Asetek A/S

Half Year Report

Second Quarter and Six Months Ended June 30, 2017

Published August 16, 2017

Company Registration (CVR) Number 34880522

Highlights

- **Q2 and first-half revenue growth driven by high-end gaming cooling demand**
- **Q2 data center revenue fueled by OEM shipments**
- **Increased end-user adoption through new and repeat orders from data center OEM partners**
- **New desktop DIY design wins**
- **Successful patent defense resulted in $0.7 million award**
- **Paid NOK 1 per share dividend to shareholders in May**
- **Raised full-year 2017 revenue guidance for Desktop segment on strong DIY demand**

Key figures

Figures in USD (000's)	Q2 2017	Q2 2016	1H 2017	1H 2016	2016
Total Company:	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	
Revenue	11,147	8,356	22,618	18,760	50,921
Gross profit	3,904	3,176	8,319	7,238	19,750
Gross margin	35.0%	38.0%	36.8%	38.6%	*38.8%*
Operating profit	(30)	(477)	249	143	4,669
Reconciliation from IFRS to EBITDA adjusted:					
Operating profit	(30)	(477)	249	143	4,669
Add: Depreciation and amortization	631	700	1,019	1,315	2,450
Add: Share based compensation	491	120	563	125	328
EBITDA adjusted (unaudited)	1,092	343	1,831	1,583	7,447
By Segment (Unaudited):					
Desktop:					
Desktop revenue	*10,147*	*7,585*	*21,201*	*16,999*	*45,752*
Desktop gross margin	*37.0%*	*38.3%*	*37.8%*	*38.5%*	*39.9%*
Desktop EBITDA adjusted	*2,794*	*2,168*	*6,178*	*4,977*	*15,142*
Datacenter:					
Datacenter revenue	*1,000*	*771*	*1,417*	*1,761*	*5,169*
Datacenter gross margin	*15.0%*	*35.4%*	*21.4%*	*39.0%*	*28.6%*
Datacenter EBITDA adjusted	*(1,638)*	*(1,251)*	*(3,438)*	*(2,203)*	*(5,079)*
Headquarters:					
*Headquarters costs**	*(64)*	*(574)*	*(909)*	*(1,191)*	*(2,616)*

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

Highlights

Financial results

- Asetek reported revenue of $11.1 million in the second quarter of 2017, a 33% increase from the second quarter of 2016. First-half 2017 revenue amounted to $22.6 million, representing growth of 21% compared with the first half of 2016. The change from prior year reflects an increase in desktop revenue driven by shipments in the DIY and Gaming Performance/ Desktop PC markets.
- Gross margins were 35% for the second quarter and 37% for the first half of 2017 (38% and 39% in the comparable periods of 2016). The decline in the second quarter of 2017 was due to a component failure with one data center product configuration at a specific customer, and a one-off replacement of inventory for a desktop shipment from Q4 2016.
- Group pre-tax loss totaled ($0.6) million and EBITDA was $0.6 million in the second quarter of 2017, compared with pre-tax loss of ($0.4) million and EBITDA of $0.2 million in the second quarter of 2016. First-half 2017 pre-tax loss was ($0.4) million and EBITDA was $1.3 million, compared with prior year pre-tax of $36,000 and EBITDA of $1.5 million.
- Second-quarter 2017 results reflect increased costs associated with organizational growth and share based compensation, offset by $0.7 million of other income related to a patent litigation award received from CMI. The balance sheet reflects a dividend to shareholders of NOK1.00 per share, for a total of $2.9 million.

Operations

- Asetek announced two new design wins in the desktop DIY market: Thermaltake selected Asetek's liquid cooling for its new Floe Riing RGB all-in-one cooler series, and Fractal Design selected Asetek for its new Celsius Series CPU Cooler.
- Through new and repeat orders received from data center OEM partners in the first half of 2017, the Company is increasing its end-user adoption with technology deployed to new HPC installations. In the second quarter, this included orders of RackCDU D2C™ (Direct-to-Chip) liquid cooling from Fujitsu and Penguin Computing.

