Asetek A/S

Quarterly Report

Quarter ended March 31, 2017

Published April 26, 2017

Highlights

- **Quarterly revenue growth of 10% driven by high-end gaming cooling demand**
- **New orders and development agreement with undisclosed major player reflect increased end-user adoption in data center segment**
- **Shipments of Asetek's sealed loop coolers surpassed 4 million units from inception**
- **Continued positive EBITDA**
- **Approved cash dividend of NOK 1.00 per share for 2016**
- **Reaffirming 2017 expectations of moderate desktop segment and significant data center revenue growth**

Key figures

Figures in USD (000's)	Q1 2017	Q1 2016	2016
Total Company:	*Unaudited*	*Unaudited*	
Revenue	11,471	10,404	50,921
Gross profit	4,415	4,062	19,750
Gross margin	38.5%	39.0%	*38.8%*
Operating profit	279	620	4,669
Reconciliation from IFRS to EBITDA adjusted:			
Operating profit	279	620	4,669
Add: Depreciation and amortization	388	615	2,450
Add: Share based compensation	72	5	328
EBITDA adjusted (unaudited)	739	1,240	7,447
By Segment (Unaudited):			
Desktop:			
Desktop revenue	*11,054*	*9,414*	*45,752*
Desktop gross margin	*38.6%*	*38.8%*	*39.9%*
Desktop EBITDA adjusted	*3,384*	*2,809*	*15,142*
Datacenter:			
Datacenter revenue	*417*	*990*	*5,169*
Datacenter gross margin	*36.7%*	*41.7%*	*28.6%*
Datacenter EBITDA adjusted	*(1,800)*	*(952)*	*(5,079)*
Headquarters:			
*Headquarters costs**	*(845)*	*(617)*	*(2,616)*

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

Highlights

Financial results

- Asetek reported revenue of $11.5 million in the first quarter of 2017, a 10% increase from the first quarter 2016. The change from prior year reflects an increase in desktop revenue driven by shipments in the DIY market, partly offset by a decline in data center revenue.
- Gross margin for the first quarter was 38%, compared with 39% in the first quarter of 2016 and 37% in the fourth quarter 2016.
- Group pre-tax income totaled $0.2 million and EBITDA was $0.7 million in the first quarter 2017, compared with pre-tax income of $0.4 million and EBITDA of $1.2 million in the first quarter of 2016. First quarter 2017 results reflect increased costs associated with headcount growth and intellectual property defense. Cash declined from fourth quarter 2016 partly due to use of cash flows to pay down current liabilities to suppliers during the first quarter 2017.
- A proposed dividend of NOK1.00 per share was approved at the 2017 general meeting held in at Asetek's Headquarters in Aalborg, Denmark on April 25.

Operations

- Asetek shipped 224,000 desktop units in the first quarter. Total shipments of sealed loop coolers since the Company's inception has now surpassed four million.
- The Company signed 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.
- Asetek added a new data center OEM in South Korea.
- Through new and repeat orders received from existing data center OEM partners in the first quarter and more recently in April, the Company is increasing its end-user adoption with technology deployed to new HPC installations.

Financial results by segment

- Desktop revenue was $11.1 million in the first quarter, an increase of 17% from the same period of 2016. Operating profit from the desktop segment was $3.4 million, an increase from $2.8 million in the same period last year, due to an increase in DIY product sales.
- Data center revenue was $0.4 million, a decrease from $1.0 million in the prior year due to fewer shipments to OEM customers. This variability is expected while the Company secures new OEM partners and growth of end-user adoption through existing OEM partners. Significant growth in data center revenue is still anticipated for 2017.
- Operating loss from the data center segment was $1.8 million for the first quarter of 2017 compared with loss of $1.0 million in the same period last year. The results reflect continued implementation of Asetek's data center strategy with investments in technology development, product marketing and sales activities.

Outlook

- Asetek reaffirms its annual outlook for the full year 2017, anticipating moderate growth in the desktop business and significant revenue growth in the data center segment, when comparing to 2016.

Financial review

The figures below relate to the consolidated accounts for the first quarter 2017, which comprise activities within the two segments Desktop and Data Center. The figures are unaudited.

Income Statement (Consolidated)

Asetek reported revenue of $11.5 million in the first quarter of 2017, a 10% increase from the same period last year ($10.4 million). Compared with last year, revenue in the desktop segment grew 17% and was offset by a decline in revenue in the data center segment.

