Vaisala Corporation Half Year Financial Report July 20, 2018 at 12.00 p.m. (EEST)

Vaisala Corporation Half Year Financial Report January–June 2018

Good net sales growth in the second quarter, operating result declined due to sales mix in Weather and Environment Business Area

Second quarter 2018 highlights

- Orders received EUR 71.1 (81.3) million, decrease 12%
- Order book at the end of the period EUR 126.5 (133.6) million, decrease 5%
- Net sales EUR 80.1 (74.8) million, increase 7%
- Gross margin 50.1 (52.4) %
- Operating result (EBIT) EUR 4.7 (5.1) million, 5.9 (6.8) % of net sales
- Earnings per share EUR 0.12 (0.09)
- Cash flow from operating activities EUR 13.7 (8.5) million

January–June 2018 highlights

- Orders received EUR 158.3 (162.8) million, decrease 3%
- Net sales EUR 156.4 (143.2) million, increase 9%
- Gross margin 50.7 (51.9) %
- Operating result (EBIT) EUR 10.4 (7.7) million, 6.7 (5.3) % of net sales
- Earnings per share EUR 0.29 (0.14)
- Cash flow from operating activities EUR 8.3 (11.3) million
- Cash and cash equivalents at the end of the period EUR 56.7 (60.6) million, decrease 7%

Business outlook for 2018 unchanged

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

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

"Vaisala's second quarter net sales grew by 7% year-on-year and with comparable currency rates growth was double digit. Growth was strong in Americas for Weather and Environment Business Area and in APAC for Industrial Measurements Business Area. In Weather and Environment Business Area, net sales grew by 5% following 49% increase in project deliveries, partially due to revised revenue recognition rules. In Industrial Measurements Business Area, net sales increased by 10% thanks to continued strong instrument deliveries globally and especially in APAC.

Despite good net sales growth, sales mix including higher share of Weather and Environment Business Area's project business reduced average gross margin, and operating result was lower than previous year's level. Also, capacity building projects burdened average gross margin.

Order intake was exceptionally low and decreased by 12% from previous year. In Weather and Environment Business Area order intake was lowest for two years. Especially project orders were at a low level. Industrial

Measurements Business Area's instrument orders continued strong and order intake increased by 2%. With comparable exchange rates the increase was three times the euro increase.

Deliveries of the next generation continuous monitoring system, viewLinc, started well and the new product generation was well received. Customer's feedback for vaporized hydrogen peroxide measurement probe has been excellent and sales volumes have met our expectations. Modest performance continued in digital solutions and power transmission during the quarter.

Market outlook for weather observation and industrial measurement solutions is expected to remain unchanged in all other areas except in China. Demand for weather observation solutions in China has further weakened during the quarter. Also, high share of project business is expected to affect Weather and Environment Business Area's and Vaisala's profitability negatively in the second half of 2018. Industrial Measurements Business Area's key markets are expected to remain at healthy level. We continue to estimate our full-year 2018 net sales to be in the range of EUR 330–350 million and operating result (EBIT) in the range of EUR 35–45 million.

Key Figures

	4-6/ 2018	4-6/ 2017	1-6/ 2018	1-6/ 2017	1-12/ 2017
Orders received, EUR million	71.1	81.3	158.3	162.8	346.3
Order book, EUR million	126.5	133.6	126.5	133.6	124.8
Net sales, EUR million	80.1	74.8	156.4	143.2	332.6
Gross profit, EUR million	40.1	39.2	79.3	74.3	174.0
Gross margin, %	50.1	52.4	50.7	51.9	52.3
Operating expenses, EUR million	35.9	34.5	69.3	67.3	133.3
Operating result, EUR million	4.7	5.1	10.4	7.7	40.9
Operating result, %	5.9	6.8	6.7	5.3	12.3
Result before taxes, EUR million	5.0	4.2	9.5	6.2	38.1
Result for the period, EUR million	3.9	3.3	a7.3	4.8	27.2
Earnings per share, EUR	0.12	0.09	0.29	0.14	0.76
Return on equity, %			8.5	5.7	15.0
Capital expenditure, EUR million	3.6	2.0	5.8	3.8	8.5
Depreciations, EUR million	2.1	2.4	4.3	5.3	9.7
Cash flow from operating activities, EUR million	13.7	8.5	8.3	11.3	49.2
Cash and cash equivalents, EUR million			56.7	60.6	91.3

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

Second quarter 2018

Orders received

EUR million	4-6/2018	4-6/2017	Change, %	Change, % comparable rate	2017
Weather and Environment	42.4	53.0	-20	-17	233.0
Industrial Measurements	28.8	28.2	2	6	113.3
Total	71.1	81.3	-12	-9	346.3

In the second quarter 2018, Vaisala's orders received decreased by 12% compared to previous year and were EUR 71.1 (81.3) million. Orders decreased mainly due to low project orders in Weather and Environment Business Area. At comparable exchange rates, orders received would have decreased by 9% compared to previous year. The negative exchange rate effect was mainly caused by USD exchange rate depreciation against EUR.

