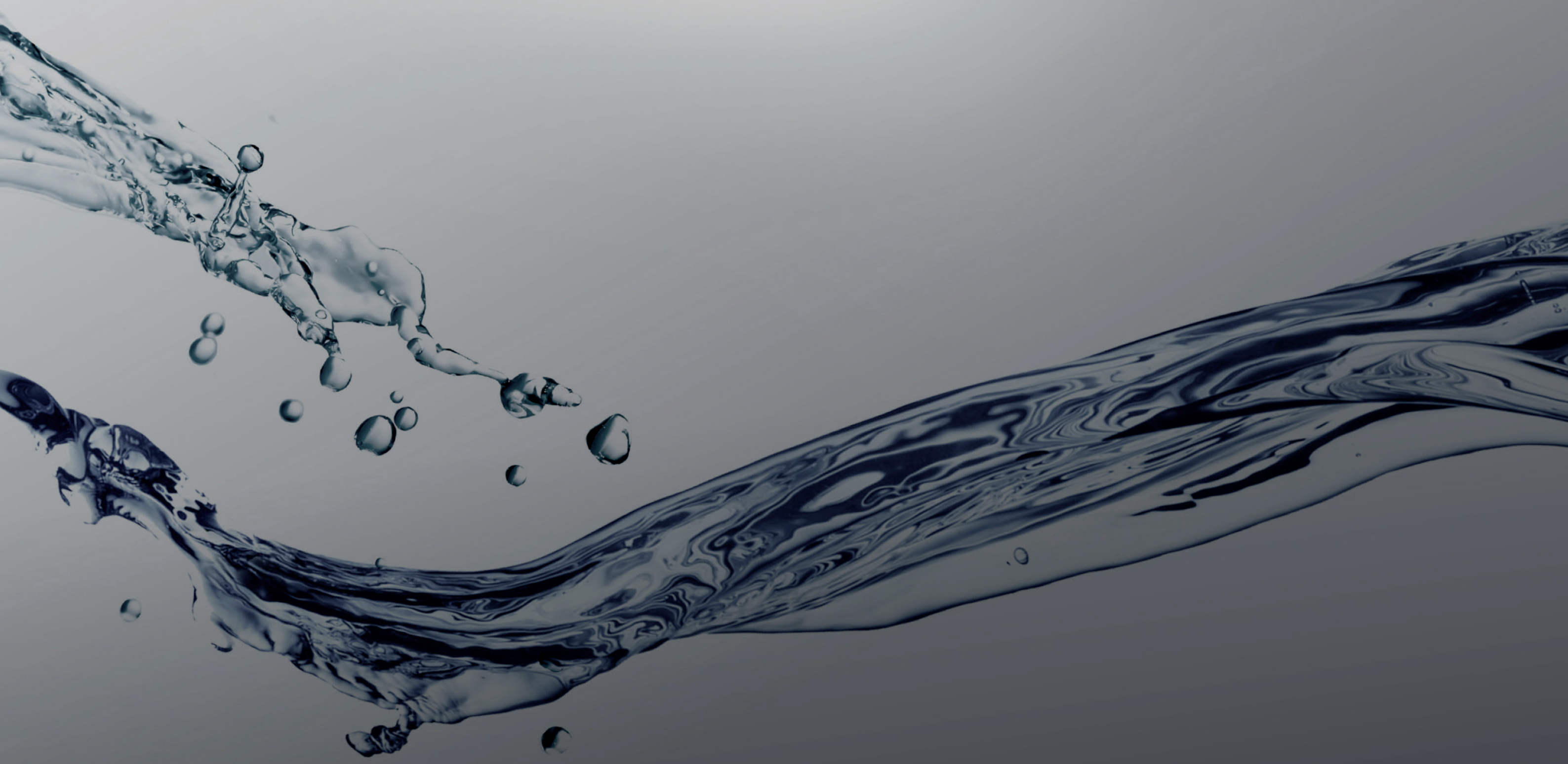
Årsrapporten er godkendt på selskabets ordinære generalforsamling den 25. april 2017

[signeret]

Jens Hyldahl Bjerregaard, dirigent

ASETEK



ANNUAL REPORT 2016

(January 1st - December 31st 2016)

