Asetek A/S

CVR No. 34880522

Quarterly Report

Three Months Ended December 31, 2017

Published February 28, 2018

Highlights

- **Q4 revenue of $17.9 million, on par with Q4 2016**
- **Full-year revenue increased 14% to a record $58.2 million for 2017**
- **Q4 desktop revenue of $16.4 million reflected high-end gaming cooling demand**
- **Delivering on data center strategy with three new OEM partners in Q4**
- **Announcements regarding major data center partner anticipated in Q1 2018**
- **Desktop revenue expected to grow in the range of 5% to 15% in 2018, data center in the range of 50% to 75%**

Key figures

Figures in USD (000's)	Q4 2017	Q4 2016	2017	2016
	Unaudited	*Unaudited*		
Total Company:				
Revenue	17,924	17,912	58,194	50,921
Gross profit	6,061	6,668	20,969	19,750
Gross margin	*33.8%*	*37.2%*	*36.0%*	*38.8%*
Operating profit	785	2,483	2,757	4,669
Reconciliation from IFRS to EBITDA adjusted:				
Operating profit	785	2,483	2,757	4,669
Add: Depreciation and amortization	699	541	2,430	2,450
Add: Share based compensation	481	88	1,597	328
EBITDA adjusted (unaudited)	1,965	3,112	6,784	7,447
By Segment (Unaudited):				
Desktop:				
Desktop revenue	*16,412*	*16,322*	*53,227*	*45,752*
Desktop gross margin	*35.2%*	*39.5%*	*37.1%*	*39.9%*
Desktop EBITDA adjusted	*4,732*	*5,646*	*15,991*	*15,142*
Datacenter:				
Datacenter revenue	*1,512*	*1,590*	*4,967*	*5,169*
Datacenter gross margin	*18.3%*	*13.5%*	*24.2%*	*28.6%*
Datacenter EBITDA adjusted	*(2,264)*	*(1,874)*	*(7,273)*	*(5,079)*
Headquarters:				
*Headquarters costs**	*(503)*	*(660)*	*(1,934)*	*(2,616)*

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

Highlights

Financial results

- Asetek reported revenue of $17.9 million in the fourth quarter of 2017, little changed from the fourth quarter of 2016. Revenue for the full year 2017 was $58.2 million, an increase of 14% from 2016. The increases from the prior year for both periods reflect higher desktop revenue driven by shipments in the DIY market.
- Gross margin was 34% for the fourth quarter and 36% for the full year 2017 (37% and 39% in the comparable periods of 2016). The decrease in the fourth quarter and full year 2017 was principally due to higher product costs and weakening of the U.S. dollar.
- Group pre-tax income totaled $0.6 million and EBITDA adjusted was $2.0 million in the fourth quarter of 2017, compared with pre-tax income of $2.9 million and EBITDA adjusted of $3.1 million in the fourth quarter of 2016. Pre-tax income for the full year 2017 was $1.5 million and EBITDA adjusted was $6.8 million, compared with 2016 pre-tax income of $5.0 million and EBITDA adjusted of $7.4 million.
- Fourth-quarter and full year 2017 results reflected increased costs from organizational growth and share based compensation. Full year results also reflected approximately $1.2 million of foreign exchange loss, mainly related to a weakening of the U.S. dollar vs. the Danish krone. In the quarter, Asetek recognized $3.0 million of net tax benefit associated with net operating losses expected to offset future tax liability ($4.6 million in 2016).

Operations

- In February 2017, Asetek announced the signing of a product development agreement with a major player in the data center market. In November 2017, Asetek's partner revised the timing of the expected product launch to March 2018. As such, the Company expects to make further announcements regarding this topic in the first quarter of 2018.
- During the quarter, Asetek announced three new data center OEM partners: NEC Corporation has deployed RackCDU Direct-to-Chip™ liquid cooling at a new HPC installation in Japan. E4 Computer Engineering has utilized RackCDU in the D.A.V.I.D.E. supercomputer in Italy. Acer Inc. has incorporated Asetek liquid cooling into its Altos dual Skylake high performance servers.
- The Company announced that Osaka University's Cybermedia Center will incorporate RackCDU Direct-to-Chip liquid cooling for a new HPC installation in Japan.
- Asetek received an order from OEM partner Fujitsu for RackCDU Direct-to-Chip for the AI Bridging Cloud Infrastructure at National Institute of Advanced Industrial Science and Technology. This cluster is expected to become the fastest supercomputer in Japan.