Financial results by segment

- Desktop revenue was $10.1 million in the second quarter, an increase of 34% from the same period of 2016. First half revenue was $21.2 million, an increase of 25% from the first half of 2016. Operating profit from the desktop segment was $2.8 million for the second quarter and $6.2 million for the first half, both reflecting improvement over the respective periods of 2016, due to an increase in DIY and Gaming Performance/Desktop PC sales.
- Data center revenue increased to $1.0 million in the second quarter, from $0.8 million in the same period of 2016. Revenue in the first half of 2017 totaled $1.4 million, compared with $1.8 million in the same period of 2016. Operating loss from the data center segment was $1.6 million for the second quarter and $3.4 million for the first half of 2017. This compares with losses of $1.3 million and $2.2 million in 2016, respectively. In anticipation of demand for data center solutions, Asetek has added personnel in the past year, most of whom are focused on the data center business.
- The decline in data center performance in the first half was due to fewer shipments to OEM customers in Q1 2017 and the specific component issue mentioned above. Variability of results is expected while the Company secures new OEM partners and growth of end-user adoption through existing OEM partners.

Outlook

- Due to continued positive development within the desktop segment, Asetek increases its full year 2017 desktop revenue guidance from single digit growth to growth between 10% and 20% compared with 2016. The outlook for the data center business is reaffirmed, with significant revenue growth expected compared with 2016.
- In February, the Company announced the signing of a development agreement with an undisclosed major player in the data center market. The customer is expected to launch the first product at the SC17 tradeshow in November 2017, with revenue to Asetek beginning at that time.

Financial review

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

Income Statement (Consolidated)

Asetek reported total revenue of $11.1 million in the second quarter of 2017, reflecting growth of 33% over the same period of 2016 ($8.4 million). Total revenue in the first half of 2017 was $22.6 million, an increase of 21% over the same period of 2016 ($18.8 million). The increase in the second quarter and first half compared with prior year, reflect principally growth in shipment of desktop DIY and Gaming/Performance Desktop PC products. Growth in the second quarter of 2017 also reflects an increase in shipment of data center products to OEMs compared with the same period of 2016.

Desktop sales unit volumes for the second quarter of 2017 were 202,000, a 25% increase from the same period of last year (162,000). Unit shipments for the first half of 2017, represented a 22% increase compared with the same period of 2016. The increase in unit shipments in the first half was a function of strong demand in the DIY and Gaming/Performance Desktop PC markets. Average selling prices (ASPs) per unit in the second quarter and first half increased from the respective periods of 2016 due to variability in the mix of products shipped.

Gross margin was 35.0% for the second quarter of 2017, a decrease from 38.0% in the same period last year. Gross margin for the first half of 2017 decreased to 36.8% from 38.6% in the first half of 2016. The decrease in gross margin in both periods reflects a component failure with one data center product configuration at a specific customer, and a one-off replacement of inventory for a desktop shipment from Q4 2016.

Total operating expense increased in the second quarter and first half when compared with the same periods of 2016. The second-quarter 2017 results reflect a $0.7 million settlement awarded to Asetek for a patent infringement lawsuit with CMI USA, Inc. The Company has added personnel since June 2016 resulting in an increase in compensation costs in the second quarter and first half of 2017, when compared with the same periods of the prior year. Share based compensation costs associated with warrants issued to employees increased to $0.5 million and $0.6 million in the second quarter and first half of 2017 ($0.1 million and $0.1 million in the same periods of 2016), respectively. Legal costs incurred associated with defense of existing intellectual property (IP) and securing new IP increased to $0.4 million and $1.0 million in the second quarter and first half of 2017 ($0.3 million and $0.7 million in the same periods of 2016), respectively.

Finance expenses included net foreign exchange losses of $0.6 million and $0.7 million in the second quarter and first half of 2017 (net $0.1 million gain and $0.1 million loss in the respective periods of 2016). The first-half 2017 expense was mainly a function of the weakening of the U.S. dollar against the Danish kroner by approximately 8% during the period. The effect was offset by a positive currency translation adjustment of $0.7 million included in equity for the first half 2017.