In the second quarter 2018, Weather and Environment Business Area's orders received decreased by 20% compared to previous year and were EUR 42.4 (53.0) million, which was lowest level since first quarter 2016. Orders decreased mainly due to low project orders. At comparable exchange rates, orders received would have decreased by 17% compared to previous year. The negative exchange rate effect was mainly caused by USD exchange rate depreciation against EUR.

In the second quarter 2018, Industrial Measurements Business Area's orders received increased by 2% compared to previous year and were EUR 28.8 (28.2) million. Increase came mainly from instrument orders in APAC and EMEA. At comparable exchange rates, orders received would have increased by 6% compared to previous year. The negative exchange rate effect was mainly caused by USD exchange rate depreciation against EUR.

Order book

EUR million	Jun 30, 2018	Jun 30, 2017	Change, %	Dec 31, 2017
Weather and Environment	112.2	121.4	-8	114.1
Industrial Measurements	14.3	12.2	18	10.7
Total	126.5	133.6	-5	124.8

At the end of June 2018, Vaisala's order book was EUR 126.5 (133.6) million and decreased by 5% compared to previous year. Order book decreased in EMEA and Americas. EUR 80.2 (79.9) million of the order book is scheduled to be delivered in 2018.

At the end of June 2018, Weather and Environment Business Area's order book was EUR 112.2 (121.4) million and decreased by 8% compared to previous year. Order book decreased in all regions following low order intake and high deliveries. Decline was highest in Americas. EUR 68.3 (69.6) million of the order book is scheduled to be delivered in 2018.

At the end of June 2018, Industrial Measurements Business Area's order book was EUR 14.3 (12.2) million and increased by 18% compared to previous year. Increase came from all regions. EUR 12.0 (10.3) million of the order book is scheduled to be delivered in 2018.

Net sales by business area

EUR million	4-6/2018	4-6/2017	Change, %	Change, % comparable rates	2017
Weather and Environment	52.0	49.3	5	9	222.2
Products	23.8	27.4	-13		112.0
Projects	20.2	13.5	49		76.4
Services	8.0	8.4	-5		33.8
Industrial Measurements	28.1	25.5	10	16	110.3
Products	25.3	22.6	12		98.7
Services	2.8	2.9	-4		11.6
Total	80.1	74.8	7	12	332.6

Net sales by geographical area

EUR million	4-6/2018	4-6/2017	Change, %	2017
EMEA	23.3	23.8	-2	107.7
Americas	33.6	30.6	10	127.3
APAC	23.2	20.4	14	97.5
Total	80.1	74.8	7	332.6

In the second quarter 2018, Vaisala's net sales increased by 7% compared to previous year and totaled EUR 80.1 (74.8) million. Net sales increased in APAC and Americas and in both business areas. Increase came from Weather and Environment Business Area's project business and Industrial Measurements Business Area's instrument deliveries. At comparable exchange rates, net sales would have increased by 12% compared to previous year. The negative exchange rate effect was mainly caused by USD exchange rate depreciation against EUR. If the current revenue recognition standard had been used in previous year, the second quarter 2017 net sales would have been EUR 3.0 million higher than reported. Hence, Vaisala's second quarter 2018 net sales would have increased by 3% compared to previous year.

Net sales in EMEA decreased slightly compared to previous year and were EUR 23.3 (23.8) million. Decrease was a result of slow quarter in Middle East and Africa in Weather and Environment Business Area's project business. In Americas, net sales were EUR 33.6 (30.6) million and increased by 10%. Increase was a result of excellent quarter in Latin America in Weather and Environment Business Area's project business. In APAC, net sales increased by 14% and totaled EUR 23.2 (20.4) million. Increase was a result of excellent quarter in Weather and Environment Business Area's project business and strong industrial instrument deliveries.

In the second quarter 2018, Weather and Environment Business Area's net sales increased by 5% compared to previous year and were EUR 52.0 (49.3) million. Increase came from project business. On the other hand, product business declined due to volatility of product business and slowness in Chinese market. At comparable exchange rates, net sales would have increased by 9% compared to previous year. The negative exchange rate effect was mainly caused by USD depreciation against EUR. If the current revenue recognition standard had been used in previous year, the second quarter 2017 net sales would have been EUR 3.0 million higher than reported. Hence, second quarter 2018 net sales would have been at comparison period's level.

In the second quarter 2018, Industrial Measurements Business Area's net sales increased by 10% compared to previous year and totaled EUR 28.1 (25.5) million. Increase came from instrument deliveries in all regions and was strongest in APAC. At comparable exchange rates, net sales would have increased by EUR 4.2 million or 16% compared to previous year. The negative exchange rate effect was mainly caused by USD depreciation against EUR.

