


# Corporate Governance Statement 2018

## 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 12, 2019. 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](http://www.vaisala.com/investors). The Finnish Corporate Governance Code is available on website at [www.cgfinland.fi/en](http://www.cgfinland.fi/en).

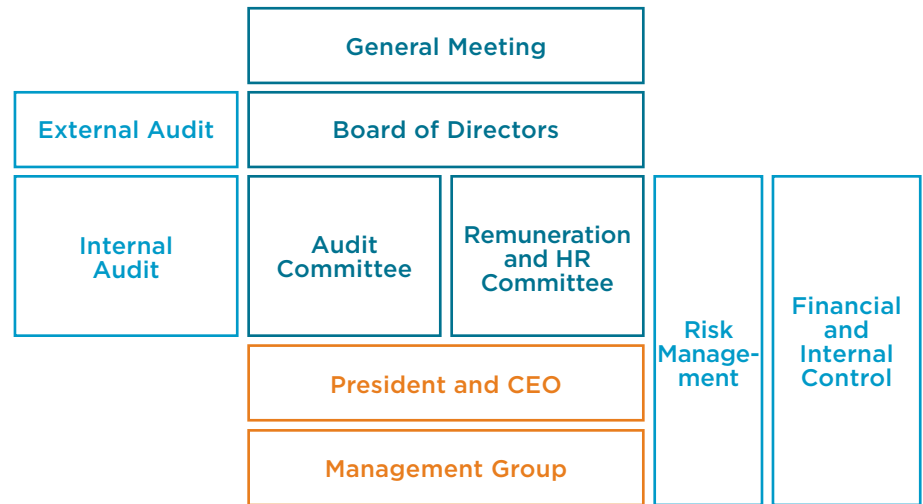
## DEVIATION FROM THE RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE AND THE EXPLANATION FOR THE DEVIATION

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](http://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 the 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 the 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 topics.

## Meetings, duties, and decision-making

The Board of Directors convenes at least eight times a 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 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 Vaisala's 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 principles of due care and data protection.

Meeting materials are provided electronically to the members of the Board through an online Board portal that fulfils the information security requirements. All documents and other information pertaining to the work of the Board of Directors are confidential, unless otherwise explicitly stated. Confidentiality survives the termination or expiry of board membership.

As the members of the Board of Directors mainly handle confidential information on the company outside the company's business location, Board members are obligated to exercise great diligence in handling all information. Both technical means and accepted practices are used to ensure information security. Technical means include protecting the computers and devices Board members use with personal user names and passwords, virus protection software, and firewalls. Accepted practices ensure information security to comprise prohibiting unnecessary archiving, avoiding unnecessary printing, complying with a "clean desk" policy, avoidance of unnecessary handling of the material in public or open space (either in electronic or hard copy form), and deleting or disposing of information in a secure manner. Use of a screen privacy filter is mandatory when working in public spaces.

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 (twice),
- 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, non-financial reporting, Financial Statements, and the Board of Directors' Report as well as 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 reasonably believe to promote the interests of the company.

The President and CEO and the members of the 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,
- 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 2018

In January 1–April 10, 2018 the Board of Directors comprised eight members. The Chairman of the Board of Directors was Raimo Voipio, the Vice Chairman was Yrjö Neuvo, and the members were Petri Castrén, 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 April 10, 2018 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 continued as members 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, 2018

Member	Member since	End of term	Born	Education	Nationality	Main occupation	Shareholding Dec 31, 2018
Raimo Voipio Chairman	1989 Chairman since 1994	2020	1955	M.Sc. (Eng.)	Finnish	Board professional	569,076 (A share) 454,296 (K share)
Yrjö Neuvo Vice Chairman	1989 Vice Chairman since 1994	2019	1943	Ph.D. (Cornell University)	Finnish	Board professional	1,000 (A share) 2 (K share)
Petri Castrén	2017	2019	1962	LL.M., MBA (University of Connecticut)	Finnish	CFO, Kemira Oyj	1,681 (A share)
Petra Lundström	2014	2021	1966	M.Sc. (Tech. Physics)	Finnish	Vice President, Nuclear Services, Fortum Power and Heat Oy	5,081 (A share)
Mikko Niinivaara	2002	2020	1950	M.Sc. (Eng.), Dr. Tech. (h.c.)	Finnish	Board professional	5,081 (A share)
Kaarina Ståhlberg	2016	2019	1966	LL.M. (Helsinki and Columbia Universities)	Finnish	General Counsel and M&A, Posti Group Oyj	4,481 (A share)
Pertti Torstila	2014	2020	1946	M.Sc. (Pol.)	Finnish	Board professional	5,081 (A share)
Ville Voipio	2015	2021	1974	D.Sc. (Tech.)	Finnish	CTO, R&D and strategy management, Si-Tecno Oy	395,367 (A share) 96,712 (K share)
<b>Total</b>							<b>986,848 (A share)</b> <b>551,010 (K shares)</b>