Asetek reported pre-tax loss of $0.6 million and $0.4 million in the second quarter and first half of 2017, compared with a pre-tax loss of $0.4 million and pre-tax income of $36,000 in the respective periods of 2016.

Balance Sheet (Consolidated)

Asetek's total assets at June 30, 2017 amounted to $37.9 million, a $3.3 million decrease from December 31, 2016. The decrease in assets is principally due to two factors: the usage of positive cash flows to pay down short-term liabilities, including payables to suppliers, during the first quarter of 2017; and the distribution of a NOK1.00 per share dividend pertaining to 2016 results, in the second quarter of 2017.

Total liabilities decreased $1.6 million from December 31, 2016. Working capital (current assets minus current liabilities) decreased by $3.0 million during the first half to $16.5 million at June 30, 2017. Total cash and cash equivalents was $16.3 million at June 30, 2017.

Cash Flow (Consolidated)

Net cash provided by operating activities was $2.1 million for the first half of 2017, compared with $3.8 million provided by operating activities in the same period of 2016.

Cash used by investing activities was $1.9 million for the first half of 2017, mainly related to additions in capitalized development, manufacturing equipment and software. This figure compares to $1.4 million used in the first half of 2016, and reflects the growth in the business.

Cash used by financing activities was $1.9 million in the first half of 2017, compared with $18,000 used in the first half of 2016. Cash used in first half 2017 was due principally to the payment of a dividend of NOK1.00 per share in the second quarter. This was partially offset by cash flows received from the exercise of warrants and options by employees.

Net change in cash and cash equivalents was negative $1.4 million in the first half of 2017, compared with positive $2.5 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 - Second Quarter

Figures in USD (000's)	Desktop		Data center	
	Q2 2017	Q2 2016	Q2 2017	Q2 2016
Revenues	10,147	7,585	1,000	771
Cost of sales	6,393	4,682	850	498
Gross Profit	3,754	2,903	150	273
Gross Margin	37.0%	38.3%	15.0%	35.4%
Total operating expenses	960	735	1,788	1,524
EBITDA adjusted	2,794	2,168	(1,638)	(1,251)
EBITDA margin	27.5%	28.6%	N/A	N/A

Operations - First Half

Figures in USD (000's)	Desktop		Data center	
	1H 2017	1H 2016	1H 2017	1H 2016
Revenues	21,201	16,999	1,417	1,761
Cost of sales	13,185	10,447	1,114	1,075
Gross Profit	8,016	6,552	303	686
Gross Margin	37.8%	38.5%	21.4%	39.0%
Total operating expenses	1,838	1,575	3,741	2,889
EBITDA, adjusted	6,178	4,977	(3,438)	(2,203)
EBITDA margin	29.1%	29.3%	N/A	N/A

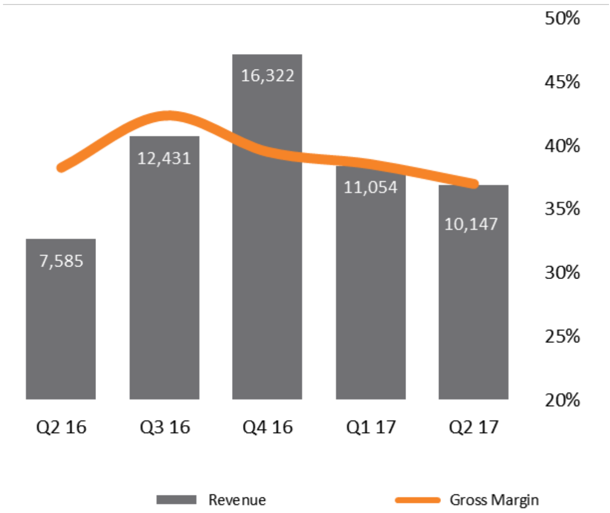
Headquarters Costs

Figures in USD (000's)	Q2 2017	Q2 2016	1H 2017	1H 2016
Litigation costs	448	292	997	661
Litigation award received	(651)	-	(651)	-
Other headquarters costs	267	282	563	530
Total headquarters costs	64	574	909	1,191

