Asetek A/S

CVR No. 34880522

Quarterly Report

Three Months Ended December 31, 2016

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Highlights

- **Record full-year 2016 revenue of $51 million, growth exceeding 40%**
- **High-end gaming cooling demand drives desktop revenue**
- **The high-performance computing industry's increasing demand for cooling behind emerging data center revenue**
- **First full year of profitability**
- **Expecting moderate desktop segment growth and significant data center growth**
- **Dividend of NOK1.00 to be proposed at general meeting**

Key figures

Figures in USD (000's)	Q4 2016	Q4 2015*	2016	2015
Total Company:	*Unaudited*	*Unaudited*		
Revenue	17,912	12,477	50,921	35,982
Gross profit	6,668	4,476	19,750	12,412
Gross margin	37.2%	35.9%	38.8%	34.5%
Operating profit	2,483	414	4,669	(2,323)
Reconciliation from IFRS to EBITDA adjusted:				
Operating profit	2,483	414	4,669	(2,323)
Add: Depreciation and amortization	541	721	2,450	2,390
Add: Share based compensation	88	121	328	321
EBITDA adjusted (unaudited)	3,112	1,256	7,447	388
By Segment (Unaudited):				
Desktop:				
Desktop revenue	*16,322*	*11,615*	*45,752*	*34,121*
Desktop gross margin	*39.5%*	*34.9%*	*39.9%*	*34.1%*
Desktop EBITDA adjusted	*5,646*	*3,351*	*15,142*	*7,230*
Datacenter:				
Datacenter revenue	*1,590*	*862*	*5,169*	*1,861*
Datacenter gross margin	*13.5%*	*49.2%*	*28.6%*	*41.8%*
Datacenter EBITDA adjusted	*(1,874)*	*(1,433)*	*(5,079)*	*(5,890)*
Headquarters:				
*Headquarters costs, net***	*(660)*	*(662)*	*(2,616)*	*(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.*

Summary

Financial results	• Asetek reported total revenue of $17.9 million in the fourth quarter of 2016, representing growth of 44% from the same period the year before. Revenue in the full year amounted to $50.9 million, reflecting growth of 42% compared with 2015. • Gross margins were 37% for the fourth quarter and 39% for the full year 2016, increasing from both comparable periods in 2015 (36% and 35%, respectively). An increase in government contract revenue in the fourth quarter resulted in lower margins. • Pre-tax income totaled $2.9 million in the fourth quarter 2016, compared with $0.5 million in the fourth quarter 2015. In the full year 2016, pre-tax income was $5.0 million compared with a pre-tax loss of $2.1 million in 2015. • The Company recorded net tax benefit of $4.6 million in the fourth quarter 2016, a direct increase to net income. The asset value reflects prior losses expected to be utilized as an offset to tax liability in future years. Asetek has not previously recorded deferred tax assets.
By segment	• Desktop revenue was $16.3 million in the fourth quarter, an increase of 41% from the same period of 2015. Revenue in the full year 2016 was $45.8 million, an increase of 34% from 2015. Operating profit from the desktop segment was $5.6 million for the fourth quarter and $15.1 million for the full year, 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, generated the improved results. • Data center revenue grew to $1.6 million in the fourth quarter, from $0.9 million in the fourth quarter 2015, principally due to Federal and State government contract installations. Revenue in the full year 2016 rose to $5.2 million compared with $1.9 million in 2015. As Asetek continued to invest in this segment, operating losses from the segment amounted to $1.9 million for the fourth quarter and $5.1 million for the full year. Expenditures relate to technology development, product marketing and sales activities with data center partners and OEM customers.
Operations	• The Company announced the first installation of its new InRackCDU™ technology. Selected by University of Regensburg for its HPC cluster, the Fujitsu installation is a joint research project with the University of Wuppertal and Jülich Supercomputing Center. • Asetek announced that its RackCDU™ D2C liquid cooling is in use on eight installations in the TOP500 list of the fastest supercomputers in the world, and on nine installations in the Green500 list of the world's most energy efficient supercomputers.
Outlook	• In February 2017, the Company announced the signing of a development agreement with an undisclosed major player in the data center market. The Company expects this agreement to result in new products in 2017 which will drive long-term data center revenue. • In February 2017, Asetek announced that EVGA has selected Asetek to power its first ever Closed Loop CPU Cooler, a stylish, high performance design available now for desktop gaming PC's. • Within the desktop segment, Asetek expects moderate revenue growth in the single digit range for the full year 2017, compared with a record 2016. • Within the emerging data center segment, Asetek expects significant revenue growth in 2017. The rate of growth will depend upon execution of the development agreement with the as yet to be disclosed major player in the data center market. • A dividend of NOK 1.00 per share, for a total payout of approximately $2.9 million, is to be proposed at the annual general meeting on April 25, 2017.

