Asetek A/S

CVR No. 34880522

Quarterly Report

Three Months Ended September 30, 2016

Published October 27, 2016

Key figures

Figures in USD (000's)	Q3 2016	Q3 2015*	YTD 2016	YTD 2015*	2015
Total Company:	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	
Revenue	14,249	9,957	33,009	23,505	35,982
Gross profit	5,844	3,714	13,082	7,936	12,412
Gross margin	41.0%	37.3%	39.6%	33.8%	*34.5%*
Operating profit	2,043	(336)	2,186	(2,737)	(2,323)
Reconciliation from IFRS to EBITDA adjusted:					
Operating profit	2,043	(336)	2,186	(2,737)	(2,323)
Add: Depreciation and amortization	594	658	1,909	1,669	2,390
Add: Share based compensation	115	50	240	200	321
EBITDA adjusted (unaudited)	2,752	372	4,335	(868)	388
By Segment (Unaudited):					
Desktop:					
Desktop revenue	*12,431*	*9,440*	*29,430*	*22,506*	*34,121*
Desktop gross margin	*42.4%*	*37.8%*	*40.2%*	*33.7%*	*34.1%*
Desktop EBITDA adjusted	*4,519*	*2,346*	*9,496*	*3,878*	*7,230*
Datacenter:					
Datacenter revenue	*1,818*	*517*	*3,579*	*999*	*1,861*
Datacenter gross margin	*31.9%*	*27.7%*	*35.4%*	*35.3%*	*41.8%*
Datacenter EBITDA adjusted	*(1,002)*	*(1,343)*	*(3,205)*	*(4,457)*	*(5,890)*
Headquarters:					
*Headquarters costs, net***	*(765)*	*(631)*	*(1,956)*	*(289)*	*(952)*

**Interim 2015 results have been restated as described in Note 5 to the quarterly financial statements.*

***Headquarters costs include intellectual property defense, HQ admin costs, litigation settlement received. Excludes share based comp.*

Highlights

Summary

- **Record quarterly and first nine months revenues**
- **Demand for cooling high-end gaming systems drives desktop revenue growth, OEM installations starting to lift data center revenue**
- **Profitable in the quarter and first nine months**
- **Growth expected to continue**

Financial results

- Asetek reported total revenue of $14.2 million in the third quarter of 2016, representing growth of 43% from the same period last year. Revenue in the first nine months amounted to $33.0 million, reflecting growth of 40% compared with the first nine months of 2015.
- Gross margins were 41% for the third quarter and 40% for the first nine months of 2016, increasing from both comparable periods in 2015 (37.3% and 33.8%, respectively).
- Revenue growth and cost savings resulted in net income of $2.1 million and total cash flow of $2.7 million in the third quarter of 2016. In the first nine months of 2016, net income was $2.1 million and total cash flow was $5.2 million.

By segment

- Desktop revenue was $12.4 million in the third quarter, an increase of 32% from the same period last year. Revenue in the first nine months was $29.4 million, an increase of 31% from the first nine months of 2015. Operating profit from the desktop segment was $4.5 million for the third quarter and $9.5 million for the first nine months, both reflecting improvement over the respective periods of 2015. Revenue growth in the DIY and Gaming/Performance Desktop PC markets, partly related to cooling solutions for high-end graphic processor units, combined with reduced operating expenses, generated the improved results.
- Data center revenue grew to $1.8 million in the third quarter, from $0.5 million in the third quarter 2015. Revenue in the first nine months of 2016 rose to $3.6 million compared with $1.0 million in the same period of 2015. As Asetek continued to invest in this segment, operating losses from the segment amounted to $1.0 million for the third quarter and $3.2 million for the first nine months. Expenditures relate to technology development, product marketing and sales activities with data center partners and OEM customers.

Operations

- The data center business shipped 64 RackCDU™ and over 10,000 cooling loop sets in the third quarter, representing significant growth from the third quarter of 2015. Shipments included $1.3 million of RackCDU Direct to Chip™ products to Fujitsu Technology Solutions GmbH (Fujitsu) for two separate installations.
- Asetek announced it has been selected by HP to provide liquid cooling for its new ultra-high end gaming system, the OMEN X Desktop Gaming PC.

Outlook

Asetek reaffirms its annual outlook for the full year 2016. The company expects desktop segment revenue of more than 20% over 2015, equal to above $43 million. The increase in demand is due to higher activity within the desktop segment's do-it-yourself (DIY) and gaming/performance PC customers. Within its data center segment, Asetek maintains its expectation of significant revenue growth in 2016 from $1.9m in 2015.

Financial review

The figures below relate to the consolidated accounts for the third quarter and first nine months 2016, which comprise activities within the two segments Desktop and Data Center. The quarterly figures are unaudited.

Income Statement (Consolidated)

Asetek reported total revenue of $14.2 million in the third quarter of 2016, reflecting growth of 43% over the same period of 2015 ($10.0 million). Total revenue in the first nine months 2016 was $33.0 million, an increase of 40% over the same period of 2015 ($23.5 million). The increases in both the third quarter and first nine months reflect the growth in shipment of desktop do-it-yourself ("DIY") and gaming/performance desktop PC products in 2016.