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

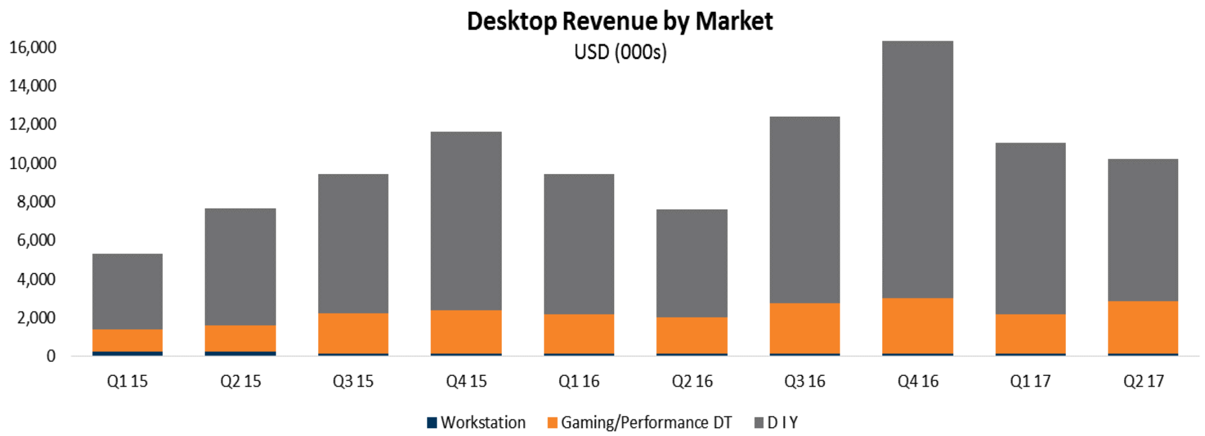
Desktop financials

Desktop revenue and margin development
USD (000's)



Asetek desktop revenue was $10.1 million in the second quarter of 2017, an increase of 34% from the second quarter of 2016. As expected, the increase resulted from significant demand in the do-it-yourself (DIY) and Gaming/Performance Desktop PC markets. In the second quarter of 2017, revenue from the DIY, Gaming/Performance Desktop PC and Workstation markets comprised 72%, 27% and 1%, respectively of total desktop revenue.

Desktop gross margin declined slightly in the second quarter of 2017 principally due to Asetek's one-off replacement of product shipped to a customer in the latter part of Q4 2016. Gross margins historically have reflected variations in the mix of products shipped during a specific quarter.



Desktop market update and outlook

During the second quarter, two new desktop products began shipping in the Gaming/ Performance Desktop PC market, and Asetek announced two new design wins in the DIY market: Thermaltake selected Asetek's liquid cooling for its new Floe Riing RGB all-in-one cooler series (expected to ship in the third quarter), and Fractal Design selected Asetek for its new Celsius Series CPU Cooler (began shipping in the first quarter).

Asetek expects third-quarter 2017 revenue in the DIY market to grow significantly from the level achieved in the third quarter of 2016. Third-quarter revenue in the Gaming/Performance Desktop PC market is expected to approximate the levels from the third quarter of 2016.

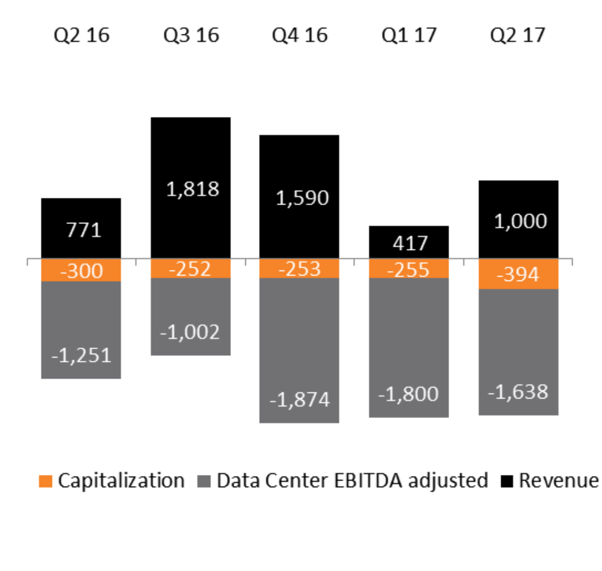
Due to continued positive development within the desktop segment, Asetek increases its full-year 2017 desktop revenue guidance from single digit growth to growth between 10% and 20% compared with 2016. Revenue variability by quarter is expected to continue.