Gross margin and operating result

	4-6/2018	4-6/2017	2017
Gross margin, %	50.1	52.4	52.3
Weather and Environment	44.1	47.7	47.3
Industrial Measurements	61.3	61.4	62.4
Operating result, EUR million	4.7	5.1	40.9
Weather and Environment	-0.3	1.1	18.2
Industrial Measurements	4.7	3.7	22.8
Other	0.3	0.3	-0.2
Operating result, %	5.9	6.8	12.3
Weather and Environment	-0.6	2.2	8.2
Industrial Measurements	16.7	14.6	20.7

In the second quarter 2018, Vaisala's operating result decreased and was EUR 4.7 (5.1) million, 5.9 (6.8) % of net sales. Gross margin was 50.1 (52.4) %. Decrease came mainly from declined gross margin in Weather Business Area's project business, appreciated EUR and weaker sales mix compared to previous year. Operating expenses increased by 4% compared to previous year and totaled EUR 35.9 (34.5) million. Increase came mainly from R&D expenses according to plan.

In the second quarter 2018, Weather and Environment Business Area's operating result decreased mainly due to declined gross margin and was EUR -0.3 (1.1) million, -0.6 (2.2) % of net sales. Gross margin was 44.1 (47.7) %. Decrease was mainly a result of unfavorable sales mix including higher share of project business and appreciated EUR. Capacity building projects burdened average project margin. Operating expenses increased by 3% compared to previous year and totaled EUR 23.3 (22.6) million.

In the second quarter 2018, Industrial Measurements Business Area's operating result increased and was EUR 4.7 (3.7) million, 16.7 (14.6) % of net sales. Gross margin, 61.3 (61.4) %, was at comparison period's level. Operating expenses increased by 5% compared to previous year and totaled EUR 12.5 (11.9) million. Increase came mainly from R&D expenses according to plan.

In the second quarter 2018, financial income and expenses were EUR 0.3 (-0.9) million. This was mainly a result of valuation of USD denominated receivables.

In the second quarter 2018, result before taxes was EUR 5.0 (4.2) million. Income taxes were EUR -1.1 (-0.9) million. Result for the period was EUR 3.9 (3.3) million and earnings per share EUR 0.12 (0.09).

January–June 2018

Orders received

EUR million	1-6/2018	1-6/2017	Change, %	Change, % comparable rate	2017
Weather and Environment	98.6	105.1	-6	-3	233.0
Industrial Measurements	59.7	57.7	3	10	113.3
Total	158.3	162.8	-3	2	346.3

In January–June 2018, Vaisala's orders received decreased by 3% compared to previous year and were EUR 158.3 (162.8) million. Orders increased in APAC but decreased in Americas and EMEA. At comparable exchange rates, orders received would have increased by 2% compared to previous year. The negative exchange rate effect was mainly caused by USD exchange rate depreciation against EUR.

In January–June 2018, Weather and Environment Business Area's orders received decreased by 6% compared to previous year and were EUR 98.6 (105.1) million. Decrease came mainly from declined demand for weather instruments in China and lower orders from renewable energy customer segment. At comparable exchange rates, orders received would have decreased by 3% compared to previous year. The negative exchange rate effect was mainly caused by USD exchange rate depreciation against EUR.

In January–June 2018, Industrial Measurements Business Area's orders received increased by 3% compared to previous year and were EUR 59.7 (57.7) million. Increase came mainly from instrument orders in APAC. At comparable exchange rates, orders received would have increased by 10% compared to previous year. The negative exchange rate effect was mainly caused by USD exchange rate depreciation against EUR.

Order book

EUR million	Jun 30, 2018	Jun 30, 2017	Change, %	Dec 31, 2017
Weather and Environment	112.2	121.4	-8	114.1
Industrial Measurements	14.3	12.2	18	10.7
Total	126.5	133.6	-5	124.8

At the end of June 2018, Vaisala's order book was EUR 126.5 (133.6) million and decreased by 5% compared to previous year. Order book decreased in EMEA and Americas. EUR 80.2 (79.9) million of the order book is scheduled to be delivered in 2018.

At the end of June 2018, Weather and Environment Business Area's order book was EUR 112.2 (121.4) million and decreased by 8% compared to previous year. Order book decreased in all regions following low order intake and high deliveries. Decline was highest in Americas. EUR 68.3 (69.6) million of the order book is scheduled to be delivered in 2018.

At the end of June 2018, Industrial Measurements Business Area's order book was EUR 14.3 (12.2) million and increased by 18% compared to previous year. Increase came from all regions. EUR 12.0 (10.3) million of the order book is scheduled to be delivered in 2018.