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 2018

Member	Attendance/ Number of meetings	Attendance %
Raimo Voipio (Chairman)	17/17	100
Yrjö Neuvo (Vice Chairman)	17/17	100
Petri Castrén	17/17	100
Petra Lundström	17/17	100
Mikko Niinivaara	15/17	88
Kaarina Ståhlberg	16/17	94
Pertti Torstila	17/17	100
Ville Voipio	17/17	100

## BOARD COMMITTEES

The Board of Directors has two permanent committees: Audit Committee and 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 as well as 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 Vaisala 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 audit 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 audit, 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-audit services to the company,
- to monitor provision of non-audit services by auditor,
- to approve plan and cost estimate of non-audit services by auditor,
- 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 twice 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 Vaisala 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 2018

Committee	Members	Attendance/ Number of meetings	Attendance %
Audit Committee	Kaarina Ståhlberg (Chairman)	5/5	100
	Petri Castrén	5/5	100
	Mikko Niinivaara	4/5	80
Remuneration and HR Committee	Raimo Voipio (Chairman)	5/5	100
	Petri Castrén (since April 10, 2018)	3/3	100
	Yrjö Neuvo (until April 10, 2018)	2/2	100
	Mikko Niinivaara	5/5	100
	Pertti Torstila (until April 10, 2018)	2/2	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 Executive Vice Presidents of both business areas, the Chief Financial Officer, the Executive Vice President of Operations, the Executive Vice President of Human Resources as well as the Group General Counsel. The General Counsel acts as a secretary to the Management Group.

## Members of the Management Group Dec 31, 2018

Director	Member since	Born	Education	Nationality	Position at Vaisala	Share-holding Dec 31, 2018
Kjell Forsén	2006	1958	Lic.Sc. (Tech.)	Finnish	President and CEO	34,552 (A share)
Marja Happonen	1994	1957	M.Sc. (Econ.)	Finnish	EVP, Human Resources	15,850 (A share)
Sampsa Lahtinen	2013	1963	M.Sc. (El. Eng.)	Finnish	EVP, Industrial Measurements Business Area	7,430 (A share)
Kaarina Muurinen	2011	1958	M.Sc. (Econ.)	Finnish	CFO	21,320 (A share)
Vesa Pylvänäinen	2011	1970	M.Sc. (Econ.)	Finnish	EVP, Operations	11,324 (A share)
Jarkko Sairanen	2016	1963	M.Sc. (Ind. Eng.), MBA (INSEAD)	Finnish	EVP, Weather and Environment Business Area	7,000 (A share)
Katriina Vainio	2017	1967	LL.M.	Finnish	EVP, Group General Counsel	4,972 (A share)
<b>Total</b>						<b>102,448 (A share)</b>

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

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

## REMUNERATION

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

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 and operating result. 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 April 10, 2018 decided that the annual fee payable to the Board members for the term until the close of the Annual General Meeting in 2019 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 2019. 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 2019.



## Remuneration of the Board of Directors (payment basis)

EUR 1,000	2018	2017
Petri Castrén (since March 28, 2017)	43	30
Petra Lundström	35	36
Yrjö Neuvo	35	39
Mikko Niinivaara	43	44
Kaarina Ståhlberg	43	43
Pertti Torstila	35	39
Raimo Voipio	48	49
Ville Voipio	35	35
<b>Total</b>	<b>317</b>	<b>315</b>

## 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 payment of Share-Based Incentive Plan 2015. 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 payment of Share-Based Incentive Plan 2015. 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 (payment basis)