Due to the recent weakening of the U.S. dollar and increasing manufacturing cost price pressure in China, the Company expects gross margin in the third quarter of 2017 to approximate gross margin in the second 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 $1.0 million in the second quarter of 2017, compared with $0.8 million in the same period of 2016. The increase in the second quarter reflects an increase in shipments to OEMs, partly offset by a decline in shipments under government contracts. Revenue variability is expected to continue while the Company secures new OEM partners and growth of end-user adoption through existing OEM partners.

Data center gross margin decreased in the second quarter and first half of 2017 compared with the same period of 2016 due to a component failure with one product configuration at a specific customer. The Company replaced inventory at the customer for a cost of approximately $0.2 million. Gross margin has also 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, manufacturing, and sales development with data center partners and OEM customers.

Data center market update and outlook

The high performance computing (HPC) industry's increasing demand for 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.

In February, the Company announced the signing of a development agreement with an undisclosed major player in the data center market. The customer is expected to launch the first product at the SC17 tradeshow in November 2017, with revenue to Asetek beginning at that time.

Through new orders received from data center OEM partners in the first half of 2017, the Company is increasing its end-user adoption with technology deployed to new HPC installations. In May, the Company received orders from OEMs for RackCDU D2C™ (Direct-to-Chip) liquid cooling, including one from Fujitsu for Taiwan's new supercomputer at the National Center for High-Performance Computing. In June, Asetek received orders from Penguin Computing totaling $0.2 million for RackCDU D2C to liquid cool NVIDIA's most advanced GPU's in an HPC installation. Data center product orders received are recognized as revenue when the product is shipped, typically eight to twelve weeks after the order is received.

Asetek generated $0.1 million of revenue in the second 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 $2.4 million since contract inception in 2015.

Progress on Asetek's three-year contract with the U.S. Department of Defense (DoD) continued in the second quarter, generating revenue of $0.2 million, principally from installation activities at an unnamed data center site. During the quarter, the Company executed an amendment with the DoD to increase the value of this contract by $1.2 million to a total of $3.7 million. This project is expected to be completed in early 2018.

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 June 2017 Top500 and Green500.

Fujitsu is using Asetek's liquid cooling to remove heat from processors and other high power components in its PRIMERGY servers 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 systems are ranked in the Top500.

Penguin Computing 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.

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.

Asetek has increased staffing and manufacturing capacity to support the planned growth of the data center business. Beginning July 1, 2017, Asetek has expanded usage of its 4,700 square meter operating facility in Denmark resulting in the addition of 2,200 square meters of space that was previously subleased to a tenant. The majority of this additional space will be utilized for data center manufacturing & development operations. The additional operational expenditure associated with the extra space is approximately $0.2 million per year.

The Company expects significant revenue growth in the data center segment in 2017 compared with 2016. 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"). In October 2015, CMI and Cooler Master 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, reversing the injunction solely against affiliated company Cooler Master Co. Ltd. of China ("Cooler Master") based on the current record, and remanding to the district court for further investigation regarding whether Cooler Master should also be enjoined along with CMI. Those proceedings regarding the scope of the injunction are underway, including Asetek's further depositions of Cooler Master and CMI USA. In the second quarter of 2017, Asetek received $0.7 million related to the District Court ruling, including interest and an additional royalty on post-verdict sales.

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. 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. The parties are in the process of disclosing their positions on validity and infringement. No trial date has been set.