Desktop sales unit volumes for the third quarter 2016 were 262,000, reflecting growth of 27% from the same period of last year (207,000). Unit shipments for the first nine months 2016 represented a 25% increase compared with first nine months 2015. The increase in unit shipments in the third quarter and first nine months resulted from strong demand in the DIY market. Average selling prices (ASPs) per unit in the quarter increased from the third quarter 2015 due to variability in the mix of products shipped. ASPs in the first nine months of 2016 increased compared with the same period of 2015, resulting principally from the sale of newer high performing products.

Gross margin was 41.0% for the third quarter of 2016, an increase from 37.3% in the same period last year. Gross margin for the first nine months of 2016 increased to 39.6% from 33.8% in the first nine months 2015. The increase in gross margin in the third quarter 2016 reflects a change in the mix of products shipped. The increase in the gross margin in the first nine months reflects a one-time charge of $0.8 million incurred in second quarter 2015 when Asetek decided to recall, rework and reship a bulk of DIY products as a quality assurance measure.

Total operating expense increased in the first nine months when compared with the same period of 2015, reflecting principally a $1.8 million settlement awarded to Asetek in the second quarter of 2015 for a patent infringement lawsuit with CoolIT Systems (see Note 5 to the quarterly financial statements).

Excluding the litigation settlement, operating costs have declined in 2016. Operating expense in the third quarter 2016 declined to $3.8 million compared with $4.1 million in the same period of 2015. Legal costs associated with defense of existing intellectual property (IP) and securing new IP totaled $0.4 million and $1.1 million in the third quarter and first nine months of 2016 ($0.4 million and $1.5 million in the same periods of 2015), respectively. The Company reduced employee compensation costs in the third quarter and first nine months 2016, when compared with the same periods of the prior year.

Finance expenses include net foreign exchange loss of $11,000 and $0.1 million in the third quarter and first nine months 2016 (net $14,000 loss and $0.2 million gain in the respective periods of 2015).

Asetek achieved net income of $2.1 million in the both the third quarter and first nine months of 2016, compared with net loss of $0.4 million and net loss of $2.6 million in the respective periods of 2015.

Balance Sheet (Consolidated)

Asetek's total assets at September 30, 2016 amounted to $33.0 million, an increase of $5.2 million from December 31, 2015. The change in assets resulted principally from revenue growth which grew cash on hand by $5.2 million during the first nine months of 2016. Trade payables increased as a result of the increase in operational activities associated with supporting the revenue growth. At September 30, 2016, total liabilities were $11.9 million and total cash and cash equivalents were $18.3 million.

Cash Flow (Consolidated)

Net cash provided by operating activities was $7.1 million for the first nine months of 2016 ($3.0 million used in first nine months of 2015). The operating cash provided in the first nine months of 2016 mainly relates to income generated during the period and an increase in trade payables.

Cash used by investing activities was $2.0 million, related principally to additions in capitalized development costs. The figure compares with $1.4 million used for the first nine months of 2015.

Cash used by financing activities in the first nine months of 2016 was $62,000, compared with $12.2 million provided in the first nine months of 2015. The activity in first nine months of 2015 represents principally funds raised through private and public offerings of common stock, net of financing costs.

Net increase in cash and cash equivalents was $5.2 million in first nine months of 2016, compared with an increase of $8.0 million in the same period last year. Excluding equity offering transactions, the net change in cash in the first nine months of 2015 was negative $4.1 million.

Segment breakdown

*The Company reports on two distinct segments; the **Desktop** segment and the **Data Center** segment.*

The two segments are identified by their specific sets of products and specific sets of customers. The splitting of operating expenses between segments is based on the Company's best judgment, and done by using the Company's employee/project time tracking system and project codes from the accounting system. Operating expenses that are not divisible by nature (rent, telecommunication expenses, etc.) have been split according to actual time spent on the two businesses, and the Company's best estimate for attribution. Costs incurred for intellectual property defense, financing, foreign exchange and headquarters administration have been classified separately as headquarters costs and excluded from segment operating expenses as indicated.