Financial results by segment

- Desktop revenue was $16.4 million in fourth quarter, on par with revenue in Q4 2016. Full-year revenue rose 16% to a record $53.2 million. Operating profit from the desktop segment was $4.7 million for the fourth quarter and $16.0 million for the year, both reflecting improvement over the respective periods of 2016 on increased DIY product sales.
- Data center revenue was $1.5 million in the fourth quarter, compared with $1.6 million in Q4 2016. Revenue in 2017 totaled $5.0 million, compared with $5.2 million in 2016. Operating loss from the data center segment was $2.3 million for the fourth quarter and $7.3 million for 2017. This compares with losses of $1.9 million and $5.1 million in 2016, respectively.
- In anticipation of future demand for data center solutions, Asetek has added personnel in the past year, most of whom are focused on the data center business. Variability of results is expected while the Company secures new OEM partners and growth of end-user adoption through existing OEM partners.

Outlook

- Asetek expects desktop revenue to grow in the range of 5% to 15% in 2018 and data center revenue to grow in the range of 50% to 75%, when compared with 2017. Overall, the Company expects minimal growth in spending and continued investments in the data center business. Management expects the Company will report profitability for 2018 that exceeds 2017 achievement.

Financial review

The figures below relate to the consolidated accounts for the fourth quarter and full year 2017, which comprise activities within the two segments Desktop and Data Center.

Income Statement (Consolidated)

Asetek reported total revenue of $17.9 million in the fourth quarter of 2017, little changed from the same period of 2016 ($17.9 million). Total revenue in the full year 2017 was $58.2 million, an increase of 14% over 2016 ($50.9 million). The increase in the full year compared with 2016 reflects mainly growth in shipments of desktop DIY products.

Desktop sales unit volumes for the fourth quarter of 2017 were 304,000, a 10% decrease from the same period of last year (337,000). Unit shipments for the full year 2017 increased 7% compared with 2016. The decrease in unit shipments in the fourth quarter was due to unusually high volumes shipped in the fourth quarter 2016. The increase in unit shipments for the full year 2017 reflects strong demand in the DIY market. Average selling prices (ASPs) per unit in the fourth quarter and full year increased from the respective periods of 2016 due to variability in the mix of products shipped.

Gross margin was 33.8% for the fourth quarter of 2017, a decrease from 37.2% in the same period last year. Gross margin for the full year 2017 decreased to 36.0% from 38.8% in 2016. The lower gross margin for both periods reflects increased product costs and the weakening of the US dollar.

Total operating expense increased in the fourth quarter and full year when compared with the same periods of 2016. To support growth, the Company has added personnel since mid-2016 which increased compensation costs in the fourth quarter and full year 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 $1.6 million in the fourth quarter and full year 2017 ($0.1 million and $0.3 million in the same periods of 2016, respectively).

Finance expenses included net foreign exchange losses of $0.2 million and $1.2 million in the fourth quarter and full year 2017 (net $0.4 million gain and $0.3 million gain in the respective periods of 2016). The full year foreign exchange loss was mainly a function of a 12% weakening of the U.S. dollar against the Danish krone for the period. The effect was offset by a positive currency translation adjustment of $1.3 million included in equity for the full year 2017.

Asetek reported pre-tax income of $0.6 million and $1.5 million in the fourth quarter and full year 2017, compared with pre-tax income of $2.9 million and $5.0 million in the respective periods of 2016.

In the fourth quarter and full year 2017, the Company recognized net tax benefit of $3.0 million associated with net operating losses expected to be utilized as an offset to tax liability in future years. ($4.6 million recognized in fourth quarter and full year 2016).

Balance Sheet (Consolidated)

Asetek's total assets at December 31, 2017 amounted to $49.2 million, an $8.0 million increase from December 31, 2016. The increase in assets was mainly related to investment in equipment and capitalized product costs. The Company's deferred tax assets also grew in value. The growth in long-term assets was partly offset by the distribution of a NOK1.00 per share dividend in 2017.