Financial review

The figures below relate to the consolidated accounts for the fourth quarter and full year 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 $17.9 million in the fourth quarter of 2016, reflecting growth of 44% over the same period of 2015 ($12.5 million). Total revenue in the full year 2016 was $50.9 million, an increase of 42% over 2015 ($36.0 million). The fourth-quarter and full-year revenue growth reflect increased shipments of desktop do-it-yourself ("DIY") and gaming/performance desktop PC products in 2016.

Desktop sales unit volumes for the fourth quarter 2016 were 337,000, reflecting growth of 41% from the same period of 2015 (239,000). Unit shipments for the full year 2016 increased 31% compared with 2015. The higher unit shipments in the fourth quarter and full year resulted from strong demand in the DIY market. Average selling prices (ASPs) per unit in the quarter decreased slightly from the fourth quarter 2015 due to variability in the mix of products shipped. ASPs in the full year 2016 increased compared with the same period of 2015, resulting principally from the sale of newer high performing products in 2016.

Gross margin was 37.2% for the fourth quarter of 2016, an increase from 35.9% in the same period the year before. Gross margin for the full year 2016 increased to 38.8% from 34.5% in 2015. The increase in gross margin in the fourth quarter 2016 reflects a richer mix of products shipped, partly offset by an increase in data center government contract revenue, which generally carries lower margins. The increase in the gross margin in the full year reflects a significant one-time charge 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 year when compared with 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).

Operating expense excluding the litigation settlement was $4.2 million for the fourth quarter and $15.1 million for the full year, compared with $4.1 million and $16.6 million in the respective periods of 2015. Legal costs associated with defense of existing intellectual property (IP) and securing new IP totaled $0.3 million and $1.4 million in the fourth quarter and full year 2016, compared with $0.3 million and $1.7 million in the same periods of 2015, respectively. Employee compensation costs were slightly higher in the fourth quarter 2016 compared with the same period of 2015, and also increased slightly when comparing the full year 2016 with 2015.

Finance expenses include net foreign exchange gain of $0.4 million and $0.3 million in the fourth quarter and full year 2016, respectively, compared with net $87,000 gain and $0.3 million gain in the comparable periods of 2015.

Net tax benefit of $4.6 million was recognized in the fourth quarter of 2016 associated with net operating losses expected to be utilized as an offset to tax liability in future years. Asetek has not previously recorded deferred tax assets. In the fourth quarter 2015, tax benefit was $0.4 million, which represented credits received for research and development activities.

Asetek achieved net income of $7.6 million and $9.6 million in the fourth quarter and full year 2016, compared with net income of $0.9 million and net loss of $1.6 million in the respective periods of 2015.

Balance Sheet (Consolidated)

Asetek's total assets at December 31, 2016 amounted to $41.2 million, an increase of $13.4 million from December 31, 2015. The change in assets resulted principally from revenue growth which increased cash on hand by $4.6 million to an ending balance of $17.6 million at December 31, 2016, and deferred tax assets of $4.9 million recognized in 2016. Trade payables increased as a result of the increase in operational activities associated with supporting the revenue growth. During the year, working capital (current assets minus current liabilities) increased $4.1 million to $19.5 million at December 31, 2016. A portion of incremental cash not required in daily operating activities is invested in highly liquid short-term time deposits.

Cash Flow (Consolidated)

Net cash provided by operating activities was $7.8 million for 2016 ($1.1 million used in 2015). The operating cash provided in 2016 was mainly related to income generated during the period and increased trade payables.