CVR-NR. 34 88 05 22

Assensvej 2, DK-9220
Aalborg East, Denmark

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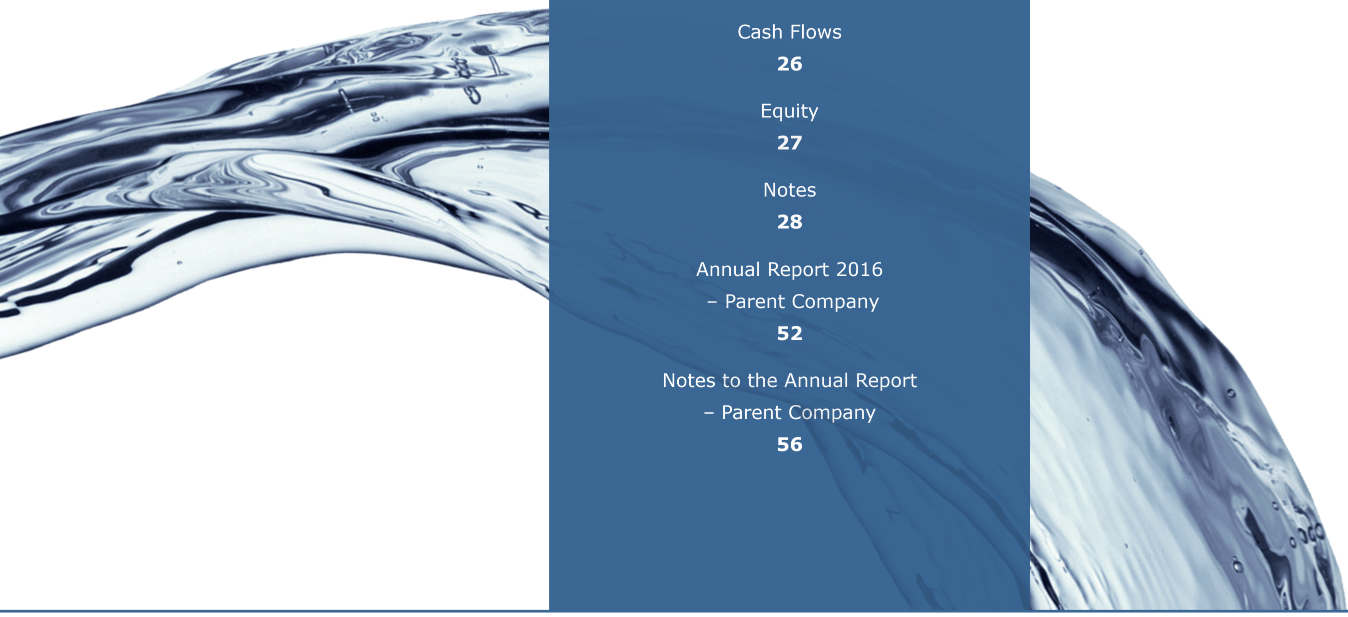
Samuel Szteinbaum | Peter Gross | Jørgen Smidt | Chris J. Christopher | Jim McDonnell | Knut Øversjøen | André Sloth Eriksen | Peter Dam Madsen

TABLE OF CONTENTS



Board of Directors
Samuel Szteinbaum, Chairman
Chris J. Christopher
Jim McDonnell
Jørgen Smidt
Knut Øversjøen
Peter Gross

Nomination Committee
Ib Sønderby
Samuel Szteinbaum
Scott Pagel

Audit Committee
Knut Øversjøen
Chris J. Christopher

Compensation Committee
Samuel Szteinbaum
Jim McDonnell
Jørgen Smidt

Executive Management
André Sloth Eriksen, CEO
Peter Dam Madsen, CFO

Auditor
PwC, State Authorized Public Accountants
Nobelparken, Jens Chr. Skous Vej 1,
DK-8000 Aarhus C
Phone: +45 8932 0000
CVR-nr. 33 77 12 31

SHAREHOLDER INFORMATION

Asetek's shares are listed on Oslo Børs. As of December 31, 2016, a total of 25,421,119 shares are issued, each with a nominal value of DKK 0.1.

The share is classified in the "Information Technology" sector by the stock exchange, and the ticker mark is ASETEK.

The total market capitalization value at the end of 2016 was NOK 1,333m (approximately USD 155m) which was an increase of 190% from the market value at the beginning of 2016.

502,424 shares were held by the Company as per December 31, 2016 as treasury shares, primarily to support an employee stock option program.

Each share provides one vote. The shares are marketable securities and no restrictions have been set for the shares' negotiability. The share register is maintained by DNB Bank ASA – Verdipapirservice, Postboks 1600 Sentrum, 0021 Oslo, Norway.

Ownership

At the end of 2016, Asetek A/S had 754 shareholders, some of whom are nominee accounts covering several individual investors. Members of Asetek A/S's Board of Directors and Executive Board owned or represented a total of 15.0% of the share capital at the end of 2016.

1 January 2016

Asetek shares opened the year 2016 at NOK 18.00.

31 December 2016

At the last day of the year the Asetek shares closed at NOK 53.50, which was an increase of 197% from the beginning of the year. The Oslo Stock Exchange (OSE) Benchmark Index advanced 12.1% in 2016. The OSE Information Technology Index advanced 2.4% in 2016.