Total liabilities increased $2.9 million from December 31, 2016. Accrued liabilities rose $1.1 million principally due to new development projects. Trade payables increased $0.8 million due to increased operating activities and cost of goods. Short-term debt grew by $0.5 million due to lease equipment additions and draw down on the Company's line of credit. The increases were partially offset by reduced accrued compensation and benefits. Working capital (current assets minus current liabilities) decreased by $0.5 million during the year to $19.0 million at December 31, 2017, principally due to the dividend payment. Total cash and cash equivalents was $18.4 million at December 31, 2017.

Cash Flow (Consolidated)

Net cash provided by operating activities was $6.1 million for the full year 2017, compared with $7.8 million provided by operating activities in 2016.

Cash used by investing activities was $4.3 million for the full year 2017, reflecting additions to capitalized development, manufacturing equipment and software. This compares to $2.9 million used in 2016, and reflects the growth in the business.

Cash used by financing activities was $2.1 million in the full year 2017, compared with $0.2 million provided in 2016. Cash used in 2017 was mainly related to the payment of dividend of NOK1.00 per share. This was partially offset by cash flows received from the exercise of warrants and options by employees.

Net increase in cash and cash equivalents was $0.8 million for the full year 2017, compared with an increase of $4.6 million for the same period of 2016.

Dividends

After consideration with respect to the results of the year ended December 31, 2017, the Board of Directors concluded that a dividend will not be distributed.

The Board is considering implementation of a form of share buy-back program.

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 - Fourth Quarter

Figures in USD (000's)	Desktop		Data center	
	Q4 2017	Q4 2016	Q4 2017	Q4 2016
Revenues	16,412	16,322	1,512	1,590
Cost of sales	10,627	9,871	1,236	1,376
Gross Profit	5,785	6,451	276	214
Gross Margin	35.2%	39.5%	18.3%	13.5%
Total operating expenses	1,053	805	2,540	2,088
EBITDA adjusted	4,732	5,646	(2,264)	(1,874)
EBITDA margin	28.8%	34.6%	N/A	N/A

Operations - Full Year

Figures in USD (000's)	Desktop		Data center	
	2017	2016	2017	2016
Revenues	53,227	45,752	4,967	5,169
Cost of sales	33,459	27,482	3,766	3,689
Gross Profit	19,768	18,270	1,201	1,480
Gross Margin	37.1%	39.9%	24.2%	28.6%
Total operating expenses	3,777	3,128	8,474	6,559
EBITDA, adjusted	15,991	15,142	(7,273)	(5,079)
EBITDA margin	30.0%	33.1%	N/A	N/A

-

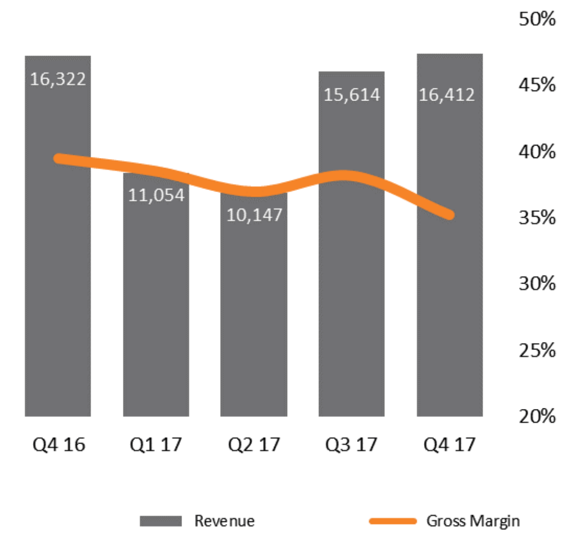
Headquarters Costs

Figures in USD (000's)	Q4 2017	Q4 2016	2017	2016
Litigation costs	236	305	1,833	1,409
Litigation settlements	84	-	(913)	-
Other headquarters costs	183	355	1,014	1,207
Total headquarters costs	503	660	1,934	2,616