Cash used by investing activities was $2.9 million, related principally to additions in capitalized development costs and expansion of manufacturing capabilities. The figure compares with $2.4 million used in 2015.

Cash used by financing activities in 2016 was $0.2 million, compared with $12.3 million provided in 2015. The activity in 2015 was mainly related to funds raised through private and public offerings of common stock, net of financing costs.

Net increase in cash and cash equivalents was $4.6 million in 2016, compared with an increase of $8.9 million in 2015. Excluding equity offering transactions, the net change in cash in 2015 was negative $3.3 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 - Fourth Quarter

Figures in USD (000's)	Desktop		Data center	
	Q4 2016	Q4 2015	Q4 2016	Q4 2015
Revenues	16,322	11,615	1,590	862
Cost of sales	9,871	7,564	1,376	438
Gross Profit	6,451	4,051	214	424
Gross Margin	39.5%	34.9%	13.5%	49.2%
Total operating expenses	805	700	2,088	1,857
EBITDA adjusted	5,646	3,351	(1,874)	(1,433)
EBITDA margin	34.6%	28.9%	N/A	N/A

Operations - Full Year

Figures in USD (000's)	Desktop		Data center	
	2016	2015	2016	2015
Revenues	45,752	34,121	5,169	1,861
Cost of sales	27,482	22,487	3,689	1,084
Gross Profit	18,270	11,634	1,480	777
Gross Margin	39.9%	34.1%	28.6%	41.8%
Total operating expenses	3,128	4,405	6,559	6,667
EBITDA, adjusted	15,142	7,229	(5,079)	(5,890)
EBITDA margin	33.1%	21.2%	N/A	N/A

Headquarters Costs

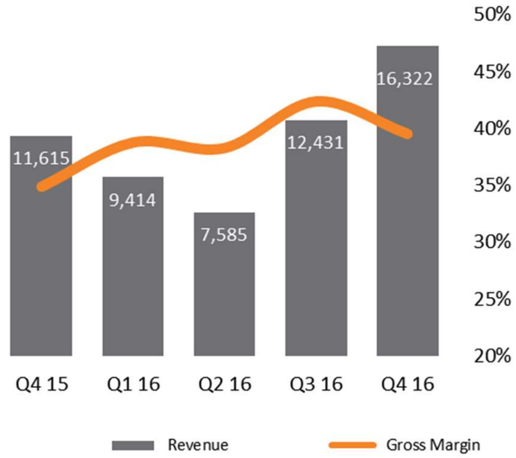
Figures in USD (000's)	Q4 2016	Q4 2015*	2016	2015
Litigation costs	(305)	(265)	(1,409)	(1,745)
Litigation settlement received	-	-	-	1,844
Other headquarters costs	(355)	(397)	(1,207)	(1,050)
Total headquarters (costs) benefit	(660)	(662)	(2,616)	(951)

**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 $16.3 million in the fourth quarter and $45.8 million in the full year 2016, compared with $11.6 million and $34.1 million in the fourth quarter and full year 2015, respectively. Asetek's desktop revenue grew in the fourth 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 2016 and is improved over 2015, with periodic variations resulting principally from changes in the mix of products shipped during a particular quarter.

Desktop market update and outlook

In the fourth quarter of 2016, Asetek's desktop revenue increased 41% from the fourth quarter of 2015. The increase resulted from strong demand in the DIY market and Gaming/Performance Desktop PC markets in the fourth quarter 2016 compared with the same period of 2015. During the fourth quarter, Asetek began shipping six new products in the DIY market and one new product in the Gaming/ Performance Desktop PC market.

In the full year 2016, desktop revenue increased 34% from 2015 due to strong growth in the DIY market. Increased shipments in the Gaming/ Performance Desktop PC market also accounted for part of this growth.