According to Asetek's registrations, the following shareholders possessed 5% or above of the share capital as per December 31, 2016:

	Number of Shares	%
Sunstone Technology Ventures, Fund I, Denmark	3,186,341	12.5%

Investor Relations

Asetek aims to provide a high and consistent level of information to its shareholders and other interested parties.

It is Asetek's intention to conduct an active dialogue with shareholders, analysts, the press and the public as a whole. Communication with interested parties takes place via the ongoing publication of notifications, investor presentations and individual meetings.

The website www.asetek.com is the primary source of information for interested parties. It is updated continuously with information about Asetek's activities and strategy. Shareholders, analysts, investors, stockbrokers as well as other interested parties who have questions regarding Asetek are requested to inquire via the email address investor.relations@asetek.com, which is monitored by the CFO.

Dividends. In October 2016, the Board of Directors announced a new dividend policy and intends to propose a cash dividend of NOK 1.00 per share to the Annual General Meeting in 2017. Asetek policy is to distribute a dividend to its shareholders of up to 50% of the previous year's net income (after tax profits). When proposing the annual dividend level, the Board will take into consideration the Company's growth plans, liquidity requirements and necessary financial flexibility. In addition to the new dividend policy, Asetek will continue to invest its capital in the development and marketing of its cooling products.

Reporting Calendar for 2017:

Q1 2017 Report:	April 26, 2017
Annual General Meeting:	April 25, 2017
Q2 2017 Report:	August 16, 2017
Q3 2017 Report:	October 26, 2017

Stock Exchange Notices Issued in 2016

Issue Date	Headline
December 6, 2016	Mandatory Notification of Trade
December 5, 2016	Notification update re: Share Capital Increase
December 1, 2016	Disclosure of Large Shareholdings
November 28, 2016	Share Capital Increase Upon Exercise of Warrants
November 18, 2016	Update to Full Year 2016 Revenue Guidance
November 15, 2016	Financial calendar
November 15, 2016	Asetek Announces Names of Undisclosed OEM Partner and HPC Customer
November 10, 2016	Asetek included in the Oslo Børs Benchmark Index
October 28, 2016	Mandatory Notification of Trade; Share Capital Increase
October 27, 2016	Share Capital Increase Upon Exercise of Warrants
October 27, 2016	Mandatory Notification of Trade: CEO Exercises Warrants and Sells Shares
October 27, 2016	Board of Directors Decides to Adopt Dividend Policy
October 27, 2016	Asetek Q3 2016: Growing Adoption of Liquid Cooling for Desktop PCs and Data Centers
October 20, 2016	Invitation to Presentation of Results for the Third Quarter 2016
September 20, 2016	Investor Presentation
September 16, 2016	Disclosure of large shareholdings
September 15, 2016	Update to Full Year 2016 Revenue Guidance
September 12, 2016	Mandatory Notification of Trade
September 7, 2016	Mandatory Notification of Trade
August 29, 2016	Mandatory Notification of Trade
August 29, 2016	Mandatory Notification of Trade

Issue Date	Headline
August 26, 2016	Asetek Selected by HP to Cool New OMEN X Desktop Gaming PC
August 17, 2016	Mandatory Notification of Trade
August 17, 2016	Asetek Q2 2016: Good Progress
August 11, 2016	Invitation to Presentation of Results for the Second Quarter and First Half Year 2016
July 1, 2016	Disclosure of large shareholdings
June 22, 2016	Asetek Continues Market Moment with Latest Order for RackCDU
April 29, 2016	Issuance of Warrants
April 28, 2016	Disclosure of large shareholdings
April 28, 2016	Asetek Receives Largest Data Center Order for Single Installation to Date
April 27, 2016	Outcome of Annual General Meeting
April 27, 2016	Asetek Q1 2016: Revenue Growth and Profitability
April 20, 2016	Invitation to Presentation of Results for the First Quarter 2016
April 4, 2016	Notice of Annual General Meeting April 27, 2016
February 29, 2016	Mandatory Notification of Trade
February 29, 2016	Asetek Capital Markets Update
February 24, 2016	Asetek Annual Report 2015
February 24, 2016	Asetek Q4 2015: Growth, profitability and emerging data center business
February 23, 2016	Reminder: Publication of Asetek fourth quarter results 2015 and capital markets update event
January 20, 2016	Asetek to Host Capital Markets Update
January 20, 2016	Financial calendar

MANAGEMENT REPORT

Oakforest PACS, University of Tokyo

The Year 2016 Outlined

- **First full year of profitability with revenue of $50.9 million, up 42% from 2015**
- **Desktop revenue expands to $45.8 million, up 34% from 2015**
- **Data center revenue expands to $5.2 million, up 178% from 2015**
- **Gross margin increases to 38.8% from 34.5% in 2015**