Sales unit volumes for the first quarter were 224,000, a 19% increase from the same period of 2016 (188,000). Average selling prices (ASP) per unit for the quarter decreased compared with the first quarter of 2016, reflecting a change in the mix of products sold.

Gross margin was 38.5% for the first quarter of 2017, compared with 39.0% for first quarter of 2016. The change in gross margin reflects a change in the mix of products sold.

Operating costs in the first quarter 2017 grew compared with the first quarter 2016, principally due to increased costs associated with headcount additions to support the Company's growth and an increase in legal costs associated with defending Asetek's intellectual property. These increases were partly offset by a decrease in depreciation expense associated with capitalized assets.

Finance expenses during the first quarter of 2017 includes net foreign exchange loss of $0.1 million, compared with net foreign exchange loss of $0.2 million in the same period of 2016.

Asetek achieved pre-tax income of $160,000 in the first quarter of 2017, compared with pre-tax income of $404,000 in the same period of 2016.

Balance Sheet (Consolidated)

Asetek's total assets at March 31, 2017 amounted to $36.0 million, a $5.2 million decrease from December 31, 2016. The decrease in assets resulted principally from the usage of positive cash flows to pay down short-term liabilities, including payables to suppliers, during the quarter.

Total liabilities decreased $5.7 million from December 31, 2016. Working capital (current assets minus current liabilities) increased by $0.2 million during the quarter to $19.7 million at March 31, 2017. Total cash and cash equivalents was $16.2 million at March 31, 2017.

Subsequent to quarter end, a proposed dividend of NOK1.00 per share was approved at the 2017 general meeting held at Asetek's Headquarters in Aalborg, Denmark on April 25. The balance sheet at March 31, 2017 does not reflect the liability for this planned dividend.

Cash Flow (Consolidated)

Net cash used by operating activities was $0.8 million for the first quarter of 2017, compared with $2.0 million provided by operating activities in the same period of 2016.

Cash used by investing activities was $0.6 million, related principally to additions in capitalized development costs and manufacturing equipment. This figure compares to $0.6 million used in the first quarter of 2016.

Cash provided by financing activities was $61,000 in the first quarter of 2017, compared with $15,000 provided in the first quarter of 2016.

Net change in cash and cash equivalents was negative $1.4 million in the first quarter, compared with positive $1.7 million in the same period of 2016.

Segment breakdown

*The company is reporting 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 - First Quarter

Figures in USD (000's)	Desktop		Data center	
	Q1 2017	Q1 2016	Q1 2017	Q1 2016
Revenues	11,054	9,414	417	990
Cost of sales	6,792	5,765	264	577
Gross Profit	4,262	3,649	153	413
Gross Margin	38.6%	38.8%	36.7%	41.7%
Total operating expenses	878	840	1,953	1,365
EBITDA adjusted	3,384	2,809	(1,800)	(952)
EBITDA margin	30.6%	29.8%	N/A	N/A

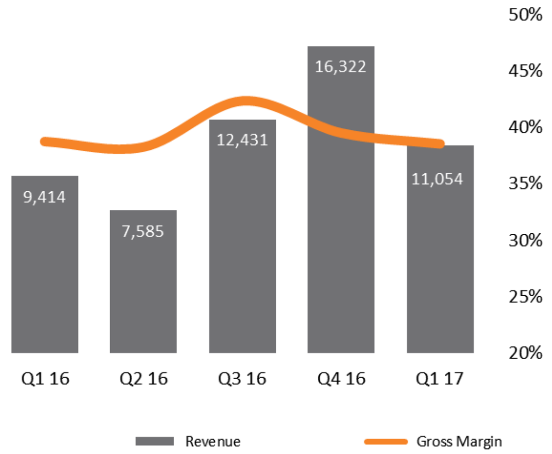
Headquarters Costs

Figures in USD (000's)	Q1 2017	Q1 2016
Litigation costs	549	369
Other headquarters costs	296	248
Total headquarters costs	845	617

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

Desktop financials

Desktop revenue and margin development
USD (000's)



Asetek desktop revenue was $11.1 million in the first quarter of 2017, an increase of 17% from the first quarter of 2016. As expected, the increase resulted from significant demand in the do-it-yourself (DIY) market. First quarter revenue in the Gaming/Performance Desktop PC was level with the same period of last year. In the first quarter of 2017, Revenue from the DIY, Gaming/Performance Desktop PC and Workstation markets comprised 80%, 19% and 1%, respectively of total desktop revenue.