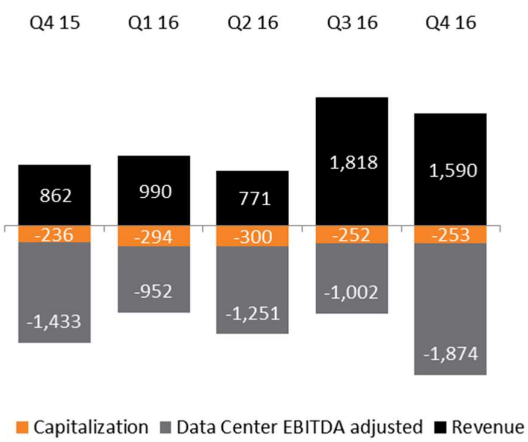
Gross margins in the fourth quarter of 2016 improved from the same period the year before due to a change in the mix of products shipped. In the full year 2016, margins increased from 2015 due to the change in mix of products shipped and a one-time $0.8 million cost incurred for quality measures in the second quarter of 2015. Gross margins in the first quarter of 2017 are expected to approximate margins achieved in the fourth 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.

Within the desktop segment, Asetek expects moderate revenue growth in the single digit range for the full year 2017, compared with a record 2016.

Data center financials

Financial development
USD (000's)



Asetek's data center revenue was $1.6 million in the fourth quarter and $5.2 million in the full year 2016, compared with $0.9 million and $1.9 million in the fourth quarter and full year 2015, respectively. The increase in the fourth quarter over the prior year resulted from increased activity on government contracts. Shipments to the Company's principal OEMs was a significant driver of revenue growth for the full year 2016 compared with 2015.

Data center gross margins decreased in the fourth quarter and full year 2016 compared with the same periods of 2015 due to the increase in revenue from government contracts in 2016. Government contract revenue in the fourth quarter represented principally deliverables by 3rd parties, which results in lower gross margins for Asetek. The Company expects government contract revenue over time to decrease in proportion to total data center revenue. In addition, 2016 gross margin declined due to implementation costs incurred for new products delivered on OEM installations. Gross margins will continue to 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

The high performance computing (HPC) industry's increasing demands of high density combined with extreme high performance is leading an industry-wide trend toward higher wattage CPUs and GPUs. This trend is accelerating the adoption of Asetek's data center liquid cooling. The Company has major liquid cooling installations at multiple HPC sites in the U.S., Japan and Europe. Asetek is liquid cooling nine of the world's most powerful supercomputers listed in the 2016 Top500. To drive further growth in this market, Asetek continues to invest in technology development, product marketing and sales activities with data center partners and OEM customers.

Data center activities in the fourth quarter represented principally deliverables on two government contracts.

Asetek generated $0.9 million revenue in the fourth quarter on its $3.5 million contract with the California Energy Commission. During the quarter, the Company initiated testing and evaluation of its liquid cooling installation on the "Cabernet" supercomputer at Lawrence Livermore National

Laboratory. Asetek also began product and facilities design at the second, unnamed data center site. In 2016, Asetek has generated cumulative revenue of $1.3 million from this contract and $2.0 million since contract inception in 2015.

Progress on Asetek's three-year contract with the U.S. Department of Defense (DoD) continued in the fourth quarter. The Company generated revenue of $0.5 million in the quarter principally from equipment installation at a new, unnamed data center site. In 2016, this contract generated revenue of $0.7 million and it is expected to be completed in the second half of 2017.

Asetek continues to foster its relationships with OEMs serving the data center market. Fujitsu Technology Solutions GmbH (Fujitsu) is using Asetek's liquid cooling to remove heat from processors and other high power components in its PRIMERGY servers in order to cost effectively deliver maximum performance and high cluster density. Recent projects have included Oakforest-PACS, the most powerful supercomputer in Japan, as well as QPACE3 at the University of Regensburg Germany. Both of these systems are ranked on the Top500 list of fastest supercomputers in the world. The Fujitsu OEM relationship generated $1.6 million of revenue for Asetek in 2016 and is expected to grow in 2017.

Penguin Computing, Inc. incorporates RackCDU D2C™ liquid cooling into its Tundra™ Extreme Scale (ES) HPC and Relion 2900 servers. Penguin's end customers include the U.S. National Nuclear Security Administration's CTS-1 systems deployment at three national laboratories. Four of these CTS-1 systems incorporate Asetek's liquid cooling and all are both Top500 and Green500 listed supercomputers. The OEM relationship with Penguin generated $1.2 million in revenue in 2016 and sales are expected to continue to grow in 2017.