Net sales by business area

EUR million	1-6/2018	1-6/2017	Change, %	Change, % comparable rates	2017
Weather and Environment	100.1	89.6	12	17	222.2
Products	46.5	50.4	-8		112.0
Projects	37.4	22.0	70		76.4
Services	16.3	17.1	-5		33.8
Industrial Measurements	56.3	53.6	5	12	110.3
Products	50.6	47.9	6		98.7
Services	5.7	5.7	-1		11.6
Total	156.4	143.2	9	15	332.6

Net sales by geographical area

EUR million	1-6/2018	1-6/2017	Change, %	2017
EMEA	45.6	41.8	9	107.7
Americas	63.0	59.4	6	127.3
APAC	47.8	42.0	14	97.5
Total	156.4	143.2	9	332.6

In January–June 2018, Vaisala's net sales increased by 9% compared to previous year and totaled EUR 156.4 (143.2) million. Operations outside Finland accounted for 98 (98) % of net sales. Net sales increased in all geographical areas and in both business areas. At comparable exchange rates, net sales would have increased by 15% compared to previous year. The negative exchange rate effect was mainly caused by USD exchange rate depreciation against EUR. If the current revenue recognition standard had been used in previous year, the January–June 2017 net sales would have been EUR 7.9 million higher than reported. Hence, Vaisala's January–June 2018 net sales would have increased by 4% compared to previous year.

Net sales in EMEA were EUR 45.6 (41.8) million and increased by 9%. Product business developed well in both business areas. In the Americas, net sales were EUR 63.0 (59.4) million and increased by 6%. Increase in net sales was a result of active Weather and Environment Business Area's project business in Latin America. In APAC, net sales increased by 14% and totaled EUR 47.8 (42.0) million. Increase was a result of active Weather and Environment Business Area's project business and strong industrial instrument deliveries.

In January–June 2018, Weather and Environment Business Area's net sales increased by 12% compared to previous year and were EUR 100.1 (89.6) million. Increase in net sales came from project business. Strong order book at the beginning of the year supported growth in net sales. At comparable exchange rates, net sales would have increased by 17% compared to previous year. The negative exchange rate effect was mainly caused by USD depreciation against EUR. If the current revenue recognition standard had been used in previous year, January–June 2017 net sales would have been EUR 7.9 million higher than reported. Hence, January–June 2018 net sales would have increased by 3% compared to previous year.

In January–June 2018, Industrial Measurements Business Area's net sales increased by 5% compared to previous year and totaled EUR 56.3 (53.6) million. Increase in net sales came from instrument deliveries in

APAC and EMEA whereas net sales in Americas declined due to depreciated USD. At comparable exchange rates, the net sales would have increased by EUR 6.7 million or 12% compared to previous year. The negative exchange rate effect was mainly caused by USD depreciation against EUR.

Gross margin and operating result

	1-6/2018	1-6/2017	2017
Gross margin, %	50.7	51.9	52.3
Weather and Environment	44.7	46.0	47.3
Industrial Measurements	61.5	62.1	62.4
Operating result, EUR million	10.4	7.7	40.9
Weather and Environment	-0.3	-2.9	18.2
Industrial Measurements	10.6	10.1	22.8
Other	0.1	0.5	-0.2
Operating result, %	6.7	5.3	12.3
Weather and Environment	-0.3	-3.3	8.2
Industrial Measurements	18.9	18.9	20.7

In January–June 2018, Vaisala's operating result increased and was EUR 10.4 (7.7) million, 6.7 (5.3) % of net sales. Improvement in operating result came from increased net sales in both business areas. Gross margin was 50.7 (51.9) %. Decrease was mainly due to increased share of Weather Business Area's project business and related weakness in sales mix as well as appreciated EUR. Operating expenses increased by 3% compared to previous year and totaled EUR 69.3 (67.3) million. Increase came mainly from R&D expenses according to plan.

In January–June 2018, Weather and Environment Business Area's operating result increased due to growth in net sales and was EUR -0.3 (-2.9) million, -0.3 (-3.3) % of net sales. Gross margin decreased and was 44.7 (46.0) %. Decrease was mainly a result of increased share of project business and related weakness in sales mix as well as appreciated EUR. Operating expenses increased by 2% compared to previous year and totaled EUR 45.1 (44.3) million.

In January–June 2018, Industrial Measurements Business Area's operating result increased and was EUR 10.6 (10.1) million, 18.9 (18.9) % of net sales. Gross margin was 61.5 (62.1) % and decreased as a result of appreciated EUR. Operating expenses increased by 4% compared to previous year and totaled EUR 24.0 (23.2) million. Increase came mainly from R&D expenses according to plan.

In January–June 2018, financial income and expenses were EUR -0.9 (-1.4) million. This was mainly a result of valuation of USD denominated receivables.

In January–June 2018, result before taxes was EUR 9.5 (6.2) million. Income taxes were EUR -2.1 (-1.4) million. Result for the period was EUR 7.3 (4.8) million and earnings per share EUR 0.29 (0.14).

Statement of financial position and cash flow

Vaisala's financial position remained strong at the end of June 2018 despite payment of additional dividend. Cash and cash equivalents decreased to EUR 56.7 (60.6) million. Vaisala did not have any material interest bearing liabilities.

