 174			

	Description	Reference	Reasons for Omission	Assurance	Global Compact Principle
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	41–43, 178			
G4-16	List memberships of associations and national or international advocacy organizations	41–43, 29, 178			

Identified Material Aspects and Boundaries

G4-17	Entities included in the organization's consolidated financial statements or equivalent documents. Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report.	The report's scope include all affiliates and wholly owned companies of the parent company Vaisala Oyj.			
G4-18	Process for defining the report content and the Aspect Boundaries	2, 13, 164			
G4-19	List all the material Aspects identified in the process for defining report content	13			
G4-20	Reporting of Aspect Boundaries within the organization	13			
G4-21	Reporting of Aspect Boundaries outside the organization	13			
G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements	164, Re-statements are explained within the text where applicable.			
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries.	164			

Stakeholder Engagement

G4-24	List of stakeholder groups engaged by the organization	29			
G4-25	Basis for identification and selection of stakeholders with whom to engage	13, 28			
G4-26	Organization's approach to stakeholder engagement	28			
G4-27	Key topics and concerns that have been raised through stakeholder engagement	13, 28–29, 164			

	Description	Reference	Reasons for Omission	Assurance	Global Compact Principle
Report Profile					
G4-28	Reporting period for information provided	Calendar year 2017, except for environmental data which is an estimate for the calendar year 2017.			
G4-29	Date of most recent previous report	21 March 2017			
G4-30	Reporting cycle	Annual			
G4-31	Contact point for questions regarding the report or its contents	190			
G4-32	The 'in accordance' option the organization has chosen.	In accordance with the GRI G4 Core option.			
G4-33	Organization's policy and current practice with regard to seeking external assurance for the report.	164			
Governance					
G4-34	Governance structure of the organization	51, Corporate Governance Statement			
G4-38	Composition of the highest governance body and its committees	55, Corporate Governance Statement			
Ethics and Integrity					
G4-56	Organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	11, 174–175			All principles
G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines	174–175			All principles
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines	175			All principles

	Description	Reference	Reasons for Omission	Assurance	Global Compact Principle
Disclosures on Management Approach (DMA)					
G4-DMA	Materiality and impacts	11–14			
Indicators					
Category: Economic					
Aspect: Economic Performance					
G4-EC1	Direct economic value generated and distributed	96, Financial Statements	Figures reported on Group level. We consider the regional level reporting of these figures proprietary information.	•	
G4-EC3	Coverage of the organization's defined benefit plan obligations	107, Financial Statements	There is no single Group policy, as practices differ between countries. Percentage of salary and participation level not reported.	•	
G4-EC4	Financial assistance received from government	41		•	
Category: Environmental					
Aspect: Energy					
G4-EN3	Energy consumption within the organization	165–168	Vaisala does not consume fuels or sell electricity in any significant quantities, therefore these are not considered material.	•	Principles 7, 8
G4-EN4	Energy consumption outside of the organization	166–168	The scope is the installed base of Vaisala's C-band Weather Radar, converted into Scope 2 emissions.	•	Principles 7, 8, 9
G4-EN5	Energy intensity	167–168			Principle 8
G4-EN6	Reduction of energy consumption	168			Principle 8
Aspect: Water					
G4-EN8	Total water withdrawal by source	167–168		•	Principles 7, 8
Aspect: Emissions					
G4-EN15	Direct greenhouse gas (ghg) emissions (Scope 1)	167–168		•	Principles 7, 8
G4-EN16	Energy indirect greenhouse gas (ghg) emissions (Scope 2)	165, 167–168		•	Principles 7, 8
G4-EN17	Other indirect greenhouse gas (ghg) emissions (Scope 3)	168–169	The data includes business travel and commuting for the Group; logistics and waste for Finland; and installed base of one product group, the C-band weather radar. Scope of reporting is reviewed annually.	•	Principles 7, 8