Unaudited breakdown of the income statement

Operations - Third Quarter

Figures in USD (000's)	Desktop		Data center	
	Q3 2016	Q3 2015	Q3 2016	Q3 2015
Revenues	12,431	9,440	1,818	517
Cost of sales	7,164	5,869	1,238	374
Gross Profit	5,267	3,571	580	143
Gross Margin	42.4%	37.8%	31.9%	27.7%
Total operating expenses	748	1,225	1,582	1,486
EBITDA adjusted	4,519	2,346	(1,002)	(1,343)
EBITDA margin	36.4%	24.9%	N/A	N/A

Operations - Year-to-Date

Figures in USD (000's)	Desktop		Data center	
	YTD 2016	YTD 2015	YTD 2016	YTD 2015
Revenues	29,430	22,506	3,579	999
Cost of sales	17,611	14,923	2,313	646
Gross Profit	11,819	7,583	1,266	353
Gross Margin	40.2%	33.7%	35.4%	35.3%
Total operating expenses	2,323	3,705	4,471	4,810
EBITDA, adjusted	9,496	3,878	(3,205)	(4,457)
EBITDA margin	32.3%	17.2%	N/A	N/A

Headquarters Costs

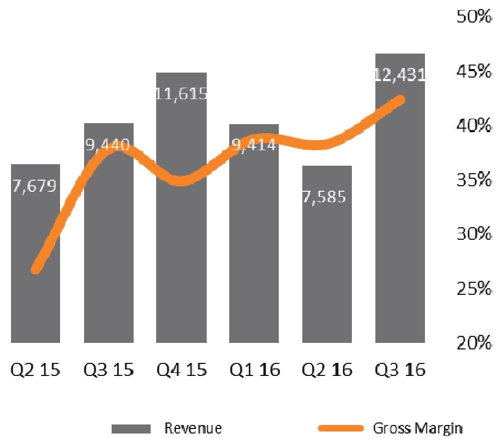
Figures in USD (000's)	Q3 2016	Q3 2015*	YTD 2016	YTD 2015*
Litigation costs	(443)	(382)	(1,104)	(1,480)
Litigation settlement received	-	-	-	1,844
Other headquarters costs	(322)	(249)	(852)	(653)
Total headquarters (costs) benefit	(765)	(631)	(1,956)	(289)

**Interim 2015 results have been restated as described in Note 5 to the quarterly financial statements.*

See reconciliation to consolidated statement of comprehensive income in Key Figures table on page 1.

Desktop financials

Desktop revenue and margin development
USD (000's)



Asetek's desktop revenue was $12.4 million in the third quarter and $29.4 million in the first nine months of 2016, compared with $9.4 million and $22.5 million in the third quarter and first nine months of 2015, respectively. Asetek's desktop revenue grew in the third quarter of 2016 due to strong demand for do-it-yourself (DIY) and Gaming/Performance Desktop PC products.

Desktop gross margin has remained relatively stable in the past five quarters. Gross margin was unusually low in the second quarter of 2015 due to a one-time cost of $0.8 million incurred when the Company decided to recall, rework and reship a bulk of DIY products as a quality assurance measure.

Desktop market update and outlook

In the third quarter of 2016, Asetek's desktop revenue increased 32% from the third quarter of 2015. The increase resulted from strong demand in the DIY market and Gaming/Performance Desktop PC markets in the third quarter 2016 compared with the same period of 2015. During the third quarter, Asetek began shipping four new products in the Gaming/Performance Desktop PC market, including liquid cooling for HP's new ultra-high end gaming system, the OMEN X.

In first nine months of 2016, desktop revenue increased 31% from the first nine months of 2015 due to strong growth in the DIY market in the first and third quarter of 2016. Increased shipments in the Gaming/Performance Desktop PC market also accounted for part of this growth.

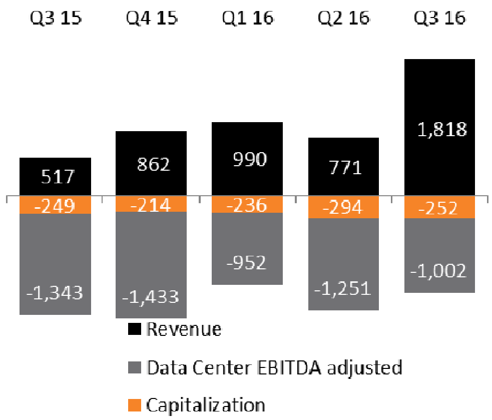
Revenue variability by quarter is expected to continue. The Company expects desktop segment revenues to exceed $43 million in 2016.

Gross margins in the third quarter 2016 improved from the same period last year due to a change in the mix of products shipped. In the first nine months of 2016, margins increased from the same period of the prior year due to a one-time $0.8 million cost incurred for quality measures in the second quarter of 2015. Gross margins in the fourth quarter of 2016 are expected to approximate margins achieved in the third quarter of 2016.

Overall, the high-end desktop market continues to thrive despite the challenges facing the total PC industry. The growth in high performance and gaming PCs is driven in part by customers' desire for a more immersive gaming experience, which is increasing demand for new technologies such as 4K screen resolution and virtual reality capability. These new technologies in turn require high performing graphics processors (GPUs), which also demand advanced cooling. As a result, Asetek's total addressable desktop market, which includes GPUs as well as CPUs, is expanding – a high performance PC now typically needs two liquid coolers instead of only one. Compared with 2015, Asetek is on track to double its revenue from GPU cooling products in 2016 and expects continued growth from this market segment in the future.