- The year 2016 was a year of unprecedented growth and major accomplishments for Asetek.
- Revenue in 2016 totaled $50.9 million, a record level for the Company and growth of 42% over 2015 ($36.0 million).
  - Desktop revenue in 2016 expanded to $45.8 million, a 34% increase from 2015 ($34.1 million), fueled by significant growth in shipments to the Do-it-Yourself (DIY) and Gaming/Performance Desktop PC markets.
  - Data center revenue grew to $5.2 million in 2016, a 178% increase from 2015 ($1.9 million), powered by High-Performance-Computing projects in public and private sector.
- Gross margin increased to 38.8% in 2016 from 34.5% in 2015. The increase primarily reflects significant growth in shipments of new high performing products in 2016. The change also reflects a significant one-time charge incurred in 2015 for a quality assurance measure.
- Asetek achieved its first full year of profitability, earning pre-tax income of $5.0 million for the year, compared with pre-tax loss of $2.1 million in 2015. Adjusted EBITDA was $7.4 million in 2016, compared with $0.4 million in 2015.
  - Operating profit (adjusted EBITDA) from the desktop segment was $15.1 million for the year, an increase from $7.2 million profit in 2015. Revenue growth in the desktop market was driven principally by high volume shipments of DIY products to Asetek's largest customers, as well as an increase in shipments in the general Gaming/Performance Desktop PC market.
  - Operating loss (adjusted EBITDA) from the data center segment was $5.1 million for the year, compared with an operating loss of $5.9 million in 2015. The data center spending reflects continued investment in development, sales and marketing, production resources and equipment/tools.
  - Headquarters expenses of $2.7 million increased from 2015 ($1.1 million) mainly caused by a $1.8 million litigation settlement received in 2015. Excluding the settlement, headquarters expenses decreased from the prior year ($2.8 million).
- Operational achievements during the year:
  - Asetek continued its success as the leading supplier of liquid cooling solutions for high-end computing, shipping 949,000 sealed loop liquid cooling units in 2016, representing growth of 31% from 2015.
  - In 2016, the data center business built upon its relationships with two key OEM's:
    - Sales to Fujitsu Technology Solutions GmbH ("Fujitsu") totaled $1.6 million under the OEM agreement on multiple projects, such as the installation of 70 RackCDU at the Joint Center for Advanced High Performance Computing (JCAHPC) in conjunction with University of Tokyo and Tsukuba University. This is Asetek's largest installation to date with an OEM partner. Sales to Fujitsu are expected to continue to grow in 2017.
    - Sales to Penguin Computing, Inc. ("Penguin") totaled $1.2 million through integration of RackCDU products in Penguin HPC servers, including deliveries on a large deployment for the U.S. National Nuclear Security Administration. Sales to Penguin are expected to continue to grow in 2017.
- Asetek's continued progress on its two-year, $3.5 million project with the California Energy Commission to install RackCDU liquid cooling in two large-scale data centers, one of which resides at Lawrence Livermore National Laboratory. Progress on Asetek's three-year, $2.5 million contract with the U.S. Department of Defense (DoD) continued with installation at a new site.

PERFORMANCE AND SUSTAINABILITY FEATURED ON TOP500 AND GREEN500 SUPERCOMPUTER LISTS

The TOP500 Supercomputer and Green500 Supercomputer lists showcased a combined total of 18 Asetek installations. The TOP500 table shows the 500 most powerful commercially available computer systems known to the tech community. The Green500 Supercomputer list ranks the top 500 supercomputers in the world by energy efficiency.

The adoption of Asetek Direct-to-Chip (D2C) liquid cooling technology is accelerating across the globe. Original Equipment Manufacturers (OEMs) like Fujitsu, Format, Penguin and Cray, in particular, have given Asetek global reach with major installations at world class High-Performance-Computing (HPC) sites.

The 6th most energy-efficient and most powerful computer system in the world is Oakforest-PACS powered by Asetek liquid cooled Fujitsu PRIMERGY servers. Oakforest-PACS has become the fastest supercomputer in Japan, surpassing the K computer with a peak performance of 25 petaflops. Installed at the Joint Center for Advanced High-Performance Computing (JCAHPC), Oakforest-PACS is a collaboration between The University of Tokyo and Tsukuba University.

Ranked the 5th most energy-efficient supercomputer in the world is the QPACE3 installation at the University of Regensburg, a joint research project between the the University of Wuppertal and the Jülich Supercomputing Center. It is one of the first Intel Xeon Phi-based HPC clusters in Europe and uses Asetek cooled Fujitsu PRIMERGY servers. The Regensburg installation is ranked 375 on the TOP500 list.

The need for energy-efficient, effective and fast computational power calls for increased adoption for liquid cooling technologies. Asetek proudly works with key OEM partners like Format, Penguin and CRAY at respected research centers across the world to achieve this.