Asetek's progress in the HPC market indicates an evolving acceptance of liquid cooling in the data center 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, NVIDIA and large OEM's such as Fujitsu, has enabled Asetek to connect with a wide array of companies and institutions exploring liquid cooling solutions. With more than 200 million hours of fault-free pump operation at data center installations, the adaptability, reliability and cost effectiveness 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 continued significant revenue growth in the emerging data center segment in 2017. The rate of growth will depend upon execution of the development agreement with the as yet to be disclosed major player in the data center market. Future revenue and operating results are 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. In October 2015, CMI filed an appeal with the Federal Circuit U.S. Court of Appeals. In December 2016, the Federal Circuit U.S. Court of Appeals affirmed the U.S. District Court’s decision on infringement, invalidity and damages in favor of Asetek, but remanded the issue of injunction back to the District Court for further review. CMI has filed an appeal to challenge the Federal Circuit Court’s ruling and Asetek has filed its response.

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.

On September 30, 2014, Asia Vital Components Co., Ltd. filed suit against Asetek Danmark A/S in the Eastern District of Virginia, requesting a declaratory judgment of non-infringement and invalidity of Asetek's U.S. Patents 8,240,362 and 8,245,764. Asetek disputes these allegations. On April 17, 2015, the district court granted Asetek's motion to dismiss the case for lack of subject matter jurisdiction. AVC appealed to the Court of Appeals for the Federal Circuit, which reversed the district court's decision on September 28, 2016. Asetek then filed a renewed motion to transfer the case to the Northern District of California. The district court in Virginia granted the motion to transfer on December 13, 2016. This case is in its earliest stages.

Corporate Matters

A dividend of NOK1.00 per share, for a total payout of approximately $2.9 million, is to be proposed at the annual general meeting on April 25, 2017. These financial statements do not reflect this dividend payable.

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 2016, one customer accounted for 53% 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. Asetek 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 December 31, 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)	Q4 2016	Q4 2015*	2016	2015
	Unaudited	*Unaudited*		
Revenue	$ 17,912	$ 12,477	$ 50,921	$ 35,982
Cost of sales	11,244	8,001	31,171	23,570
Gross profit	6,668	4,476	19,750	12,412
Research and development	1,038	970	3,428	3,938
Selling, general and administrative	3,147	3,092	11,653	12,641
Other income	-	-	-	(1,844)
Total operating expenses	4,185	4,062	15,081	14,735
Operating income	2,483	414	4,669	(2,323)
Foreign exchange (loss) gain	425	87	330	305
Finance (income) costs	21	(19)	(8)	(67)
Total financial income (expenses)	446	68	322	238
Income before tax	2,929	482	4,991	(2,085)
Income tax (expense) benefit	4,649	466	4,646	438
Income for the period	7,578	948	9,637	(1,647)
Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:				
Foreign currency translation adjustments	(575)	(180)	(455)	181
Total comprehensive income	$ 7,003	$ 768	$ 9,182	$ (1,466)
Income per share (in USD):				
Basic	$ 0.30	$ 0.04	$ 0.39	$ (0.07)
Diluted	$ 0.29	$ 0.04	$ 0.38	$ (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)	31 Dec 2016	31 Dec 2015
ASSETS		
Non-current assets		
Intangible assets	$ 1,871	$ 1,852
Property and equipment	1,684	1,188
Deferred income tax assets	4,874	-
Other assets	642	496
Total non-current assets	9,071	3,536
Current assets		
Inventory	1,158	1,786
Trade receivables and other	13,325	9,366
Cash and cash equivalents	17,610	13,060
Total current assets	32,093	24,212
Total assets	$ 41,164	$ 27,748
EQUITY AND LIABILITIES		
Equity		
Share capital	$ 417	$ 416
Share premium	-	76,665
Retained earnings	28,130	(58,633)
Translation and other reserves	(257)	198
Total equity	28,290	18,646
Non-current liabilities		
Long-term debt	264	259
Total non-current liabilities	264	259
Current liabilities		
Short-term debt	524	375
Accrued liabilities	1,305	789
Accrued compensation & employee benefits	1,413	1,272
Trade payables	9,368	6,407
Total current liabilities	12,610	8,843
Total liabilities	12,874	9,102
Total equity and liabilities	$ 41,164	$ 27,748