Data center financials

Financial development
USD (000's)



Asetek's data center revenue was $1.8 million in the third quarter and $3.6 million in the first nine months of 2016, compared with $0.5 million and $1.0 million in the third quarter and first nine months of 2015, respectively. The increases in both periods were driven principally by shipments to the Company's principal OEMs.

Data center gross margins increased in the third quarter of 2016 compared with the same period of 2015 but declined from recent quarters. Third quarter 2016 results include implementation costs for new products delivered on OEM installations. Gross margins also fluctuate due to variability in the mix of deliverables on government contracts relative to the volume of product shipments to OEMs.

While Asetek continues the implementation of its data center strategy, costs are driven by investments in technology development, product marketing, and sales development with data center partners and OEM customers.

Data center market update and outlook

As the high performance computing (HPC) industry struggles with balancing the contrary requirements of increasing performance and reducing energy consumption, the adoption of Asetek's liquid cooling products has accelerated. The Company has major liquid cooling installations at multiple HPC sites in the U.S., Japan and Europe. To drive growth in this market, Asetek continues to invest in technology development, product marketing and sales activities with data center partners and OEM customers.

In the third quarter, Asetek shipped $1.3 million of RackCDU Direct to Chip™ products to Fujitsu Technology Solutions GmbH (Fujitsu). Fujitsu is using Asetek's liquid cooling to remove heat from processors and other high power components in its PRIMERGY servers in order to deliver maximum performance and minimal cost. Current Fujitsu projects include an installation at the Joint Center for Advanced High Performance Computing (JCAHPC) in conjunction with University of Tokyo and Tsukuba University, as well as an undisclosed installation in Germany. The Fujitsu OEM relationship has generated $1.6 million of revenue for Asetek in 2016.

During the quarter, the Company shipped $0.2 million to Penguin Computing, Inc., an OEM that incorporates RackCDU D2C™ liquid cooling into its Tundra™ Extreme Scale (ES) HPC server. Penguin's end customers include the U.S. National Nuclear Security Administration's CTS-1 systems deployment at three national laboratories, which will collectively constitute one of the world's largest Open Compute-based installations. In September, Asetek began shipping liquid cooling for the Penguin Relion 2900 server. Though shipments planned for the fourth quarter have been deferred to next year, the OEM relationship with Penguin is expected to continue to generate material revenue for the Company in 2017.

During the third quarter, Asetek continued activities on its $3.5 million contract with the California Energy Commission. The Company completed conversion of the “Cabernet” supercomputer at Lawrence Livermore National Laboratory to liquid cooling. This is the first of two data centers scheduled to be converted during this two-year contract. Through the third quarter of 2016, Asetek has generated cumulative revenue of $0.4 million from this contract in 2016 and $1.0 million since contract inception in 2015.

Progress on Asetek’s three-year contract with the U.S. Department of Defense (DoD), which previously paused while the DoD relocated the project to a different site, has restarted. Facilities work and equipment transition to the new site began in the third quarter. Revenue is expected to ramp in the fourth quarter of 2016.

Asetek’s progress in the data center market indicates a broadening acceptance of liquid cooling in the HPC market, and high-power technologies such as Intel’s family of Xeon Phi processors are supporting this development. Working closely with ecosystem partners such as Intel, and large OEM’s such as Fujitsu, has enabled Asetek to connect with a wide array of companies and institutions exploring the Company’s liquid cooling solutions. Furthermore, the significant cost savings and efficiency of Asetek’s RackCDU installations in large-scale deployments is garnering attention from decision makers across the industry.

Asetek’s strategy in the data center market is to increase end-user adoption within existing OEM customers, and to add new OEM customers. The Company plans to achieve this by continuing to develop and defend its market-leading technology and leverage the successful performance achieved at its installed base of universities, enterprises and government entities. The Company expects significant revenue growth in the data center segment in 2016 compared with 2015. Future revenue and operating results are however expected to fluctuate as partnerships with large OEMs are developed.

Intellectual Property

Asetek holds a portfolio of intellectual property (IP) rights including patents providing competitive advantages and high barriers to entry for competitors. Currently Asetek has pending patent and utility model applications worldwide, with additional applications under preparation.

As part of efforts to build and maintain its market share, the Company continues to closely review and assess all competitive offerings for infringement of its patents. The Company has strengthened its intellectual property platform and competitiveness via several positive lawsuit outcomes in prior years.

In December 2014, the U.S. District Court unanimously ruled in favor of Asetek on all claims in a patent infringement lawsuit against CMI USA, Inc. (“CMI”). The jury awarded Asetek damages of $0.4 million, representing a 14.5% royalty on CMI’s infringing sales since 2012, and the court issued a permanent injunction barring CMI from selling infringing products in the U.S. In October 2015, CMI filed an appeal with the Federal Circuit U.S. Court of Appeals. The appeal is expected to be addressed by the court in 2016. During the appeal, the court’s injunction against CMI remains in effect. In January 2016, the U.S. District Court denied a motion by CMI to suspend the injunction.