In Poland (Format) and the United States (Penguin), HPC systems cooled by Asetek technology increase compute resources and scientific collaboration which benefit respected national laboratories, such as the Polish National Centre for Nuclear Research and Maria Curie-Skodowska University (UMCS), Lawrence Livermore, Los Alamos and Sandia. Asetek cooling technology also powers the Computational Resource Centre and National Super Computing Centre that is part of the Agency for Science, Technology and Research (A-STAR) in Singapore.

These recent installations join the list of other HPC sites around the world using Asetek liquid cooling technology such as Mississippi State University, Kyoto University, University of Tromsø, the National Renewable Energy Laboratory. It is these installations, in addition to exciting technology innovations, that distances Asetek from the competition.

Read more on www.top500.org and on www.green500.org

ASETEK'S BUSINESS

Asetek is a global leader in liquid cooling solutions for data centers, servers and PCs. Asetek's server products enable OEMs to offer cost effective, high performance liquid cooling data center solutions. Its PC products are targeted at the gaming and high performance desktop PC segments. With about 4 million liquid cooling units deployed, Asetek's patented technology is being adopted by a growing portfolio of OEMs and channel partners. Founded in 2000, Asetek is headquartered in Demark and has operations in California, Texas, China and Taiwan.

FINANCIAL POSITION AND OPERATING RESULTS FOR 2016

Profit and loss

Total revenue for 2016 was $50.9 million, representing an increase of 42% from 2015 ($36.0 million). Sealed loop cooling unit shipments for 2016 totaled 949,000, a 31% increase over 2015 (727,000). Average Selling Prices (ASP) for the year 2016 increased to $48.23, from $46.96 in 2015.

Gross margin increased to 38.8% in 2016 from 34.5% in 2015. The increase reflects two principal factors: An increase in the sale of new high performance DIY products; and a one-time charge in the second quarter 2015 explained by a cost of $0.8 million incurred when Asetek decided to recall, rework and reship a bulk of DIY products as a quality assurance measure.

In 2016, operating expenses were $15.1 million, a 2% increase from 2015 ($14.7 million), reflecting several factors. In 2015, the Company received $1.8 million associated with a legal settlement with CoolIT Systems. These payments are presented as other income in the period the award was granted. Excluding the settlement amount in 2015, operating expenses have declined by 9%. Legal costs incurred associated with defense of existing IP and securing new IP declined to $1.4 million in 2016 ($1.7 million).

Adjusted EBITDA was $7.4 million in 2016, compared with $0.4 million in 2015.

Adjusted EBITDA in 2016 represents operating income of $4.6 million, plus depreciation of $2.5 million and plus share based compensation of $0.3 million.

Foreign currency transactions in 2016 resulted in a $0.3 million gain ($0.3 million gain in 2015).

In 2016, income tax benefit associated with net operating loss carryforwards recorded as deferred tax assets totaled $4.6 million. In 2015, tax credits for research and development in Denmark totaled $0.4 million.

Asetek earned $9.2 million total comprehensive income for 2016, compared with total comprehensive loss of $1.5 million in 2015. Comprehensive income included a negative $0.5 million translation adjustment in 2016 (positive $0.2 million in 2015).

Balance sheet

Asetek's total assets at the end of 2016 were $41.2 million, compared with $27.7 million at the end of 2015. The increase in assets resulted principally from revenue growth which drove operating income and positive cash flow and additions to defferred tax assets. Cash and cash equivalents at December 31, 2016 was $17.6 million, an increase from $13.1 million from 2015. Trade receivables increased $4.6 million from prior year-end due to the increase in revenue at the end of the period.

Total liabilities increased by $3.8 million in 2016. Trade payables increased $3.0 million principally due to higher production volumes in the fourth quarter 2016 compared with the same period of 2015. Accrued liabilities increased $0.5 million due to increases in various other costs associated with operations growth. Accrued compensation and benefits increased $0.1 million due to increased incentive compensation payable associated with the Company's performance in 2016.

Statement of cash flows

Net cash provided by operating activities was $7.8 million in 2016 ($1.1 million used in 2015). The operating cash flow was mainly attributed to the operating income from the increase in revenue. Included in cash flow from operations in 2015 is $1.8 million in payments received for settlement of patent litigation, and $0.9 million income tax benefit received.

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

Cash provided by financing activities was $0.2 million, compared with $12.3 million provided by financing activities in 2015. The activity in 2015 primarily represents funds raised through the offerings of common stock, net of financing costs.

Net change in cash and cash equivalents was positive $4.6 million in 2016, compared with positive $8.9 million in the same period last year. Not including equity offering transactions, the net change in cash in 2015 was negative $3.3 million.