Desktop gross margin has remained relatively stable over the past year, with periodic variations resulting principally from changes in the mix of products shipped during a particular quarter.

Desktop market update and outlook

During the first quarter, seven new desktop products began shipping – four in the DIY market and three in the Gaming/Performance Desktop PC market.

Asetek expects second quarter 2017 revenue in the DIY market to increase modestly from the level achieved in the second quarter of 2016. Second quarter revenue in the Gaming/Performance Desktop PC market is also expected to increase, when compared with the respective performance levels in the second quarter of 2016.

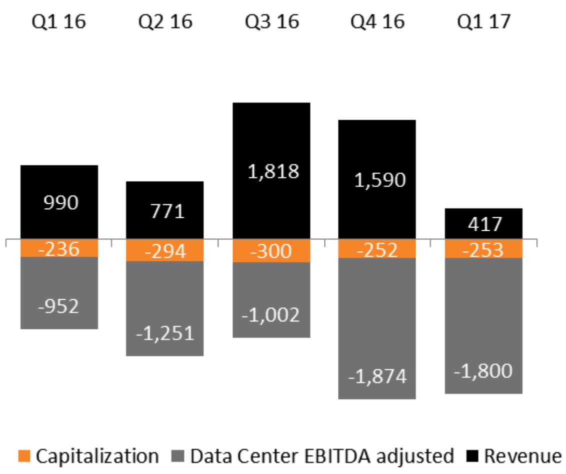
Revenue variability by quarter is expected to continue, and the Company's expectations for the full year 2017 are unchanged, anticipating overall moderate revenue growth within its desktop segment when compared with 2016.

Gross margin in the second quarter of 2017 is expected to be comparable to gross margin in the first quarter of 2017.

Overall, the desktop market continues to thrive despite the challenges facing the PC industry. This success is the result of various factors, including the continuous influx of new, more powerful technologies as well as recurring releases of popular, high profile computer games. The growth is also driven 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 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. Asetek expects continued growth from this segment in 2017.

Data center financials

Financial development
USD (000's)



Asetek's data center revenue was $0.4 million in the first quarter of 2017, compared with $1.0 million in the same period of 2016. The decrease in the first quarter reflects a decline in shipments to OEMs. The first quarter 2017 data center revenue did not meet Company expectations. Still, such variability is expected while the Company secures new OEM partners and growth of end-user adoption through existing OEM partners.

Data center gross margin decreased in the first quarter of 2017 compared with the same period of 2016, and have fluctuated in part due to variability in the mix of deliverables on government contracts relative to the volume of product shipments to OEMs. This variability is expected to continue in 2017.

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

In February, 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 March, Asetek announced the addition of a new data center OEM in South Korea, Intech & Company, which generated two orders for data center products to be fulfilled in the second quarter. Intech is expected to contribute to Asetek's growth in the data center cooling market. In March and April, the Company received new and repeat orders from OEM partners for strategic HPC installations.

Asetek generated $0.3 million revenue in the first quarter on its $3.5 million contract with the California Energy Commission. During the quarter, the Company continued with testing and evaluation of its liquid cooling installation on the "Cabernet" supercomputer at Lawrence Livermore National Laboratory. Asetek also continued product and facilities installation at the second, unnamed data center site. Asetek has generated cumulative revenue of $2.2 million since contract inception in 2015.

Progress on Asetek's three-year contract with the U.S. Department of Defense (DoD) continued in the first quarter, principally from installation activities at an unnamed data center site. This contract 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 owned by 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.

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, including GPGPUs (General Purpose Graphic Processor Unit). This trend is accelerating the adoption of Asetek's data center liquid cooling. Today, Asetek has major liquid cooling installations at multiple HPC sites in the U.S., Japan and Europe and is liquid cooling nine of the world's most powerful supercomputers listed in the 2016 Top500.

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. 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. The Company expects continued significant revenue growth in the data center segment in 2017. 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.

The Company is involved in various ongoing legal disputes, including the following matters:

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”) involving Asetek's U.S. Patents 8,240,362 and 8,245,764 (“the ’362 and ’764 patents”). 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 appealed to the Federal Circuit U.S. Court of Appeals. In April 2017, the Court of Appeals issued an opinion affirming the prior rulings regarding infringement, validity, damages and injunction against CMI. The injunction against affiliated company Cooler Master Co. Ltd. of China (“Cooler Master”) was reversed and remanded to the district court for further investigation regarding whether Cooler Master should also be enjoined along with CMI. The proceedings regarding the scope of the injunction are at their earliest stages.