In April 2016, Asetek initiated patent infringement proceedings against Cooler Master before the District Court The Hague in the Netherlands. The proceedings pertain to European Patent EP 1 923 771 owned by Asetek. A decision in first instance is expected in mid-2017.

Corporate Matters

In 2015, the Company recognized $1.8 million of income from a litigation settlement at the time the payments were received in the third and fourth quarters of 2015. In June 2016, the Danish Business Authority issued an enforcement decision indicating that the income from the settlement should have been recognized in full at the time the settlement was awarded in the third quarter of 2015. As a result, this change is reflected in the 2015 results presented in this Report.

Risk factors

The Company has historically incurred operating losses and is in the development stages of its data center business.

The Company's revenue growth is dependent on the market acceptance of its data center offerings and the release of new products from server OEM customers to facilitate its trial system deployments. Revenue in the desktop segment is subject to fluctuations and is dependent, in part, on the popularity and new releases of end user products by Asetek's customers.

In first nine months of 2016, one customer accounted for 59% of total revenue. In the event of a decline or loss of this significant customer, replacement of this revenue stream would be difficult for Asetek to achieve in the short term. Asetek is actively pursuing strategies to broaden its customer base in efforts to mitigate this risk.

Asetek relies upon suppliers and partners to supply products and services at competitive prices. Asetek's desktop products have been historically assembled by a single contract manufacturer which may be difficult to substitute in the short term if the need should arise. The Company added a second contract manufacturer in 2015 to assume a portion of the manufacturing volume. Asetek also mitigates the supplier risk with Company-owned supplemental manufacturing lines which can be utilized if necessary.

Asetek has filed and defended lawsuits against competitors for patent infringement. While some of the recent cases have been settled or dismissed, some may continue, and new cases may be initiated. Such cases may proceed for an extended period and could potentially lead to an unfavorable outcome to Asetek. Asetek has incurred significant legal costs associated with litigation and may continue to do so in the future to the extent management believes it is necessary to protect intellectual property.

Asetek operates internationally in Denmark, USA, China, and Taiwan and is subject to foreign exchange risk. As of September 30, 2016, its principal cash holdings are maintained in deposit accounts in U.S. dollars and Danish krone.

A more thorough elaboration on risk factors can be found in the Company's prospectus dated March 23, 2015, available from the Company's website: www.asetek.com.

Interim financial statements

Consolidated Statement of Comprehensive Income

Figures in USD (000's)	Q3 2016	Q3 2015*	YTD 2016	YTD 2015*	2015
	Unaudited	*Unaudited*	*Unaudited*	*Unaudited*	
Revenue	$ 14,249	$ 9,957	$ 33,009	$ 23,505	$ 35,982
Cost of sales	8,405	6,243	19,927	15,569	23,570
Gross profit	5,844	3,714	13,082	7,936	12,412
Research and development	834	884	2,390	2,968	3,938
Selling, general and administrative	2,967	3,166	8,506	9,549	12,641
Other income	-	-	-	(1,844)	(1,844)
Total operating expenses	3,801	4,050	10,896	10,673	14,735
Operating income	2,043	(336)	2,186	(2,737)	(2,323)
Foreign exchange (loss) gain	(11)	(14)	(95)	218	305
Finance costs	(6)	(16)	(29)	(48)	(67)
Total financial income (expenses)	(17)	(30)	(124)	170	238
Income before tax	2,026	(366)	2,062	(2,567)	(2,085)
Income tax (expense) benefit	29	(17)	(3)	(28)	438
Income for the period	2,055	(383)	2,059	(2,595)	(1,647)
Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:					
Foreign currency translation adjustments	20	(17)	120	361	181
Total comprehensive income	$ 2,075	$ (400)	$ 2,179	$ (2,234)	$ (1,466)
Income per share (in USD):					
Basic	$ 0.08	$ (0.02)	$ 0.08	$ (0.12)	$ (0.07)
Diluted	$ 0.08	$ (0.02)	$ 0.08	$ (0.12)	$ (0.07)

These financial statements should be read in conjunction with the accompanying notes.

**Interim 2015 results have been restated as described in Note 5.*

Consolidated Balance Sheet

Figures in USD (000's)		30 Sept 2016		31 Dec 2015
ASSETS		*Unaudited*		
Non-current assets				
Intangible assets	$	1,836	$	1,852
Property and equipment		1,363		1,188
Other assets		553		496
Total non-current assets		3,752		3,536
Current assets				
Inventory		1,324		1,786
Trade receivables and other		9,584		9,366
Cash and cash equivalents		18,293		13,060
Total current assets		29,201		24,212
Total assets	$	32,953	$	27,748
EQUITY AND LIABILITIES				
Equity				
Share capital	$	416	$	416
Share premium		76,686		76,665
Accumulated deficit		(56,334)		(58,633)
Translation and other reserves		318		198
Total equity		21,086		18,646
Non-current liabilities				
Long-term debt		267		259
Total non-current liabilities		267		259
Current liabilities				
Short-term debt		394		375
Accrued liabilities		1,037		862
Accrued compensation & employee benefits		1,090		1,272
Trade payables		9,079		6,334
Total current liabilities		11,600		8,843
Total liabilities		11,867		9,102
Total equity and liabilities	$	32,953	$	27,748