Liquidity and financing

From its inception and until the end of the previous year, Asetek has incurred losses and negative cash flows from operations. Positive cash flows and net earnings were generated for the first time in 2016. Prior to 2013, as a privately held company, Asetek financed operations principally through the issuance of convertible preferred shares. In March 2013, through its initial public offering of common shares on the Oslo Stock Exchange, the Company raised $21.4 million. In March and April 2015, the Company raised $12.2 million through the private and public issuance of shares. As of December 31, 2016, the Company has working capital of $19.5 million and non-current liabilities of $0.3 million.

While there is no assurance that the Company will generate sufficient revenue or operating profits in the future, Asetek's management estimate that the Company's capital resources are sufficient to fund operating activities in the foreseeable future, based on financial forecasts. To the extent necessary to fund expansion or other liquidity needs, management will consider offerings of debt, equity, or a combination thereof, depending on the cost of capital and the status of financial markets at that time.

Historical financial review

Fiscal Year	2016	2015	2014	2013	2012
Financial highlights: ($000's)					
Revenue	50,921	35,982	20,847	20,729	18,681
Gross profit	19,750	12,412	8,710	8,049	6,788
Gross margin %	38.8%	34.5%	41.8%	38.8%	36.3%
EBITDA	7,119	67	(7,739)	(5,649)	(2,755)
Operating income (loss)	4,669	(2,323)	(9,510)	(7,679)	(4,807)
Finance income (expenses)	322	238	(385)	955	(3,758)
Net income (loss)	9,637	(1,647)	(8,757)	(6,281)	(8,558)
Purchases of property and equipment	1,222	958	172	952	88
Sealed loop units shipped (000's) (unaudited)	949	727	425	426	414
Year-end values ($000's):					
Total assets	41,164	27,748	12,814	20,983	8,162
Total equity	28,290	18,646	7,422	14,808	(40,642)
Total liabilities	12,874	9,102	5,392	6,175	48,804
Employees	79	71	68	69	60
Key ratios:					
Average selling price per desktop unit ($)	48.2	47.0	45.5	46.8	45.1
Revenue per employee ($000's)	645	507	307	300	311
Days sales outstanding	93	85	52	74	65
Inventory turns per year	21.2	13.2	11.2	11.9	12.6

Key ratio:	Formula used for key ratio calculations
Average selling price per desktop unit ($)	Total desktop revenue / Total desktop units sold
Revenue per employee ($000's)	Revenue / Employees
Days sales outstanding	Trade receivables / Revenue / 365 days
Inventory turns per year	Costs of goods sold / (beginning inventory + ending inventory) / 2

E-SPORT AND VIRTUAL REALITY USERS PUSH DEVELOPMENTS IN CPUS AND GPUS

A growing E-sport and Virtual Reality fan base across the world has pushed the tech industry to develop even more powerful CPUs and GPUs. Working with gaming industry-shapers like HP and NZXT, Asetek is a key partner is making gaming processors, high-quality graphics and extreme computing power mainstream.

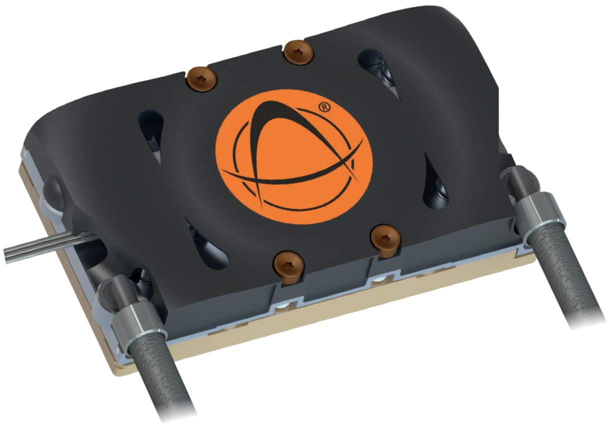
The ground-breaking new HP OMEN X Desktop Gaming PC and the new NZXT Kraken Series were proof-points of that in 2016.

The OMEN X Desktop marks HP's return to ultra-high end gaming systems, boasting enthusiast hardware and thermal performance. The OMEN X builds on a long history of collaboration between Asetek and HP. From the innovative HP Blackbird 002 to the HP ENVY Phoenix 860, Asetek has worked closely with HP to deliver revolutionary performance and low noise – through liquid cooling technology.

With the debut of the Kraken X52, and the upgraded Kraken X42 and X62, everything, including the pump, radiator and fans have been designed and engineered to deliver strong cooling performance.

"We're excited to work with Asetek on this next generation of Kraken coolers," said Johnny Hou, NZXT's founder and CEO. "The advances Asetek has made with their pump has allowed us to bring quieter operations with improved performance."

Datacenter production Denmark



ASETEK POWERS NVIDIA TESLA P100 GPU ACCELERATOR

The latest addition to the NVIDIA Tesla Accelerated Computing Platform, the Tesla P100 enables a new class of servers that can deliver the performance of hundreds of CPU server nodes.