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 ’362 and 764 patents (the same patents Asetek successfully asserted against CMI in district court and in CMI’s unsuccessful appeal). Asetek disputes these allegations. Asetek successfully moved to have the case dismissed for lack of jurisdiction. The Court of Appeals, however, reversed and remanded, and in December 2016 the case was transferred to the Northern District of California, where it is in its earliest stages.

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 the first quarter of 2017, 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 March 31, 2017, 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 Annual Report for 2016, available from the Company's website: www.asetek.com

Interim Financial Statements

Consolidated Statement of Comprehensive Income

Figures in USD (000's)	Q1 2017	Q1 2016	2016
	Unaudited	*Unaudited*	
Revenue	$ 11,471	$ 10,404	$ 50,921
Cost of sales	7,056	6,342	31,171
Gross profit	4,415	4,062	19,750
Research and development	883	707	3,428
Selling, general and administrative	3,253	2,735	11,653
Total operating expenses	4,136	3,442	15,081
Operating income	279	620	4,669
Foreign exchange (loss) gain	(110)	(202)	330
Finance (income) costs	(9)	(14)	(8)
Total financial income (expenses)	(119)	(216)	322
Income before tax	160	404	4,991
Income tax (expense) benefit	(9)	(13)	4,646
Income for the period	151	391	9,637
Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:			
Foreign currency translation adjustments	(6)	249	(455)
Total comprehensive income	$ 145	$ 640	$ 9,182
Income per share (in USD):			
Basic	$ 0.01	$ 0.02	$ 0.39
Diluted	$ 0.01	$ 0.02	$ 0.38

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

Consolidated Balance Sheet

Figures in USD (000's)		31 Mar 2017		31 Dec 2016
ASSETS		*Unaudited*		
Non-current assets				
Intangible assets	$	2,043	$	1,871
Property and equipment		1,924		1,684
Deferred income tax assets		4,765		4,874
Other assets		675		642
Total non-current assets		9,407		9,071
Current assets				
Inventory		1,111		1,158
Trade receivables and other		9,272		13,325
Cash and cash equivalents		16,184		17,610
Total current assets		26,567		32,093
Total assets	$	35,974	$	41,164
EQUITY AND LIABILITIES				
Equity				
Share capital	$	417	$	417
Share premium		274		-
Retained earnings		28,353		28,130
Translation and other reserves		(260)		(257)
Total equity		28,784		28,290
Non-current liabilities				
Long-term debt		361		264
Total non-current liabilities		361		264
Current liabilities				
Short-term debt		387		524
Accrued liabilities		1,245		1,305
Accrued compensation & employee benefits		1,153		1,413
Trade payables		4,044		9,368
Total current liabilities		6,829		12,610
Total liabilities		7,190		12,874
Total equity and liabilities	$	35,974	$	41,164

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	Retained earnings	Total
Equity at January 1, 2017	$ 417	$ -	$ (248)	$ (9)	$ 28,130	$ 28,290
Total comprehensive income - quarter ended March 31, 2017						
Income for the period	-	-	-	-	151	151
Foreign currency translation adjustments	-	-	(6)	-	-	(6)
Total comprehensive income - quarter ended March 31, 2017	-	-	(6)	-	151	145
Transactions with owners - quarter ended March 31, 2017						
Shares issued	-	274	-	3	-	277
Share based payment expense	-	-	-	-	72	72
Transactions with owners - quarter ended March 31, 2017	-	274	-	3	72	349
Equity at March 31, 2017	$ 417	$ 274	$ (254)	$ (6)	$ 28,353	$ 28,784

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 - quarter ended March 31, 2016						
Loss for the period	-	-	-	-	391	391
Foreign currency translation adjustments	-	-	249	-	-	249
Total comprehensive income - quarter ended March 31, 2016	-	-	249	-	391	640
Transactions with owners - quarter ended March 31, 2016						
Shares issued	-	15	-	-	-	15
Share based payment expense	-	-	-	-	5	5
Transactions with owners - quarter ended March 31, 2016	-	15	-	-	5	20
Equity at March 31, 2016	$ 416	$ 76,680	$ 456	$ (9)	$ (58,237)	$ 19,306