These financial statements should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

Unaudited

Figures in USD (000's)	Share capital	Share premium	Translation reserves	Other reserves	Accumulated deficit	Total
Equity at January 1, 2016	$ 416	$ 76,665	$ 207	$ (9)	$ (58,633)	$ 18,646
Total comprehensive income - nine months ended Sept 30, 2016						
Income for the period	-	-	-	-	2,059	2,059
Foreign currency translation adjustments	-	-	120	-	-	120
Total comprehensive income - nine months ended Sept 30, 2016	-	-	120	-	2,059	2,179
Transactions with owners - nine months ended Sept 30, 2016						
Shares issued	-	21	-	-	-	21
Share based payment expense	-	-	-	-	240	240
Transactions with owners - nine months ended Sept 30, 2016	-	21	-	-	240	261
Equity at September 30, 2016	$ 416	$ 76,686	$ 327	$ (9)	$ (56,334)	$ 21,086

Unaudited

Equity at January 1, 2015	$ 264	$ 64,451	$ 26	$ (12)	$ (57,307)	$ 7,422
Total comprehensive income - nine months ended Sept 30, 2015						
Loss for the period*	-	-	-	-	(2,595)	(2,595)
Foreign currency translation adjustments	-	-	361	-	-	361
Total comprehensive income - nine months ended Sept 30, 2015	-	-	361	-	(2,595)	(2,234)
Transactions with owners - nine months ended Sept 30, 2015						
Shares issued	152	12,874	-	2	-	13,028
Less: issuance costs	-	(829)	-	-	-	(829)
Share based payment expense	-	-	-	-	200	200
Transactions with owners - nine months ended Sept 30, 2015	152	12,045	-	2	200	12,399
Equity at September 30, 2015	$ 416	$ 76,496	$ 387	$ (10)	$ (59,702)	$ 17,587

These financial statements should be read in conjunction with the accompanying notes.

**Interim 2015 results have been restated as described in Note 5.*

Consolidated Cash Flow Statement

Figures in USD (000's)	YTD 2016	YTD 2015*	FY 2015
	Unaudited	*Unaudited*	
Cash flows from operating activities			
Income (loss) for the period	$ 2,059	$ (2,595)	$ (1,647)
Depreciation and amortization	1,909	1,669	2,390
Finance costs (income)	29	48	67
Income tax expense (income)	3	28	(438)
Impairment of intangible assets	6	-	-
Cash receipt (payment) for income tax	(3)	(5)	934
Share based payments expense	240	200	321
Changes in trade receivables, inventories, other assets	287	(4,747)	(6,937)
Changes in trade payables and accrued liabilities	2,594	2,355	4,243
Net cash provided by (used in) operating activities	7,124	(3,047)	(1,067)
Cash flows from investing activities			
Additions to intangible assets	(1,402)	(1,111)	(1,489)
Purchase of property and equipment	(549)	(332)	(882)
Net cash used in investing activities	(1,951)	(1,443)	(2,371)
Cash flows from financing activities			
Funds drawn (paid) against line of credit	(5)	80	90
Proceeds from issuance of share capital	21	13,028	13,148
Cash paid for fees related to financing	-	(829)	(832)
Principal and interest payments on finance leases	(78)	(53)	(76)
Net cash provided by (used in) financing activities	(62)	12,226	12,330
Effect of exchange rate changes on cash and cash equivalents	122	310	(2)
Net changes in cash and cash equivalents	5,233	8,046	8,890
Cash and cash equivalents at beginning of period	13,060	4,170	4,170
Cash and cash equivalents at end of period	$ 18,293	$ 12,216	$ 13,060
Supplemental disclosures -			
Property and equipment acquired under finance leases	$ 97	$ -	$ 76

These financial statements should be read in conjunction with the accompanying notes.

**Interim 2015 results have been restated as described in Note 5.*

Notes to the quarterly financial statements

1. General information

Asetek A/S ('the Company'), and its subsidiaries (together, 'Asetek Group', 'the Group' or 'Asetek') designs, develops and markets thermal management solutions used in computers and data center servers. The Group's core products utilize liquid cooling technology to provide improved performance, acoustics and energy efficiency. The Company is based in Aalborg, Denmark with offices in USA and China. The Company's shares trade on the Oslo Stock Exchange under the symbol 'ASETEK'.

These condensed consolidated financial statements for the quarter and nine months ended September 30, 2016 have been prepared on a historical cost convention in accordance with International Accounting Standard 34 (IAS 34) 'Interim Financial Reporting' as adopted by the European Union (EU) and do not include all of the information and disclosure required in the annual consolidated financial statements. These statements should be read in conjunction with the Asetek A/S 2015 Annual Report.

The accounting policies adopted in preparation of these condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2015.