Statement of financial position total decreased to EUR 235.7 (239.2) million because of decreased working capital and dividend payment. Inventories decreased mainly because of adoption of new revenue recognition standard. On the other hand, trade receivables were higher compared to previous year following higher sales.

In January–June 2018, Vaisala's cash flow from operating activities decreased to EUR 8.3 (11.3) million because of working capital development. Dividend payment amounted to EUR 37.6 (17.8) million.

Capital expenditure

In January–June 2018, capital expenditure totaled EUR 5.8 (3.8) million. Capital expenditure was mainly related to investments in machinery and equipment to develop and maintain Vaisala's production and service operations. Depreciation, amortization and write-downs were EUR 4.3 (5.3) million.

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

Research and development

R&D by business area

EUR million	1-6/2018	1-6/2017	Change, %	2017
Weather and Environment	14.3	14.3	0	27.0
Industrial Measurements	7.8	6.3	23	12.6
Total	22.1	20.6	7	39.6

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

R&D expenditure % of net sales

	1-6/2018	1-6/2017	2017
Weather and Environment	14.3	16.0	12.1
Industrial Measurements	13.9	11.8	11.4
Total	14.1	14.4	11.9

Increased net sales in Weather and Environment Business Area decreased share of R&D expenditure of net sales.

Personnel

The average number of personnel employed in Vaisala during January–June 2018 was 1,638 (1,582). At the end of June, the number of employees was 1,680 (1,630) and it included 98 (93) summer trainees. 71 (70) % of employees were located in EMEA, 21 (22) % in the Americas and 9 (8) % in APAC. 65 (64) % of employees were based in Finland.

Decisions by Vaisala Corporation's Annual General Meeting

Vaisala Corporation's Annual General Meeting was held on April 10, 2018. The meeting approved the financial statements and discharged the members of the Board of Directors and the President and CEO from liability for the financial period January 1–December 31, 2017.

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

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

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

The Annual General Meeting confirmed that that the annual remuneration payable to the Chairman of the Board of Directors is EUR 45,000 and each Board member EUR 35,000 per year. Approximately 40% of the annual remuneration will be paid in Vaisala Corporation's series A shares acquired from the market and the rest in cash. In addition, the Annual General Meeting confirmed that the meeting fee for the Chairman of the Audit Committee will be EUR 1,500 per attended meeting and EUR 1,000 for each member of the Audit Committee and Chairman and each member of the Remuneration and HR Committee and any other committee established by the Board of Directors for a term until the close of the Annual General Meeting in 2019. The meeting fees are paid in cash.

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

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

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

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

Authorization on the issuance of the company's own A shares
The Annual General Meeting authorized the Board of Directors to resolve on the issuance of a maximum of 1,046,636 company's own series A shares. The issuance of own shares may be carried out in deviation from the shareholders' pre-emptive rights (directed issue). The subscription price of the shares can instead of cash also be paid in full or in part as contribution in kind. This authorization is valid until April 10, 2023, and it replaced the previous authorization for issuance of own series A shares.

The organizing meeting of the Board of Directors

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

The composition of the Board committees was decided to be as follows:
Kaarina Ståhlberg was elected as the Chairman and Petri Castrén and Mikko Niinivaara as members of the Audit Committee. The Chairman and all members of the Audit Committee are independent both of the company and of significant shareholders.

Raimo Voipio was elected as the Chairman and Petri Castrén and Mikko Niinivaara as members of the Remuneration and HR Committee. The Chairman and all members of the Remuneration and HR Committee are independent both of the company and of significant shareholders.

Vaisala's shares and shareholders

Share capital and shares

Vaisala's share capital totaled EUR 7,660,808 on June 30, 2018. The 2018 Annual General meeting resolved to issue new shares to the shareholders without payment in proportion to their holding so that one (1) new share was issued for each share (split). The record date for the share split was April 12, 2018 and the share spilt was registered into the trade register on April 12, 2018. New shares were issued on April 13, 2018. Following this share split, Vaisala has 36,436,728 shares, of which 6,778,662 are series K shares and 29,658,066 series A shares. The series K shares and series A shares are differentiated by the fact that each series K share entitles its owner to 20 votes at a General Meeting of Shareholders while each series A share entitles its owner to 1 vote. The series A shares represented 81.4% of the total number of shares and 17.9% of the total votes. The series K shares represented 18.6% of the total number of shares and 82.1% of the total votes.

Trading and share price development

In January–June 2018, a total of 1,547,636 series A shares with a value totaling EUR 45.4 million were traded on the Nasdaq Helsinki Ltd. The closing price of the series A share on the Nasdaq Helsinki stock exchange was EUR 21.60. Shares registered a high of EUR 23.45 and a low of EUR 20.00. Volume-weighted average share price was EUR 21.57.