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

Consolidated Cash Flow Statement

Figures in USD (000's)	Q1 2017	Q1 2016	2016
	Unaudited	*Unaudited*	
Cash flows from operating activities			
Income for the period	$ 151	$ 391	$ 9,637
Depreciation and amortization	388	615	2,450
Finance costs (income)	8	14	8
Income tax expense (benefit)	9	13	(4,646)
Impairment of intangible assets	-	-	28
Cash receipt (payment) for income tax	(9)	(13)	(40)
Share based payments expense	72	5	328
Changes in trade receivables, inventories, other assets	4,353	4,181	(3,895)
Changes in trade payables and accrued liabilities	(5,769)	(3,164)	3,936
Net cash provided by (used in) operating activities	(797)	2,042	7,806
Cash flows from investing activities			
Additions to intangible assets	(391)	(465)	(1,835)
Purchase of property and equipment	(225)	(129)	(1,077)
Net cash used in investing activities	(616)	(594)	(2,912)
Cash flows from financing activities			
Funds drawn (paid) against line of credit	(168)	23	142
Proceeds from issuance of share capital	274	17	133
Principal and interest payments on finance leases	(45)	(25)	(100)
Net cash provided by (used in) financing activities	61	15	175
Effect of exchange rate changes on cash and cash equivalents	(74)	211	(519)
Net changes in cash and cash equivalents	(1,426)	1,674	4,550
Cash and cash equivalents at beginning of period	17,610	13,060	13,060
Cash and cash equivalents at end of period	$ 16,184	$ 14,734	$ 17,610
Supplemental disclosures -			
Property and equipment acquired under finance leases	$ 159	$ -	$ 140

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 ended March 31, 2017 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

A dividend in respect of the year ended December 31, 2016 of NOK1.00 per share, for a total of $2.9 million, was approved at the annual general meeting on April 25, 2017. The balance sheet at March 31, 2017 does not reflect the liability for this planned dividend.

At March 31, 2017, there are 25.1 million common shares outstanding and 0.4 million shares in treasury. Treasury shares may be used to fulfill share options and warrants outstanding totaling approximately 1.8 million. Share based payment expense associated with total warrants and options outstanding was $72,000 and $5,000 in the quarters ended March 31, 2017 and 2016, respectively.

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 quarter of 2017, the Company capitalized approximately $0.4 million of development costs and recorded amortization of approximately $0.2 million (capitalized costs of $0.5 million and amortization of $0.5 million in first quarter 2016).

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.

		Q1 2017		Q1 2016
Income attributable to equity holders of the Company (USD 000's)	$	151	$	391
Weighted average number of common shares outstanding (000's)		24,950		24,828
Basic income per share	$	0.01	$	0.02
Weighted average number of common shares oustanding (000's)		24,950		24,828
Instruments with potentially dilutive effect:				
Warrants and options		1,260		940
Weighted average number of common shares oustanding, diluted		26,210		25,768
Diluted income per share	$	0.01	$	0.02

5. 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 first quarter of 2017 and 2016, Asetek had sales of inventory to Corsair of $6.1 million and $5.5 million, respectively. As of March 31, 2017 and 2016, Asetek had outstanding trade receivables from Corsair of $3.8 million and $1.8 million, respectively.

The Company's CEO serves as Chairman of the Board for a vendor that supplies services to the Company. In the first quarter 2017, the Company purchased services totaling approximately $83,000 from this vendor ($53,000 in 2016).

6. 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 $2.04 million on the Company's balance sheet at March 31, 2017 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.

7. Segment reporting

Unaudited breakdown of the income statement

Operations - First Quarter

Figures in USD (000's)	Desktop		Data center	
	Q1 2017	Q1 2016	Q1 2017	Q1 2016
Revenues	11,054	9,414	417	990
Cost of sales	6,792	5,765	264	577
Gross Profit	4,262	3,649	153	413
Gross Margin	38.6%	38.8%	36.7%	41.7%
Total operating expenses	878	840	1,953	1,365
EBITDA adjusted	3,384	2,809	(1,800)	(952)
EBITDA margin	30.6%	29.8%	N/A	N/A

Headquarters Costs

Figures in USD (000's)	Q1 2017	Q1 2016
Litigation costs	549	369
Other headquarters costs	296	248
Total headquarters costs	845	617

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

Statement by the Board of Directors and Management

The Board of Directors and the Management have considered and adopted the Interim Report of Asetek A/S for the period 1 January – 31 March 2017. The Interim Report is presented in accordance with the International Accounting Standard IAS 34 on Interim Financial Reporting 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, 25 April 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
Member

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