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

Statement of Changes in Equity

Figures in USD (000's)	Share capital	Share premium	Translation reserves	Other reserves	Retained earnings	Total
Equity at January 1, 2016	$ 416	$ 76,665	$ 207	$ (9)	$ (58,633)	$ 18,646
Total comprehensive income - year ended December 31, 2016						
Income for the period	-	-	-	-	9,637	9,637
Foreign currency translation adjustments	-	-	(455)	-	-	(455)
Total comprehensive income - year ended December 31, 2016	-	-	(455)	-	9,637	9,182
Transactions with owners - year ended December 31, 2016						
Shares issued	1	133	-	-	-	134
Transfer	-	(76,798)	-	-	76,798	-
Share based payment expense	-	-	-	-	328	328
Transactions with owners - year ended December 31, 2016	1	(76,665)	-	-	77,126	462
Equity at December 31, 2016	$ 417	$ -	$ (248)	$ (9)	$ 28,130	$ 28,290

Figures in USD (000's)	Share capital	Share premium	Translation reserves	Other reserves	Retained earnings	Total
Equity at January 1, 2015	$ 264	$ 64,451	$ 26	$ (12)	$ (57,307)	$ 7,422
Total comprehensive income - year ended December 31, 2015						
Loss for the period	-	-	-	-	(1,647)	(1,647)
Foreign currency translation adjustments	-	-	181	-	-	181
Total comprehensive income - year ended December 31, 2015	-	-	181	-	(1,647)	(1,466)
Transactions with owners - year ended December 31, 2015						
Shares issued	152	12,993	-	3	-	13,148
Less: issuance costs	-	(779)	-	-	-	(779)
Share based payment expense	-	-	-	-	321	321
Transactions with owners - year ended December 31, 2015	152	12,214	-	3	321	12,690
Equity at December 31, 2015	$ 416	$ 76,665	$ 207	$ (9)	$ (58,633)	$ 18,646

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

Consolidated Cash Flow Statement

Figures in USD (000's)	2016	2015
Cash flows from operating activities		
Income (loss) for the period	$ 9,637	$ (1,647)
Depreciation and amortization	2,450	2,390
Finance costs (income)	8	67
Income tax expense (benefit)	(4,646)	(438)
Impairment of intangible assets	28	-
Cash receipt (payment) for income tax	(40)	934
Share based payments expense	328	321
Changes in trade receivables, inventories, other assets	(3,895)	(6,937)
Changes in trade payables and accrued liabilities	3,936	4,243
Net cash provided by (used in) operating activities	7,806	(1,067)
Cash flows from investing activities		
Additions to intangible assets	(1,835)	(1,489)
Purchase of property and equipment	(1,077)	(882)
Net cash used in investing activities	(2,912)	(2,371)
Cash flows from financing activities		
Funds drawn (paid) against line of credit	142	90
Proceeds from issuance of share capital	133	13,148
Cash paid for fees related to financing	-	(832)
Principal and interest payments on finance leases	(100)	(76)
Net cash provided by (used in) financing activities	175	12,330
Effect of exchange rate changes on cash and cash equivalents	(519)	(2)
Net changes in cash and cash equivalents	4,550	8,890
Cash and cash equivalents at beginning of period	13,060	4,170
Cash and cash equivalents at end of period	$ 17,610	$ 13,060
Supplemental disclosures -		
Property and equipment acquired under finance leases	$ 140	$ 76

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

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 year ended December 31, 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 2016 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, 2016.

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

2. Equity and proposed dividend

A dividend in respect of the year ended December 31, 2016 of NOK1.00 per share, for a total of $2.9 million, is to be proposed at the annual general meeting on April 25, 2017. These financial statements do not reflect this dividend payable.

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 December 31, 2016, there are 24.9 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 2.0 million. Share based payment expense associated with total warrants and options outstanding was $0.3 million and $0.3 million in the years ended December 31, 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 2016, the Company capitalized approximately $1.8 million of development costs and recorded amortization of approximately $1.8 million (capitalized costs of $1.5 million and amortization of $2.0 million in 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.