The Group operates in an industry where seasonal or cyclical variations in total sales are not normally experienced during the financial year.

2. Equity

In April, 2016, the Company granted a total of 600,000 warrants to management and board members. Each warrant has an exercise price of NOK 19.50 (USD $2.40) per share and becomes exercisable gradually over a period of one or four years.

At September 30, 2016, there are 24.8 million common shares outstanding and 0.5 million shares in treasury. Treasury shares may be used to fulfill share options and warrants outstanding totaling approximately 2.1 million. Share based payment expense associated with total warrants and options outstanding was $0.2 million and $0.2 million in the nine months ended September 30, 2016 and 2015, respectively.

In March 2015, the Company raised $12.4 million in gross proceeds through a private placement of 10 million new common shares, each with a par value of DKK 0.10, at a price of NOK 10.00 per share. In April 2015, the Company raised $0.6 million in gross proceeds through the public issuance of an additional 480 000 new shares, each with a par value of DKK 0.10, at a price of NOK 10.00 per share.

3. Intangible assets

The Group's business includes a significant element of research and development activity. Under IAS 38, there is a requirement to capitalize and amortize development spend to match costs to expected benefits from projects deemed to be commercially viable. Costs capitalized are recorded on the balance sheet as intangible assets, net of amortization. In the first nine months of 2016, the Company capitalized approximately $1.4 million of development costs and recorded amortization of approximately $1.4 million (capitalized costs of $1.1 million and amortization of $1.4 million in the first nine months of 2015).

4. Earnings (losses) per share

IAS 33 requires disclosure of basic and diluted earnings per share for entities whose shares are publicly traded. Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the number of common shares outstanding used in the Basic calculation for the effect of dilutive equity instruments, which include options, warrants and debt or preferred shares that are convertible to common shares, to the extent their inclusion in the calculation would be dilutive.

Third Quarter

	Q3 2016	Q3 2015*
Income (loss) attributable to equity holders of the Company (USD 000's)	$ 2,055	$ (383)
Weighted average number of common shares outstanding (000's)	24,842	24,710
Basic income (loss) per share	$ 0.08	$ (0.02)
Weighted average number of common shares oustanding (000's)	24,842	24,710
Instruments with potentially dilutive effect:		
Warrants and options	759	-
Weighted average number of common shares oustanding, diluted	25,601	24,710
Diluted income (loss) per share	$ 0.08	$ (0.02)

First Nine Months

	YTD 2016	YTD 2015*
Loss attributable to equity holders of the Company (USD 000's)	$ 2,059	$ (2,595)
Weighted average number of common shares outstanding (000's)	24,837	21,499
Basic loss per share	$ 0.08	$ (0.12)
Weighted average number of common shares oustanding	24,837	21,499
Instruments with potentially dilutive effect:		
Warrants and options	560	-
Weighted average number of common shares oustanding, diluted	25,397	21,499
Diluted income (loss) per share	$ 0.08	$ (0.12)

*Interim 2015 results have been restated as described in Note 5.

Potential dilutive instruments are not included in the calculation of diluted loss per share for the third quarter and first nine months 2015 because the effect of including them would be anti-dilutive.

5. Accounting for income from litigation settlement

In 2015, the Company recognized $1.8 million of income from a litigation settlement at the time the payments were received in the third and fourth quarters of 2015. On June 15, 2016 the Danish Business Authority issued an enforcement decision indicating that the income from the settlement should have been recognized in full at the time the settlement was awarded in the second quarter of 2015, and presented as a separate line item on the financial statements. As a result, this change is reflected in the 2015 results in the consolidated statement of comprehensive income and other affected schedules in this Report. The following tables present the effect of the change:

Summary of change by quarter:

Figures in USD (000's)	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015
Income (loss) for the period - reported in 2015	$ (2,557)	$ (1,499)	$ 94	$ 2,315	$ (1,647)
Change to timing of income from litigation settlement	$ -	$ 1,844	$ (477)	$ (1,367)	$ -
Income (loss) for the period - revised	$ (2,557)	$ 345	$ (383)	$ 948	$ (1,647)

Summary of change by financial statement line item:

Consolidated Statement of Comprehensive Income

	Q3 2015			9 months YTD 2015		
Figures in USD (000's)	**Revised**	**Original**	**Change**	**Revised**	**Original**	**Change**
Research and development	884	884	-	2,968	2,968	-
Selling, general and administrative	3,166	2,689	477	9,549	9,072	477
Other income	-	-	-	(1,844)	-	(1,844)
Total operating expenses	4,050	3,573	477	10,673	12,040	(1,367)
Operating income	(336)	141	(477)	(2,737)	(4,104)	1,367
Income before tax	(366)	111	(477)	(2,567)	(3,934)	1,367
Income for the period	(383)	94	(477)	(2,595)	(3,962)	1,367
Total comprehensive income	(400)	77	(477)	(2,234)	(3,601)	1,367
Income per share - basic (USD)	(0.02)	0.00	(0.02)	(0.12)	(0.18)	0.06
Income per share - diluted (USD)	(0.02)	0.00	(0.02)	(0.12)	(0.18)	0.06