EUR 1,000	2018	2017
Salary	515	512
Bonuses	302	191
Share-based payment	502	205
Obligatory pension	146	126
Voluntary pension	120	120
<b>Total</b>	<b>1,586</b>	<b>1,154</b>
2017 figures converted to payment basis		

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

EUR 1,000	2018	2017
Salary	1,393	1,363
Bonuses	622	423
Share-based payment	1,319	580
Obligatory pension	360	320
Voluntary pension	235	228
<b>Total</b>	<b>3,929</b>	<b>2,915</b>
2017 figures converted to payment basis		

## SHARE-BASED INCENTIVE PLANS

The share issue without payment approved by Vaisala's Annual General Meeting on April 10, 2018 doubled the total number of series K and A shares. All share related figures have been adjusted to reflect the increased number of shares. Until the end of 2017, the cost of the equity-settled (share) part of the share-based payments corresponded to the value of Vaisala's series A share closing price on the grant date of the incentive plan, and the cash-settled part of the share-based payments was valued at the closing price of the share. As of January 1, 2018, the cost of the share part of the share-based payments as well as the cash-settled (cash) part of the share-based payments correspond to the value of Vaisala's series A share closing price on the grant date of the incentive plan.

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 payment corresponded to 74% of the maximum target. On March 12, 2018, a total of 95,092 company's series A shares were conveyed without consideration to the 27 key employees participating in this incentive plan. The rest of the reward was paid in cash. Closing price of Vaisala's series A share was EUR 12.08 on the effective date of the incentive plan. A total expense of EUR 3.2 million was recognized of this plan in 2015–2018.

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 400,000 shares and the reward payment will correspond to 49% of the maximum target. 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. Closing price of Vaisala's series A share was EUR 11.57 on the effective date of the incentive plan. On December 31, 2018, this share-based incentive plan was directed to approximately 30 persons and the maximum reward payable totals to 176,904 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 was uninterrupted employment of certain Group employees for a defined number of years. This share-based incentive plan ended in March 2018, and the remaining reward, corresponding to 3,000 Vaisala's series A shares including the cash portion, was conveyed without consideration to the key

employees participating in this incentive plan. A total expense of EUR 0.3 million was recognized of this plan in 2016–2018.

On December 15, 2016, 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 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 400,000 shares and the reward payment will correspond to 65% of the maximum target. 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. Closing price of Vaisala's series A share was EUR 17.90 on the effective date of the incentive plan. On December 31, 2018, this share-based incentive plan was directed to approximately 35 persons and the maximum reward payable totals to 248,300 Vaisala's series A shares, including the cash portion.

On February 7, 2018, 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 2018. The reward will be paid partly in Vaisala's series A shares and partly in cash in spring 2021. 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 320,000 shares and the reward payment will correspond to 55% of the maximum target. 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 2018 to March 2021. Closing price of Vaisala's series A share was EUR 20.89 on the effective date of the incentive plan. On December 31, 2018, this share-based incentive plan was directed to approximately 30 persons and the maximum reward payable totals to 174,510 Vaisala's series A shares, including the cash portion.

### Expenses for the share-based incentive plans

MEUR	2015	2016	2017	2018
Share-based incentive plan 2015	0.5	1.1	1.6	-0.1
Share-based incentive plans 2016		0.7	1.2	0.7
Share-based incentive plan 2017			1.1	1.3
Share-based incentive plan 2018				0.6

## 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 controls related to financial reporting by proactively assessing on internal control environment and by monitoring effectiveness of the control design. 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 placed 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 function 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 to 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 the 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 2018

In 2018, internal audit focused on sales process, EU's General Data Protection Regulation (GDPR), demand-supply balancing as well as information security management system. The audit of GDRP confirmed that adoption was comprehensive and adequate. Other audits generated development measures in order to harmonize and enhance processes as well as improve internal controls. Development of internal controls focused on enhancement of control environment in end-to-end processes by analyzing of control points. This development as well as harmonization of control environment in the acquired companies will continue during 2019.

## 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 an 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 close 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 April 10, 2018 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	2018	2017
Audit	423	293
Tax advice	22	25
Statements	1	6
Other fees	141	164
<b>Total</b>	<b>587</b>	<b>488</b>

## INSIDERS

Vaisala maintains project or event specific insider lists when needed. 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 on the day 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 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, 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.