Fourth Quarter

	Q4 2016	Q4 2015*
Income (loss) attributable to equity holders of the Company (USD 000's)	$ 7,578	$ 948
Weighted average number of common shares outstanding (000's)	24,894	24,823
Basic income (loss) per share	$ 0.30	$ 0.04
Weighted average number of common shares oustanding (000's)	24,894	24,823
Instruments with potentially dilutive effect:		
Warrants and options	1,027	1,019
Weighted average number of common shares oustanding, diluted	25,921	25,842
Diluted income (loss) per share	$ 0.29	$ 0.04

Full Year

	2016	2015
Loss attributable to equity holders of the Company (USD 000's)	$ 9,637	$ (1,647)
Weighted average number of common shares outstanding (000's)	24,851	22,332
Basic loss per share	$ 0.39	$ (0.07)
Weighted average number of common shares oustanding	24,851	22,332
Instruments with potentially dilutive effect:		
Warrants and options	752	-
Weighted average number of common shares oustanding, diluted	25,603	22,332
Diluted income (loss) per share	$ 0.38	$ (0.07)

*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 full year 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

	Q4 2015		
Figures in USD (000's)	**Revised**	**Original**	**Change**
Research and development	970	970	-
Selling, general and administrative	3,092	1,725	1,367
Total operating expenses	4,062	2,695	1,367
Operating income	414	1,781	(1,367)
Income before tax	482	1,849	(1,367)
Income for the period	948	2,315	(1,367)
Total comprehensive income	768	2,135	(1,367)
Income per share - basic (USD)	0.04	0.09	(0.05)
Income per share - diluted (USD)	0.04	0.09	(0.05)

6. Transactions with related parties

The Company's chairman is a member of the board of directors of a reseller of Company products. During the years ended December 31, 2016 and 2015, the Company had sales of inventory to the reseller of $26.9 million and $21.7 million, which represented 53% and 60% of total revenues, respectively. As of December 31, 2016 and 2015, the Company had outstanding trade receivables from the reseller of $6.0 million and $5.2 million, respectively.

The Company's CEO serves as Chairman of the Board for a vendor that supplies information technology services to the Company. In 2016, the Company purchased services totaling approximately $0.3 million ($0.3 million in 2015) from this vendor. At December 31, 2016 and 2015, the Company had outstanding payables to this vendor of $17,000 and $5,000, respectively.

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 $1.87 million on the Company's balance sheet at December 31, 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 - Fourth Quarter

Figures in USD (000's)	Desktop		Data center	
	Q4 2016	Q4 2015	Q4 2016	Q4 2015
Revenues	16,322	11,615	1,590	862
Cost of sales	9,871	7,564	1,376	438
Gross Profit	6,451	4,051	214	424
Gross Margin	39.5%	34.9%	13.5%	49.2%
Total operating expenses	805	700	2,088	1,857
EBITDA adjusted	5,646	3,351	(1,874)	(1,433)
EBITDA margin	34.6%	28.9%	N/A	N/A

Operations - Full Year

Figures in USD (000's)	Desktop		Data center	
	2016	2015	2016	2015
Revenues	45,752	34,121	5,169	1,861
Cost of sales	27,482	22,487	3,689	1,084
Gross Profit	18,270	11,634	1,480	777
Gross Margin	39.9%	34.1%	28.6%	41.8%
Total operating expenses	3,128	4,405	6,559	6,667
EBITDA, adjusted	15,142	7,229	(5,079)	(5,890)
EBITDA margin	33.1%	21.2%	N/A	N/A

Headquarters Costs

Figures in USD (000's)	Q4 2016	Q4 2015*	2016	2015
Litigation costs	(305)	(265)	(1,409)	(1,745)
Litigation settlement received	-	-	-	1,844
Other headquarters costs	(355)	(397)	(1,207)	(1,050)
Total headquarters (costs) benefit	(660)	(662)	(2,616)	(951)

**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 – 31 December 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 2016.

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, 27 February 2017

Management:

André S. Eriksen
CEO

Peter Dam Madsen
CFO

Board of Directors:

Sam Szteinbaum
Chairman

Joergen Smidt
Member

Chris J. Christopher
Member

Knut Øversjøen
Member

Jim McDonnell
Member

Peter Gross
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