Corporate Matters

The Company's annual general meeting was held on April 25, 2017, where the following matters occurred or were reported:

- The Annual Report 2016, as proposed by the Board of Directors, was approved as published.
- A cash dividend of NOK1.00 per share was approved.
- With the one exception of Peter Gross, all existing members of the Board of Directors made themselves available for re-election. The remaining Board of Directors, consisting of Samuel Szteinbaum, Chris Christopher, Knut Øversjøen, Jim McDonnell and Jorgen Smidt, were re-elected.
- All Nomination Committee members were re-elected.
- The Board of Directors was authorized to acquire the Company's own shares.
- PricewaterhouseCoopers, State Authorized Public Accountants, were re-elected as auditors.

In April 2017, the Company granted a total of 509,687 warrants to management and Board members. Each warrant has an exercise price of NOK 76.25 (USD $8.91) per share and becomes exercisable gradually over a period of one or four years.

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 half of 2017, one customer accounted for 43% 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, and has generated increasing rates of revenue growth in 2017 from two other large customers.

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 June 30, 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

Condensed Interim Financial Statements

Consolidated Statement of Comprehensive Income

Figures in USD (000's)	Q2 2017	Q2 2016	1H 2017	1H 2016	2016
	Unaudited	*Unaudited*	*Unaudited*	*Unaudited*	
Revenue	$ 11,147	$ 8,356	$ 22,618	$ 18,760	$ 50,921
Cost of sales	7,243	5,180	14,299	11,522	31,171
Gross profit	3,904	3,176	8,319	7,238	19,750
Research and development	1,007	849	1,890	1,556	3,428
Selling, general and administrative	3,578	2,804	6,831	5,539	11,653
Other income	(651)	-	(651)	-	-
Total operating expenses	3,934	3,653	8,070	7,095	15,081
Operating income	(30)	(477)	249	143	4,669
Foreign exchange (loss) gain	(562)	118	(672)	(84)	330
Finance costs	(3)	(9)	(12)	(23)	(8)
Total financial income (expenses)	(565)	109	(684)	(107)	322
Income before tax	(595)	(368)	(435)	36	4,991
Income tax (expense) benefit	(30)	(19)	(39)	(32)	4,646
Income for the period	(625)	(387)	(474)	4	9,637
Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:					
Foreign currency translation adjustments	733	(149)	727	100	(455)
Total comprehensive income	$ 108	$ (536)	$ 253	$ 104	$ 9,182
Income per share (in USD):					
Basic	$ (0.02)	$ (0.02)	$ (0.02)	$ 0.00	$ 0.39
Diluted	$ (0.02)	$ (0.02)	$ (0.02)	$ 0.00	$ 0.38

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

Consolidated Balance Sheet

Figures in USD (000's)	30 June 2017	31 Dec 2016
ASSETS	*Unaudited*	
Non-current assets		
Intangible assets	$ 2,290	$ 1,871
Property and equipment	2,503	1,684
Deferred income tax assets	4,988	4,874
Other assets	708	642
Total non-current assets	10,489	9,071
Current assets		
Inventory	1,450	1,158
Trade receivables and other	9,694	13,325
Cash and cash equivalents	16,254	17,610
Total current assets	27,398	32,093
Total assets	$ 37,887	$ 41,164
EQUITY AND LIABILITIES		
Equity		
Share capital	$ 418	$ 417
Retained earnings	25,752	28,130
Translation and other reserves	473	(257)
Total equity	26,643	28,290
Non-current liabilities		
Long-term debt	350	264
Total non-current liabilities	350	264
Current liabilities		
Short-term debt	743	524
Accrued liabilities	2,526	1,305
Accrued compensation & employee benefits	1,729	1,413
Trade payables	5,896	9,368
Total current liabilities	10,894	12,610
Total liabilities	11,244	12,874
Total equity and liabilities	$ 37,887	$ 41,164

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

Consolidated 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 - six months ended June 30, 2017						
Income for the period	-	-	-	-	(474)	(474)
Foreign currency translation adjustments	-	-	727	-	-	727
Total comprehensive income - six months ended June 30, 2017	-	-	727	-	(474)	253
Transactions with owners - six months ended June 30, 2017						
Shares issued	1	-	-	3	440	444
Share based payment expense	-	-	-	-	563	563
Dividends	-	-	-	-	(2,907)	(2,907)
Transactions with owners - six months ended June 30, 2017	1	-	-	3	(1,904)	(1,900)
Equity at June 30, 2017	$ 418	$ -	$ 479	$ (6)	$ 25,752	$ 26,643