	Description	Reference	Reasons for Omission	Assurance	Global Compact Principle
G4-EN18	Greenhouse gas (ghg) emissions intensity	167–168		•	Principles 7, 8
G4-EN19	Reduction of greenhouse gas (ghg) emissions	165, 167–168		•	Principle 8
Aspect: Effluents and Waste					
G4-EN23	Total weight of waste by type and disposal method	168		•	Principles 7, 8
Aspect: Compliance					
G4-EN29	Monetary value of significant fines and total number of non- monetary sanctions for non-compliance with environmental laws and regulations	175		•	Principle 7
Aspect: Supplier Environmental Assessment					
G4-EN32	Percentage of new suppliers that were screened using environmental criteria	176–177		•	Principle 7
Aspect: Environmental Grievance Mechanisms					
G4-EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	175		•	Principle 7
Category: Social					
Sub-category: Labor Practices and Decent Work					
Aspect: Employment					
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	170–171		•	Principle 6
Aspect: Labor/Management Relations					
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	172		•	Principle 3
Aspect: Occupational Health and Safety					
G4-LA5	Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs	173		•	Principle 3
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	173	Occupational disease rate, absentee rates, and lost day rate have been determined not to be material in Vaisala due to low frequency. Data for contractors is too limited for reporting.	•	

	Description	Reference	Reasons for Omission	Assurance	Global Compact Principle
G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	173		•	
Aspect: Training and Education					
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	34	Performance reviews are a key indicator for Vaisala's human resources development. As 94% of staff had had a development discussion in the past 12 months, we determine region and gender not material for Vaisala.	•	
Aspect: Diversity and Equal Opportunity					
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	170–172	Vaisala does not register ethnicity or minority group status in most of its operating countries, except where it is a regulatory requirement. Minority status has also been determined as not material.	•	
Aspect: Supplier Assessment for Labor Practices					
G4-LA14	Percentage of new suppliers that were screened using labor practices criteria	176–177		•	Principles 3, 4, 5
Aspect: Labor Practices Grievance Mechanisms					
G4-LA16	Number of grievances about labor practices filed, addressed, and resolved	175		•	Principles 3, 4, 5
Sub-category: Human Rights					
Aspect: Investment					
G4-HR2	Total hours of employee training on human rights policies or procedures	174	The e-learning platform does not account for hours spent on training, but instead registered completion of the course.	•	Principles 1, 2
Aspect: Non-discrimination					
G4-HR3	Total number of incidents of discrimination and corrective actions taken	175		•	Principle 2
Aspect: Freedom of Association and Collective Bargaining					
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	176–177	Aspect is determined not to be material in Vaisala's own operations, only in specific areas of the supply chain. For details of supply chain risk mapping, the information is proprietary.	•	Principles, 1, 2, 3

	Description	Reference	Reasons for Omission	Assurance	Global Compact Principle
Aspect: Child Labor					
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	176–177	Aspect is determined not to be material in Vaisala's own operations, only in the supply chain.	•	Principle 5
Aspect: Forced or Compulsory Labor					
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor	176–177	Aspect is determined not to be material in Vaisala's own operations, only in the supply chain.	•	Principle 4
Aspect: Supplier Human Rights Assessment					
G4-HR10	Percentage of new suppliers that were screened using human rights criteria	176–177		•	Principles 1, 2
Aspect: Human Rights Grievance Mechanisms					
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	175		•	Principles 1, 2
Sub-category: Society					
Aspect: Anti-corruption					
G4-SO4	Communication and training on anti-corruption policies and procedures	174	Every employee is in the scope for these policies and procedures. Therefore, the breakdown of staff has been deemed not material.	•	Principle 10
G4-SO5	Confirmed incidents of corruption and actions taken	175		•	Principle 10
Aspect: Public Policy					
G4-SO6	Total value of political contributions by country and recipient/ beneficiary	45		•	Principle 10
Aspect: Anti-competitive Behavior					
G4-SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes	175		•	Principle 10
Aspect: Compliance					
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	175		•	Principle 10

	Description	Reference	Reasons for Omission	Assurance	Global Compact Principle
Aspect: Supplier Assessment for Impacts on Society					
G4-SO9	Percentage of new suppliers that were screened using criteria for impacts on society	176–177		•	Principle 10
Aspect: Grievance Mechanisms for Impacts on Society					
G4-SO11	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	175		•	Principle 10
Sub-category: Product Responsibility					
Aspect: Customer Health and Safety					
G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	175		•	
Aspect: Product and Service Labeling					
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	175		•	
Aspect: Compliance					
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	175		•	

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B211709EN