The market value of series A shares on June 30, 2018 was EUR 626.6 million, excluding company's treasury shares. Valuing the series K shares – which are not traded on the stock market – at the rate of the series A share's closing price on the last trading day of June, the total market value of all the series A and series K shares together was EUR 773.1 million, excluding company's treasury shares.

Treasury shares and their authorizations

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

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

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

Shareholders
At the end of June 2018, Vaisala Corporation had 8,302 (7,620) registered shareholders. Ownership outside of Finland and nominee registrations represented 16.6 (16.4) % of the company's shares. Households owned 40.4 (40.2) %, private companies 13.8 (14.2) %, financial and insurance institutions 14.0 (13.0) %, non-profit organizations 11.1 (11.2) % and public sector organizations owned 4.0 (5.0) %.

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

Near-term risks and uncertainties

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

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

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

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

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

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

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. In Asia-Pacific, Middle East and Africa region demand is expected to be stable whereas in Europe and China demand is expected to decline moderately compared to strong 2017. 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 full-year net sales, assuming they remain at the end of June level.

Business outlook for 2018

Vaisala continues to estimate 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.

Financial calendar 2018

Interim Report January–September 2018, October 23, 2018

Vantaa, July 20, 2018

Vaisala Corporation
Board of Directors

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

Financial information and changes in accounting policies

This interim report has been prepared in accordance with IAS 34, *Interim Financial Reporting*, following the same accounting policies and principles as in the annual financial statements for 2017. All figures in the interim report are Group figures. All presented figures have been rounded and consequently the sum of individual figures may deviate from the sum presented.

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

New and amended IFRS standards

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

Amendments to IFRS 2 *Share-based Payments*

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

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
    a) the original liability is derecognized;
    b) the equity-settled share-based payment is recognized at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
    c) any difference between the carrying amount of the liability at the modification date and the amount recognized in equity should be recognized in profit or loss immediately.

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

IFRS 9 *Financial Instruments*

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

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

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

IFRS 15 *Revenue from Contracts with Customers*

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

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

Furthermore, IFRS 15 requires extensive disclosures.

Vaisala has adopted IFRS 15 *Revenue from contracts with customers* as at January 1, 2018. IFRS 15 affected mainly Weather and Environment Business Area's project business, while effects on product and services businesses in Weather and Environment as well as Industrial Measurements Business Areas are limited.

Project business

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

Vaisala's delivery projects are typically integrated projects. In integrated projects, Vaisala delivers observation solutions consisting of products, services and software to a customer. These solutions are integrated/connected to customer systems according to customer specifications. Therefore, one delivery project is typically one performance obligation under IFRS 15. In the financial year 2018, Vaisala recognizes revenue for integrated projects using percentage of completion method. Vaisala's projects typically meet the over-time revenue recognition criteria, either by creating an asset without an alternative use and Vaisala

having an enforceable right to payment for performance completed to date and/or by creating an asset under customer control.

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 in 2017, Vaisala recognizes revenue of product deliveries based on delivery terms, and revenue of services when benefits are rendered to customers in the financial year 2018 and onwards. Vaisala continues to recognize revenue of such fixed-time service contracts, which are negotiated in connection with delivery projects and commence after completion of the delivery projects, as separate performance obligations with over time revenue recognition method.

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

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

Consolidated Statement of Income

EUR million	4-6/2018	4-6/2017	1-6/2018	1-6/2017	1-12/2017
Net sales	80.1	74.8	156.4	143.2	332.6
Cost of sales	-40.0	-35.6	-77.2	-68.9	-158.5
Gross profit	**40.1**	**39.2**	**79.3**	**74.3**	**174.0**
Sales, marketing and administrative costs	-24.4	-23.9	-47.2	-46.7	-93.7
Research and development costs	-11.5	-10.6	-22.1	-20.6	-39.6
Other operating income and expense	0.4	0.3	0.5	0.6	0.1
Operating result	**4.7**	**5.1**	**10.4**	**7.7**	**40.9**
Share of result in associated company	-	-	-	-	0.1
Financial income and expenses, net	0.3	-0.9	-0.9	-1.4	-2.8
Result before taxes	**5.0**	**4.2**	**9.5**	**6.2**	**38.1**
Income taxes	-1.1	-0.9	-2.1	-1.4	-10.9
Result for the period	**3.9**	**3.3**	**7.3**	**4.8**	**27.2**
Earnings per share, EUR	0.12	0.09	0.29	0.14	0.76
Diluted earnings per share, EUR	0.11	0.09	0.28	0.13	0.75

Consolidated Statement of Comprehensive Income

EUR million	4-6/2018	4-6/2017	1-6/2018	1-6/2017	1-12/2017
Items that will not be reclassified to profit or loss					
Actuarial profit (loss) on post-employment benefits	0.0	0.0	0.0	0.0	0.0
Total	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Items that may be reclassified subsequently to profit or loss					
Currency translation differences	1.0	-1.8	0.7	-2.0	-3.2
Total	**1.0**	**-1.8**	**0.7**	**-2.0**	**-3.2**
Total other comprehensive income	**1.1**	**-1.8**	**0.7**	**-2.0**	**-3.2**
Total comprehensive income	**4.9**	**1.5**	**8.1**	**2.8**	**24.1**