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

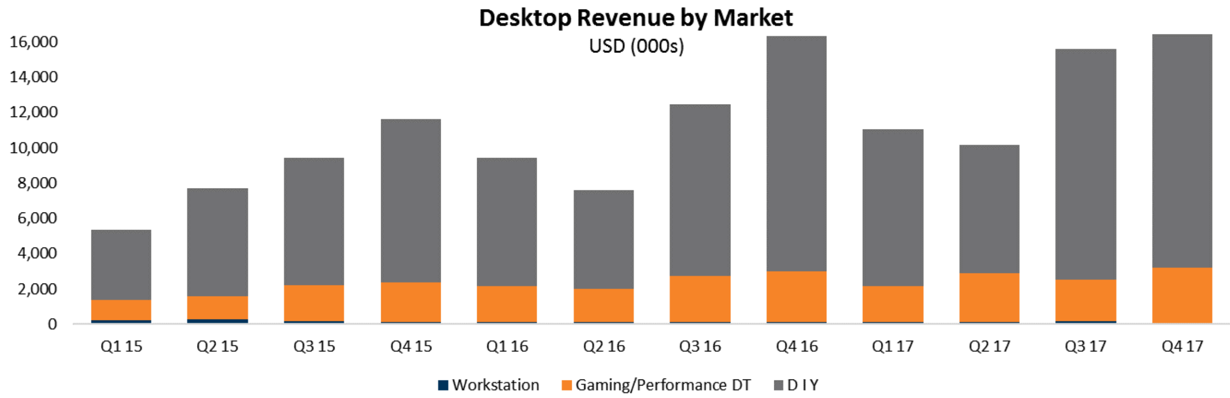
Desktop financials

Desktop revenue and margin development
USD (000's)



Asetek reported record desktop revenue of $16.4 million in the fourth quarter of 2017, on par with the fourth quarter of 2016. Revenue growth during 2017 resulted from significant demand in the do-it-yourself (DIY) market. For the fourth quarter and full year 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 decreased in the fourth quarter of 2017 compared with the third quarter of 2017 due to increased product costs and the continued weakening of the US dollar. Gross margins have historically reflected variations in the mix of products shipped during a specific quarter.



Desktop market update and outlook

Four new desktop products began shipping in the DIY market in the fourth quarter. During 2017, the Company shipped over one million desktop units comprising more than 80 different desktop liquid cooler SKU's.

Asetek expects first-quarter 2018 revenue in the DIY market and the Gaming/Performance Desktop PC market to increase from the level achieved in the first quarter of 2017.

In 2018, the Company expects annual revenue in the desktop segment to grow in the range of 5% to 15% compared with 2017. Revenue variability by quarter is expected to continue. The resource consumption, as expressed in overhead expenses, is expected to remain relatively stable in 2018 when comparing with 2017.

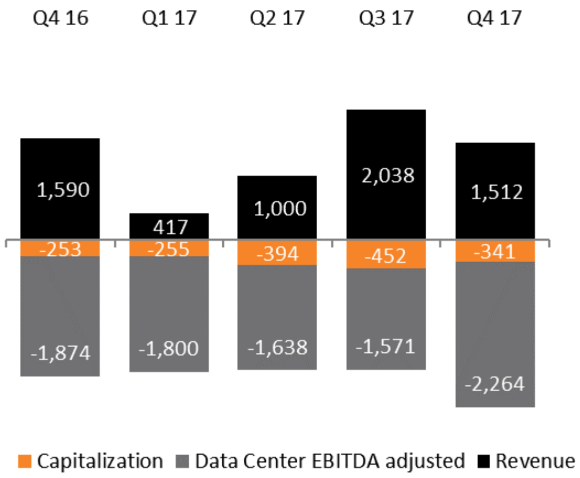
Asetek is taking proactive measures to lessen the effects of recent weakening of the U.S. dollar and increasing manufacturing cost price pressure in China. As such, the Company expects gross margin in the first quarter of 2018 to improve compared with the gross margin in the fourth quarter of 2017.

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. Asetek expects continued growth from this segment in the future.

Data center financials

Financial development

USD (000's)



Asetek's data center revenue was $1.5 million in the fourth quarter of 2017, compared with $1.6 million in the same period of 2016. The decrease in the fourth quarter 2017 compared with the same period of 2016 reflected reduced shipments on government contracts. Revenue variability is expected to continue while the Company secures and develops new OEM partners and grows end-user adoption through existing OEM partners.

Data center gross margin increased in the fourth quarter 2017 compared to the same period of 2016 due to a high proportion of third-party deliverables on government contracts in the year-earlier period. These shipments resulted in lower gross margins for Asetek. Gross margin for the full year 2017 declined due to increased warranty costs related to a component failure in the second quarter of 2017. The variability in the mix of deliverables on government contracts relative to the volume of product shipments to OEMs is expected to continue into 2018.