Based on the new NVIDIA Pascal GPU architecture, the Tesla P100 delivers high performance and efficiency to power the most computationally demanding applications.

"The Tesla P100 represents a massive leap forward in computing performance and efficiency," said Roy Kim, Group Product Manager of Accelerated Computing at NVIDIA. "With Asetek's liquid cooling solution optimized for the most demanding high-density Tesla P100 server designs, OEMs can deliver new levels of performance to handle the most computationally intensive HPC workloads."

"Asetek's liquid cooling solution for the Tesla P100 lets HPC and data center OEMs benefit from huge boosts in server density and dramatic reductions in cooling costs," said John Hamill, Asetek Vice President of WW Sales and Marketing. "We look forward to further collaboration with Nvidia in the future."

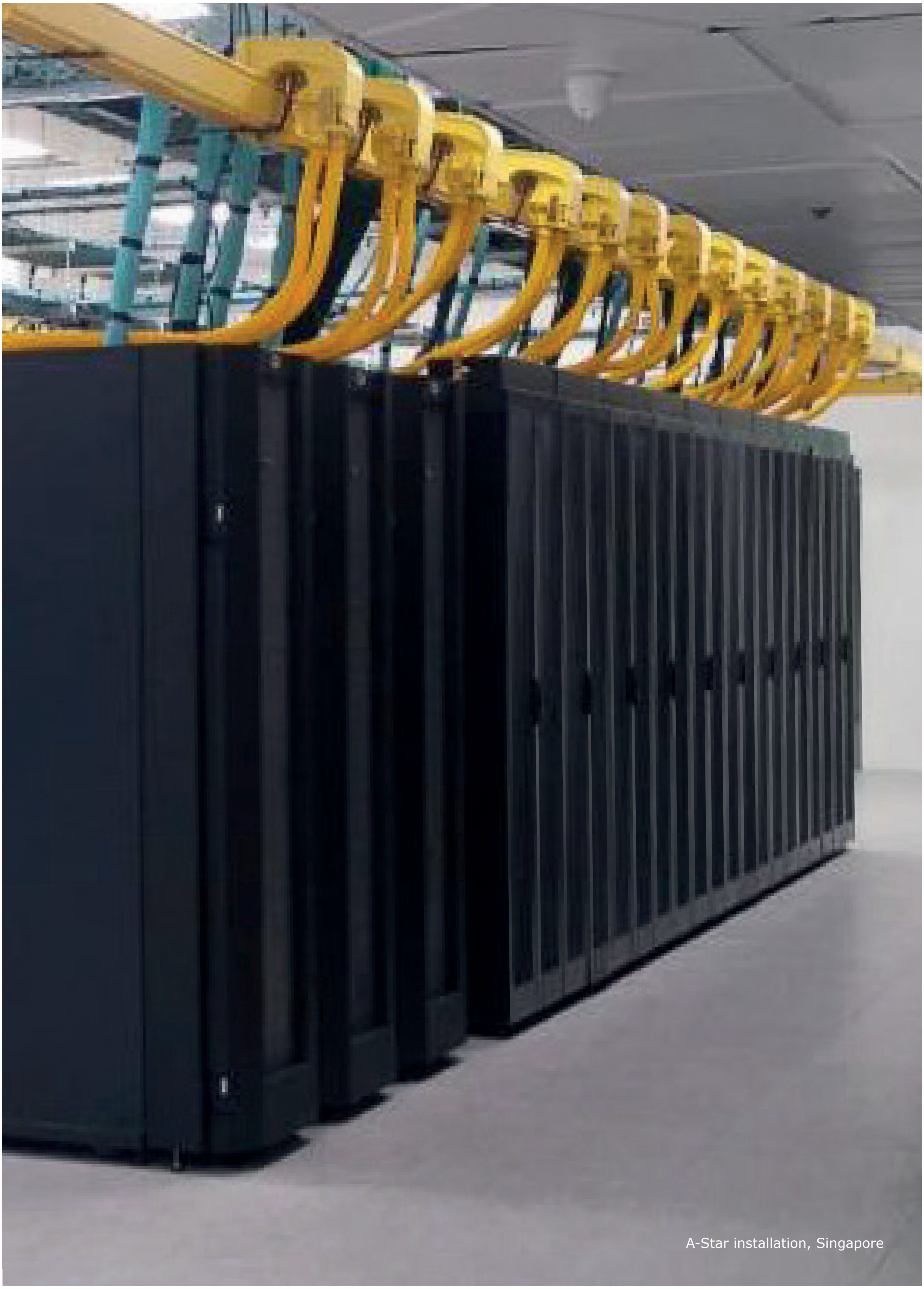
EXPECTATIONS FOR 2017

Desktop:
The revenue growth within the desktop segment in the past two years – revenue grew by 240% since 2014 – was driven by a number of factors, including customers' desire for a more immersive gaming experience, which increased demand for new technologies such as 4K screen resolution and virtual reality capability. These new technologies in turn require advanced cooling, as a high performance PC now typically needs two liquid coolers instead of only one. This significant market growth may not replicate in 2017. The Company will continue to develop new products and expects to add new customers within the desktop segment. The desktop business is therefore expected to grow modestly in 2017 from a record level in 2016.