Consolidated Statement of Financial Position

EUR million

Assets	**Jun 30,2018**	**Jun 30, 2017**	**Dec 31, 2017**
Non-current assets			
Intangible assets	20.8	17.6	20.6
Property, plant and equipment	42.3	40.1	40.4
Investments	0.1	0.1	0.1
Investment in associated companies	0.9	0.8	0.9
Long-term receivables	0.8	0.7	0.7
Deferred tax assets	7.8	10.6	7.6
Total non-current assets	**72.7**	**69.9**	**70.3**
Current assets			
Inventories	26.7	39.2	28.6
Trade and other receivables	77.2	65.6	83.1
Income tax receivables	2.5	3.9	0.5
Cash and cash equivalents	56.7	60.6	91.3
Total current assets	**163.1**	**169.3**	**203.5**
Total assets	**235.7**	**239.2**	**273.8**

Shareholders' equity and liabilities	Jun 30,2018	Jun 30, 2017	Dec 31, 2017
Shareholders' equity			
Share capital	7.7	7.7	7.7
Other reserves	4.5	2.1	3.0
Cumulative translation adjustment	0.5	0.9	-0.2
Treasury shares	-9.0	-10.1	-10.1
Retained earnings	155.0	162.7	185.1
Total shareholders' equity	**158.6**	**163.3**	**185.4**
Non-current liabilities			
Interest-bearing liabilities	0.0	-	-
Post-employment benefit obligations	2.6	2.4	2.5
Deferred tax liabilities	0.4	0.0	0.5
Provisions for other liabilities and charges	0.2	0.0	0.2
Other long-term liabilities	2.6	1.3	2.7
Total non-current liabilities	**5.8**	**3.7**	**5.8**
Current liabilities			
Interest-bearing liabilities	0.0	0.0	-
Unbilled advances received	3.4	3.8	4.6
Income tax liabilities	1.0	0.4	1.4
Provisions for other liabilities and charges	1.8	0.9	1.3
Trade and other payables	65.1	67.0	75.3
Total current liabilities	**71.3**	**72.2**	**82.5**
Total liabilities	**77.1**	**75.9**	**88.4**
Total shareholders' equity and liabilities	**235.7**	**239.2**	**273.8**

Consolidated Statement of Changes in Shareholders' Equity

EUR million	Share capital	Other reserves	Treasury shares	Translation adjustment	Retained earnings	Total
Balance at Jan 1, 2017	**7.7**	**2.0**	**-9.6**	**2.9**	**175.6**	**178.5**
Result for the period					4.8	4.8
Other comprehensive income		-0.0		-2.0		-2.0
Dividend paid					-17.8	-17.8
Return of unpaid dividends to shareholders' equity					0.1	0.1
Purchase of treasury shares			-0.8			-0.8
Share-based payments		0.2	0.3			0.5
Balance at Jun 3, 2017	**7.7**	**2.1**	**-10.1**	**0.9**	**162.7**	**163.3**

EUR million	Share capital	Other reserves	Treasury shares	Translation adjustment	Retained earnings	Total
Balance at Dec 31, 2017	**7.7**	**3.0**	**-10.1**	**-0.2**	**185.1**	**185.4**
Adjustments to opening balance						
IFRS 2 amendment		3.9				3.9
IFRS 9					-0.2	-0.2
IFRS 15					0.3	0.3
Balance at Jan 1, 2018	**7.7**	**6.8**	**-10.1**	**-0.2**	**185.2**	**189.3**
Result for the period					7.3	7.3
Other comprehensive income		0.0		0.7		0.7
Dividend paid					-37.6	-37.6
Share-based payments		-2.3	1.1			-1.2
Balance at Jun 30, 2018	**7.7**	**4.5**	**-9.0**	**0.5**	**155.0**	**158.6**

Consolidated Cash Flow Statement

EUR million	1-6/2018	1-6/2017	1-12/2017
Cash flows from operating activities			
Cash receipts from customers	168.3	163.1	330.6
Cash paid to suppliers and employees	-156.2	-144.8	-272.6
Financials paid, net	0.5	-2.5	-1.8
Income taxes paid, net	-4.4	-4.5	-7.1
Cash flow from operating activities	**8.3**	**11.3**	**49.2**
Cash flows from investing activities			
Acquisitions	-	-	-2.0
Capital expenditure on fixed assets	-5.8	-3.8	-8.5
Divestments	0.1	0.2	0.3
Cash flow from investing activities	**-5.7**	**-3.6**	**-10.2**
Cash flows from financing activities			
Dividends paid	-37.6	-17.8	-17.9
Purchase of treasury shares	-	-0.8	-0.8
Change in loan receivables	0.0	0.0	0.0
Change in leasing liabilities	0.0	0.0	0.0
Cash flow from financing activities	**-37.5**	**-18.6**	**-18.6**
Change in cash and cash equivalents increase (+) / decrease (-)	**-34.9**	**-10.9**	**20.4**
Cash and cash equivalents at the beginning of period	91.3	72.4	72.4
Net increase (+) / decrease (-) in cash and cash equivalents	-34.9	-10.9	20.4
Effect from changes in exchange rates	0.3	-0.9	-1.5
Cash and cash equivalents at the end of period	**56.7**	**60.6**	**91.3**