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 demand for high density combined with extreme high performance is accelerating the adoption of Asetek's liquid cooling solutions for data centers. Increasingly, Asetek liquid cooling is being deployed because air cooling is no longer a viable option for data centers.

In the fourth quarter, the Company announced the addition of three new data center OEM partners: NEC Corporation has deployed RackCDU Direct-to-Chip liquid cooling at a new HPC installation in Japan. E4 Computer Engineering has utilized RackCDU Direct-to-Chip liquid cooling in the D.A.V.I.D.E. supercomputer in Italy. Acer Inc. has incorporated Asetek liquid cooling into its Altos dual Skylake high performance servers.

In February 2017, the Company announced the signing of a development agreement with an undisclosed major player in the data center market. In November 2017, Asetek announced that the partner had revised its timing of the anticipated product launch to March 2018. As such, Asetek expects to make further announcements related to this topic in the first quarter of 2018.

Through new orders received from data center OEM partners in 2017, the Company is increasing its end-user adoption with technology deployed to new HPC installations. In the second half of 2017, Asetek received multiple orders from Penguin Computing for RackCDU D2C™ (Direct-to-Chip) liquid cooling for three HPC sites at U.S. Department of Energy National Laboratories.

Progress on Asetek's three-year contract with the U.S. Department of Defense (DoD) continued in the fourth quarter, generating revenue of $0.5 million, principally from installation activities at an unnamed data center site. This project is expected to be completed in mid-2018.

Today, Asetek has major liquid cooling installations at multiple HPC sites in North America, Asia and Europe and is liquid cooling eight of the world's most powerful and efficient supercomputers listed in the November 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, one of the most powerful supercomputers in Japan, as well as QPACE3 owned by the University of Regensburg Germany. Both systems are ranked in the Top500 and Green500.

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. Ten of these CTS-1 systems incorporate Asetek's liquid cooling.

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. In the second half of 2017, Asetek expanded usage of its 4,700 square meter operating facility in Denmark, adding 2,200 square meters of space that was previously subleased to a tenant. Most of this additional space is being utilized for data center manufacturing and development operations. The additional operational expenditure associated with the extra space is approximately $0.2 million per year.

The Company expects growth of 50% to 75% in data center revenue in 2018 compared with 2017. The overhead expenses are expected to increase slightly compared to 2017. Future revenue and operating results are however expected to fluctuate as partnerships with 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 April 2016, Asetek initiated patent infringement proceedings against Cooler Master and Coolergiant before the District Court The Hague, pertaining to commerce in The Netherlands. In the case against Cooler Master, by decision on September 20, 2017, the Court dismissed Asetek's claim. Asetek will file an appeal in the first quarter 2018. In the case against Coolergiant, the court is assessing the validity of the Asetek patent and will proceed in April 2018.

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. In December 2016 the court granted Asetek's motion to transfer the case to the Northern District of California, which issued its claim construction order in January 2018. No trial date has been set.

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 2017, two customers accounted for 39% and 20% of total revenue. In the event of a decline or loss of either of these significant customers, replacement of the 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 other 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 December 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 2017, available from the Company's website: www.asetek.com

Condensed Interim Financial Statements

Consolidated Statement of Comprehensive Income

Figures in USD (000's)	Q4 2017	Q4 2016	2017	2016
	Unaudited	*Unaudited*		
Revenue	$ 17,924	$ 17,912	$ 58,194	$ 50,921
Cost of sales	11,863	11,244	37,225	31,171
Gross profit	6,061	6,668	20,969	19,750
Research and development	1,231	1,038	4,220	3,428
Selling, general and administrative	3,961	3,147	14,905	11,653
Other expense (income)	84	-	(913)	-
Total operating expenses	5,276	4,185	18,212	15,081
Operating income	785	2,483	2,757	4,669
Foreign exchange (loss) gain	(248)	425	(1,239)	330
Finance costs	15	21	(19)	(8)
Total financial income (expenses)	(233)	446	(1,258)	322
Income before tax	552	2,929	1,499	4,991
Income tax (expense) benefit	3,021	4,649	2,976	4,646
Income for the period	3,573	7,578	4,475	9,637
Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:				
Foreign currency translation adjustments	36	(575)	1,253	(455)
Total comprehensive income	$ 3,609	$ 7,003	$ 5,728	$ 9,182
Income per share (in USD):				
Basic	$ 0.14	$ 0.30	$ 0.18	$ 0.39
Diluted	$ 0.13	$ 0.29	$ 0.17	$ 0.38