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 - six months ended June 30, 2016						
Loss for the period	-	-	-	-	4	4
Foreign currency translation adjustments	-	-	100	-	-	100
Total comprehensive income - six months ended June 30, 2016	-	-	100	-	4	104
Transactions with owners - six months ended June 30, 2016						
Shares issued	-	21	-	-	-	21
Share based payment expense	-	-	-	-	125	125
Transactions with owners - six months ended June 30, 2016	-	21	-	-	125	146
Equity at June 30, 2016	$ 416	$ 76,686	$ 307	$ (9)	$ (58,504)	$ 18,896

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

Consolidated Cash Flow Statement

Figures in USD (000's)	1H 2017	1H 2016	2016
	Unaudited	*Unaudited*	
Cash flows from operating activities			
Income for the period	$ (474)	$ 4	$ 9,637
Depreciation and amortization	1,019	1,315	2,450
Finance costs (income)	12	23	8
Income tax expense (benefit)	39	32	(4,646)
Impairment of intangible assets	-	2	28
Cash receipt (payment) for income tax	(33)	(32)	(40)
Share based payments expense	563	125	328
Changes in trade receivables, inventories, other assets	4,155	3,429	(3,895)
Changes in trade payables and accrued liabilities	(3,193)	(1,076)	3,936
Net cash provided by (used in) operating activities	2,088	3,822	7,806
Cash flows from investing activities			
Additions to intangible assets	(1,065)	(1,004)	(1,835)
Purchase of property and equipment	(862)	(380)	(1,077)
Net cash used in investing activities	(1,927)	(1,384)	(2,912)
Cash flows from financing activities			
Funds drawn (paid) against line of credit	147	5	142
Proceeds from issuance of share capital	444	21	133
Payment of dividends	(2,451)	-	-
Principal and interest payments on finance leases	(74)	(44)	(100)
Net cash provided by (used in) financing activities	(1,934)	(18)	175
Effect of exchange rate changes on cash and cash equivalents	417	97	(519)
Net changes in cash and cash equivalents	(1,356)	2,517	4,550
Cash and cash equivalents at beginning of period	17,610	13,060	13,060
Cash and cash equivalents at end of period	$ 16,254	$ 15,577	$ 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, China and Taiwan. The Company's shares trade on the Oslo Stock Exchange under the symbol 'ASETEK'.

These condensed consolidated financial statements for the quarter ended June 30, 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 cash 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 in April 2017.

In April 2017, the Company granted a total of 509,687 warrants to management and board members. Each warrant has an exercise price of NOK 76.25 (USD $8.91) per share and becomes exercisable gradually over a period of one or four years. Using the Black-Scholes pricing model, the estimated fair value of these warrants granted is approximately $2.2 million.

At June 30, 2017, there were 25.2 million common shares outstanding and 0.4 million shares in treasury. Treasury shares may be used to fulfill a portion of share options and warrants outstanding which total approximately 2.3 million. Share based payment expense associated with total warrants and options outstanding was $0.6 million and $0.1 million in the six months ended June 30, 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 half of 2017, the Company capitalized approximately $1.1 million of development costs and recorded amortization of approximately $0.6 million (capitalized costs of $1.0 million and amortization of $1.0 million in first half of 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.