Notes for Report

Orders Received by Business Area

EUR million	4-6/2018	4-6/2017	1-6/2018	1-6/2017	1-12/2017
Weather and Environment	42.4	53.0	98.6	105.1	233.0
Industrial Measurements	28.8	28.2	59.7	57.7	113.3
Total	**71.1**	**81.3**	**158.3**	**162.8**	**346.3**

Net Sales by Business Area

EUR million	4-6/2018	4-6/2017	1-6/2018	1-6/2017	1-12/2017
Weather and Environment					
Products	23.8	27.4	46.5	50.4	112.0
Projects	20.2	13.5	37.4	22.0	76.4
Services	8.0	8.4	16.3	17.1	33.8
Total	**52.0**	**49.3**	**100.1**	**89.6**	**222.2**
Industrial Measurements					
Products	25.3	22.6	50.6	47.9	98.7
Services	2.8	2.9	5.7	5.7	11.6
Total	**28.1**	**25.5**	**56.3**	**53.6**	**110.3**
Sales, Other	0.0	0.0	0.0	0.0	0.0
Total Sales	**80.1**	**74.8**	**156.4**	**143.2**	**332.6**

Operating Result by Business Area

EUR million	4-6/2018	4-6/2017	1-6/2018	1-6/2017	1-12/2017
Weather and Environment	-0.3	1.1	-0.3	-2.9	18.2
Industrial Measurements	4.7	3.7	10.6	10.1	22.8
Other	0.3	0.3	0.1	0.5	-0.2
Total	**4.7**	**5.1**	**10.4**	**7.7**	**40.9**

Net Sales by Geographical Area

EUR million	4-6/2018	4-6/2017	1-6/2018	1-6/2017	1-12/2017
EMEA	23.3	23.8	45.6	41.8	107.7
Americas	33.6	30.6	63.0	59.4	127.3
APAC	23.2	20.4	47.8	42.0	97.5
Total	**80.1**	**74.8**	**156.4**	**143.2**	**332.6**

Personnel

	4-6/2018	4-6/2017	1-6/2018	1-6/2017	1-12/2017
Average personnel	1,659	1,601	1,638	1,582	1,592
Personnel at the end of period	1,680	1,630	1,680	1,630	1,608

Financial Instruments

	Jun 30, 2018	Jun 30, 2017	Dec 31, 2017
Nominal value of financial derivatives, EUR million	36.2	41.3	38.8
Fair values of financial derivatives, assets, EUR million	0.1	2.3	1.5
Fair values of financial derivatives, liabilities, EUR million	1.2	0.3	0.3

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

Share Information

	4-6/2018	4-6/2017	1-6/2018	1-6/2017	1-12/2017
Number of shares outstanding, thousand	35,790	17,851	35,790	17,851	17,846
Number of treasury shares, thousand	647	368	647	368	372
Number of shares, weighted average, diluted, thousand	33,988	18,137	26,245	18,133	18,176
Number of shares, weighted average, thousand	33,430	17,851	25,688	17,847	17,847
Number of shares traded, thousand	1,022	630	1,548	1,129	2,149
Share price, highest, EUR	22.40	24.28	23.45	24.28	24.45
Share price, lowest, EUR	20.10	17.18	20.00	15.94	15.94

Key Ratios

	4-6/2018	4-6/2017	1-6/2018	1-6/2017	1-12/2017
Earnings per share, EUR	0.12	0.09	0.29	0.14	0.76
Diluted earnings per share, EUR	0.11	0.09	0.28	0.13	0.75
Equity per share, EUR			4.43	4.57	5.19
Return on equity, %			8.5	5.7	15.0
Cash flow from operating activities per share, EUR	0.38	0.24	0.23	0.32	1.38
Solvency ratio, %			68.3	69.4	68.9

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

Further information
Kaarina Muurinen, CFO
Tel. +358 40 577 5066
Vaisala Corporation

Telephone Conference
An English-language conference call for analysts, investors and media will be held on Friday, July 20, starting at 1:30 p.m. (Finnish time). Numbers for conference call, during which questions may be presented, are:

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

Audiocast
The presentation by Kjell Forsén, President and CEO, can also be followed through a live audiocast at www.vaisala.com/investors starting at 1:30 p.m. A recording will be published at the same address by 3:30 p.m.

Distribution
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