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

Consolidated Balance Sheet

Figures in USD (000's)		31 Dec 2017		31 Dec 2016
ASSETS				
Non-current assets				
Intangible assets	$	2,754	$	1,871
Property and equipment		3,856		1,684
Deferred income tax assets		7,778		4,874
Other assets		794		642
Total non-current assets		15,182		9,071
Current assets				
Inventory		2,316		1,158
Trade receivables and other		13,280		13,325
Cash and cash equivalents		18,398		17,610
Total current assets		33,994		32,093
Total assets	$	49,176	$	41,164
EQUITY AND LIABILITIES				
Equity				
Share capital	$	419	$	417
Retained earnings		31,976		28,130
Translation and other reserves		999		(257)
Total equity		33,394		28,290
Non-current liabilities				
Long-term debt		816		264
Total non-current liabilities		816		264
Current liabilities				
Short-term debt		1,051		524
Accrued liabilities		2,432		1,305
Accrued compensation & employee benefits		1,335		1,413
Trade payables		10,148		9,368
Total current liabilities		14,966		12,610
Total liabilities		15,782		12,874
Total equity and liabilities	$	49,176	$	41,164

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

Consolidated Cash Flow Statement

Figures in USD (000's)	2017	2016
Cash flows from operating activities		
Income for the period	$ 4,475	$ 9,637
Depreciation and amortization	2,430	2,450
Finance costs	19	8
Income tax expense (benefit)	(2,976)	(4,646)
Impairment of intangible assets	5	28
Cash receipt (payment) for income tax	(43)	(40)
Share based payments expense	1,597	328
Changes in trade receivables, inventories, other assets	693	(3,895)
Changes in trade payables and accrued liabilities	(75)	3,936
Net cash provided by (used in) operating activities	6,125	7,806
Cash flows from investing activities		
Additions to intangible assets	(2,426)	(1,835)
Purchase of property and equipment	(1,872)	(1,077)
Net cash used in investing activities	(4,298)	(2,912)
Cash flows from financing activities		
Funds drawn against line of credit	295	142
Proceeds from issuance of share capital	686	133
Payment of dividends	(2,910)	-
Principal and interest payments on finance leases	(199)	(100)
Net cash provided by (used in) financing activities	(2,128)	175
Effect of exchange rate changes on cash and cash equivalents	1,089	(519)
Net changes in cash and cash equivalents	788	4,550
Cash and cash equivalents at beginning of period	17,610	13,060
Cash and cash equivalents at end of period	$ 18,398	$ 17,610
Supplemental disclosures -		
Property and equipment acquired under finance leases	$ 868	$ 140

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

Consolidated 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, 2017	$ 417	$ -	$ (248)	$ (9)	$ 28,130	$ 28,290
Total comprehensive income - year ended December 31, 2017						
Income for the period	-	-	-	-	4,475	4,475
Foreign currency translation adjustments	-	-	1,253	-	-	1,253
Total comprehensive income - year ended December 31, 2017	-	-	1,253	-	4,475	5,728
Transactions with owners - year ended December 31, 2017						
Shares issued	2	-	-	3	684	689
Dividends	-	-	-	-	(2,910)	(2,910)
Share based payment expense	-	-	-	-	1,597	1,597
Transactions with owners - year ended December 31, 2017	2	-	-	3	(629)	(624)
Equity at December 31, 2017	$ 419	$ -	$ 1,005	$ (6)	$ 31,976	$ 33,394

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

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 December 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 2017 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, 2017.

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 July 2017, the Company granted 106,999 warrants to management. Each warrant has an exercise price of NOK 113.00 (USD 13.49) per share and becomes exercisable gradually over a period of four years. 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 the total warrants granted during 2017 is approximately $2.7 million.

At December 31, 2017, there were 25.2 million common shares outstanding and 0.3 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 $1.6 million and $0.3 million in the years ended December 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 2017, the Company capitalized approximately $2.4 million of development costs and recorded amortization of approximately $1.5 million (capitalized costs of $1.8 million and amortization of $1.8 million in 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.