Second Quarter

	Q2 2017	Q2 2016
Income attributable to equity holders of the Company (USD 000's)	$ (625)	$ (387)
Weighted average number of common shares outstanding (000's)	25,126	24,840
Basic income per share	$ (0.02)	$ (0.02)
Weighted average number of common shares oustanding (000's)	25,126	24,840
Instruments with potentially dilutive effect:		
Warrants and options	-	-
Weighted average number of common shares oustanding, diluted	25,126	24,840
Diluted income per share	$ (0.02)	$ (0.02)

First Half

	1H 2017	1H 2016
Income attributable to equity holders of the Company (USD 000's)	$ (474)	$ 4
Weighted average number of common shares outstanding (000's)	25,039	24,834
Basic loss per share	$ (0.02)	$ 0.00
Weighted average number of common shares oustanding	25,039	24,834
Instruments with potentially dilutive effect:		
Warrants and options	-	496
Weighted average number of common shares oustanding, diluted	25,039	25,330
Diluted income (loss) per share	$ (0.02)	$ 0.00

Potentially dilutive instruments are not included in the calculation of diluted loss per share for the second quarter 2017, first half 2017, or first half 2016 because the effect of including them would be anti-dilutive.

5. 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 six months ended June 30, 2017 and 2016, Asetek had sales of inventory to Corsair of $9.8 million and $9.7 million, respectively. As of June 30, 2017 and 2016, Asetek had outstanding trade receivables from Corsair of $2.4 million and $2.9 million, respectively.

The Company's CEO serves as Chairman of the Board for a vendor that supplies services to the Company. In the six months ended June 30, 2017 and 2016, the Company purchased services totaling approximately $189,000 from this vendor ($144,000 in 2016).

6. New accounting standard for income taxes

In June 2017, the International Accounting Standards Board (IASB) issued IFRS interpretation IFRIC 23 — Uncertainty over Income Tax Treatments. This standard clarifies how to apply the recognition and measurement requirements of International Accounting Standard 12, *Income Taxes,* when there is uncertainty in income tax treatments. According to IFRIC 23, an entity must determine the probability of the relevant tax authority accepting each tax treatment used in their income tax filing, including considering the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The effective date for adoption of IFRIC 23 is annual periods beginning on or after January 1, 2019, though early adoption is permitted. The Company is currently evaluating the effect that IFRIC 23 will have on the consolidated financial statements.

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 $2.29 million on the Company's balance sheet at June 30, 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.

8. Segment reporting

Unaudited breakdown of the income statement

Operations - Second Quarter

Figures in USD (000's)	Desktop		Data center	
	Q2 2017	Q2 2016	Q2 2017	Q2 2016
Revenues	10,147	7,585	1,000	771
Cost of sales	6,393	4,682	850	498
Gross Profit	3,754	2,903	150	273
Gross Margin	37.0%	38.3%	15.0%	35.4%
Total operating expenses	960	735	1,788	1,524
EBITDA adjusted	2,794	2,168	(1,638)	(1,251)
EBITDA margin	27.5%	28.6%	N/A	N/A

Operations - First Half

Figures in USD (000's)	Desktop		Data center	
	1H 2017	1H 2016	1H 2017	1H 2016
Revenues	21,201	16,999	1,417	1,761
Cost of sales	13,185	10,447	1,114	1,075
Gross Profit	8,016	6,552	303	686
Gross Margin	37.8%	38.5%	21.4%	39.0%
Total operating expenses	1,838	1,575	3,741	2,889
EBITDA, adjusted	6,178	4,977	(3,438)	(2,203)
EBITDA margin	29.1%	29.3%	N/A	N/A

Headquarters Costs

Figures in USD (000's)	Q2 2017	Q2 2016	1H 2017	1H 2016
Litigation costs	448	292	997	661
Litigation award received	(651)	-	(651)	-
Other headquarters costs	267	282	563	530
Total headquarters costs	64	574	909	1,191

Reconciliation to Operating Income

Figures in USD (000's)	Q2 2017	Q2 2016	1H 2017	1H 2016
EBITDA, adjusted - Desktop	2,794	2,168	6,178	4,977
EBITDA, adjusted - Data center	(1,638)	(1,251)	(3,438)	(2,203)
Headquarters costs	(64)	(574)	(909)	(1,191)
Share based compensation	(491)	(700)	(563)	(125)
Depreciation and amortization	(631)	(120)	(1,019)	(1,315)
Operating income	(30)	(477)	249	143

Statement by the Board of Directors and Management

The Board of Directors and the Management have considered and adopted the Half Year Report of Asetek A/S for the period 1 January – 30 June 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 consolidated 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, 15 August 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

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