Consolidated Balance Sheet

	As of September 30, 2015		
Figures in USD (000's)	**Revised**	**Original**	**Change**
Assets:			
Trade receivables and other	7,976	6,609	1,367
Total current assets	21,782	20,415	1,367
Total assets	25,066	23,699	1,367
Equity and Liabilities:			
Accumulated deficit	(59,702)	(61,069)	1,367
Total equity	17,587	16,220	1,367
Total equity and liabilities	25,066	23,699	1,367

6. Transactions with related parties

In addition to the Company's grant of warrants referenced in Note 2, the following represent additional transactions with related parties. The Company's chairman is a member of the board of directors of Corsair, a customer of the company. During the nine months ended September 30, 2016 and 2015, Asetek had sales of inventory to Corsair of $17.8 million and $13.8 million, respectively. As of September 30, 2016 and 2015, Asetek had outstanding trade receivables from Corsair of $4.9 million and $3.1 million, respectively.

The Company's CEO serves as Chairman of the Board for a vendor that supplies services to the Company. In the nine months ended September 30, 2016 and 2015, the Company purchased services totaling approximately $0.2 million and $0.2 million, respectively, from this vendor.

7. IFRS accounting compared with U.S. GAAP

Since 2011, the Company's annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Previously, the Company's consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP). The following represent the principal effects to Asetek's financial statements as a result of this change:

Intangible assets. Capitalization of costs associated with product development is required under IFRS but is not required under GAAP. Intangible assets of $1.84 million on the Company's balance sheet at September 30, 2016 represent the capitalization of product development costs, net of amortization. The associated amortization over the products' lifecycle is charged as an operating expense.

Share based compensation. IFRS requires that each installment of a share based payment award be treated as a separate grant and separately measured and attributed to expense over the vesting period. As a result, calculation of share based payment expense under IFRS generally results in recognition of a greater amount of expense earlier in the life of the option grant than the comparable calculation under GAAP.

8. Segment reporting

Unaudited breakdown of the income statement

Operations - Third Quarter

Figures in USD (000's)	Desktop		Data center	
	Q3 2016	Q3 2015	Q3 2016	Q3 2015
Revenues	12,431	9,440	1,818	517
Cost of sales	7,164	5,869	1,238	374
Gross Profit	5,267	3,571	580	143
Gross Margin	42.4%	37.8%	31.9%	27.7%
Total operating expenses	748	1,225	1,582	1,486
EBITDA adjusted	4,519	2,346	(1,002)	(1,343)
EBITDA margin	36.4%	24.9%	N/A	N/A

Operations - Year-to-Date

Figures in USD (000's)	Desktop		Data center	
	YTD 2016	YTD 2015	YTD 2016	YTD 2015
Revenues	29,430	22,506	3,579	999
Cost of sales	17,611	14,923	2,313	646
Gross Profit	11,819	7,583	1,266	353
Gross Margin	40.2%	33.7%	35.4%	35.3%
Total operating expenses	2,323	3,705	4,471	4,810
EBITDA, adjusted	9,496	3,878	(3,205)	(4,457)
EBITDA margin	32.3%	17.2%	N/A	N/A

Headquarters Costs

Figures in USD (000's)	Q3 2016	Q3 2015*	YTD 2016	YTD 2015*
Litigation costs	(443)	(382)	(1,104)	(1,480)
Litigation settlement received	-	-	-	1,844
Other headquarters costs	(322)	(249)	(852)	(653)
Total headquarters (costs) benefit	(765)	(631)	(1,956)	(289)

**Interim 2015 results have been restated as described in Note 5 to the quarterly financial statements.*

See reconciliation to consolidated statement of comprehensive income in Key Figures table on page 1.

Statement by the board of directors and management

The Board of Directors and the Management have considered and adopted the Third Quarter Report of Asetek A/S for the period 1 January – 30 September 2016. The Interim Report is presented in accordance with the International Accounting Standard IAS 34 on Interim Financial Reporting as adopted by the European Union and additional Danish disclosure requirements. The accounting policies applied in the Interim Report are unchanged from those applied in the Group's Annual Report for 2015.

We consider the accounting policies appropriate, the accounting estimates reasonable and the overall presentation of the Interim Report adequate. Accordingly, we believe that the Interim Report gives a true and fair view of Asetek's financial position, results of operations and cash flows for the period.

In our opinion, the Interim Report includes a true and fair account of the matters addressed and describes the most significant risks and elements of uncertainty facing Asetek. The Interim Report has not been audited or reviewed by the auditors.

Asetek A/S
Aalborg, 26 October 2016

Management:

André S. Eriksen
CEO

Peter Dam Madsen
CFO

Board of Directors:

Sam Szteinbaum
Chairman

Joergen Smidt
Member

Chris J. Christopher
Member

Knut Øversjøen
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Jim McDonnell
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