Fourth Quarter

	Q4 2017	Q4 2016
Income attributable to equity holders of the Company (USD 000's)	$ 3,573	$ 7,578
Weighted average number of common shares outstanding (000's)	25,228	24,894
Basic income per share	$ 0.14	$ 0.30
Weighted average number of common shares oustanding (000's)	25,228	24,894
Instruments with potentially dilutive effect:		
Warrants and options	1,360	1,027
Weighted average number of common shares oustanding, diluted	26,588	25,921
Diluted income per share	$ 0.13	$ 0.29

Full Year

	2017	2016
Income attributable to equity holders of the Company (USD 000's)	$ 4,475	$ 9,637
Weighted average number of common shares outstanding (000's)	25,129	24,851
Basic income per share	$ 0.18	$ 0.39
Weighted average number of common shares oustanding	25,129	24,851
Instruments with potentially dilutive effect:		
Warrants and options	1,372	752
Weighted average number of common shares oustanding, diluted	26,501	25,603
Diluted income per share	$ 0.17	$ 0.38

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 year ended December 31, 2017 and 2016, Asetek had sales of inventory to Corsair of $22.7 million and $26.9 million, respectively. As of December 31, 2017 and 2016, Asetek had outstanding trade receivables from Corsair of $4.8 million and $6.0 million, respectively.

The Company's CEO serves as Chairman of the Board for a vendor that supplies information technology services to the Company. In the years ended December 31, 2017 and 2016, the Company purchased services totaling approximately $0.4 million and $0.3 million, respectively, from this vendor.

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 $2.75 million on the Company's balance sheet at December 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.

8. Segment reporting

Unaudited breakdown of the income statement

Operations - Fourth Quarter

Figures in USD (000's)	Desktop		Data center	
	Q4 2017	Q4 2016	Q4 2017	Q4 2016
Revenues	16,412	16,322	1,512	1,590
Cost of sales	10,627	9,871	1,236	1,376
Gross Profit	5,785	6,451	276	214
Gross Margin	35.2%	39.5%	18.3%	13.5%
Total operating expenses	1,053	805	2,540	2,088
EBITDA adjusted	4,732	5,646	(2,264)	(1,874)
EBITDA margin	28.8%	34.6%	N/A	N/A

Operations - Full Year

Figures in USD (000's)	Desktop		Data center	
	2017	2016	2017	2016
Revenues	53,227	45,752	4,967	5,169
Cost of sales	33,459	27,482	3,766	3,689
Gross Profit	19,768	18,270	1,201	1,480
Gross Margin	37.1%	39.9%	24.2%	28.6%
Total operating expenses	3,777	3,128	8,474	6,559
EBITDA, adjusted	15,991	15,142	(7,273)	(5,079)
EBITDA margin	30.0%	33.1%	N/A	N/A

Headquarters Costs

Figures in USD (000's)	Q4 2017	Q4 2016	2017	2016
Litigation costs	236	305	1,833	1,409
Litigation settlements	84	-	(913)	-
Other headquarters costs	183	355	1,014	1,207
Total headquarters costs	503	660	1,934	2,616

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

Reconciliation to Operating Income

Figures in USD (000's)	Q4 2017	Q4 2016	2017	2016
EBITDA, adjusted - Desktop	4,732	5,646	15,991	15,142
EBITDA, adjusted - Data center	(2,264)	(1,874)	(7,273)	(5,079)
Headquarters costs	(503)	(660)	(1,934)	(2,616)
Share based compensation	(481)	(541)	(1,597)	(328)
Depreciation and amortization	(699)	(88)	(2,430)	(2,450)
Operating income	785	2,483	2,757	4,669

Statement by the Board of Directors and Management

The Board of Directors and the Management have considered and adopted the Quarterly Report of Asetek A/S for the period 1 January – 31 December 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 2017.

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, 27 February 2018

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

Contact:

André S. Eriksen, CEO: +45 2125 7076

Peter Dam Madsen, CFO: +45 2080 7200

Company Information:

Asetek A/S
Assensvej 2
DK9220 Aalborg East
Denmark

Phone:	+45 9645 0047
Fax:	+45 9645 0048
Web site:	www.asetek.com
Email:	investor.relations@asetek.com