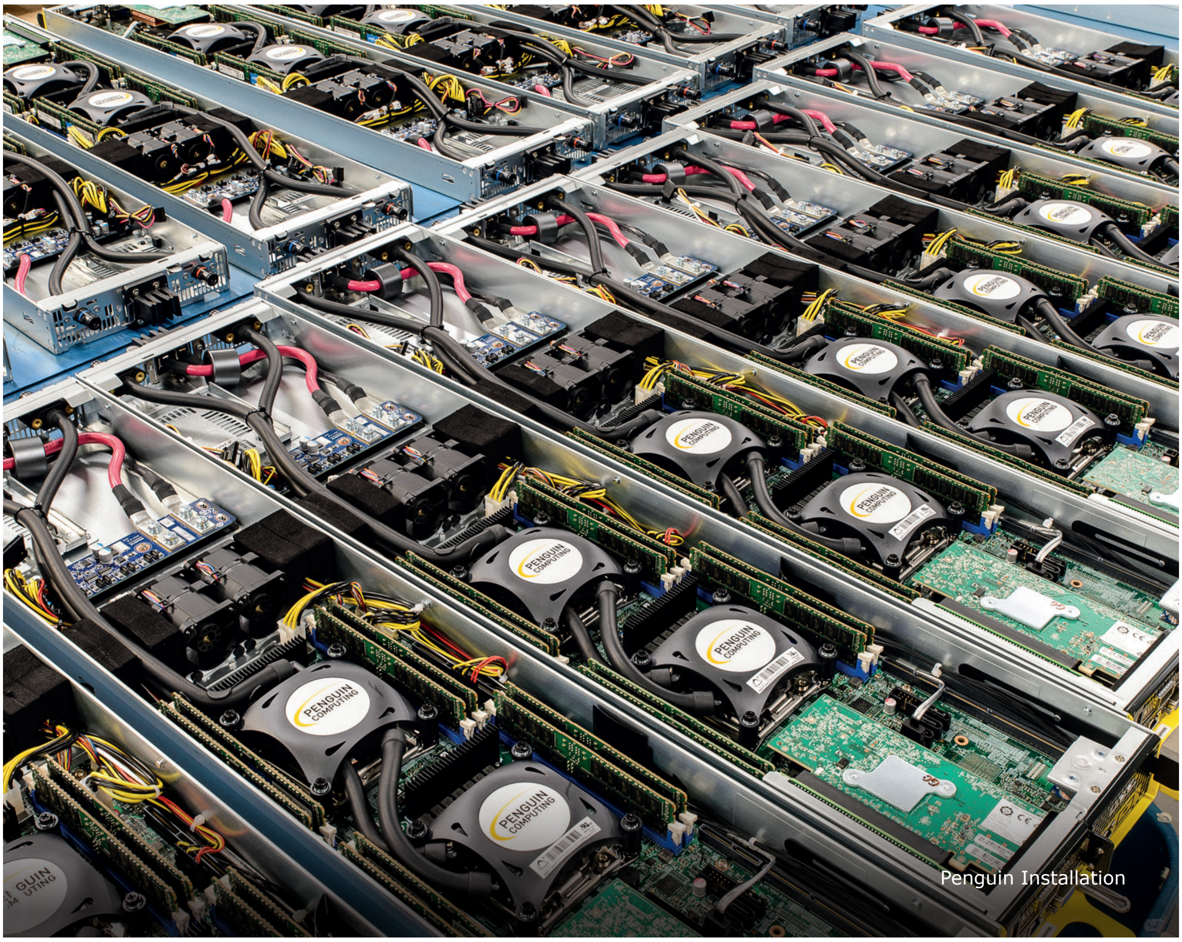
Data center:
Asetek's progress in the HPC market indicates an evolving acceptance of liquid cooling in the data center market, and high-power technologies such as Intel's family of Xeon Phi processors are supporting this development. Working closely with ecosystem partners such as Intel, NVIDIA and large OEM's such as Fujitsu, has enabled Asetek to connect with a wide array of companies and institutions exploring liquid cooling solutions. With over 200 million hours of fault-free pump operation at data center installations, the adaptability, reliability and cost effectiveness of Asetek's RackCDU installations in large-scale deployments is garnering attention from decision makers across the industry.

Asetek's strategy in the data center market is to increase end-user adoption within existing OEM customers, and to add new OEM customers. The Company plans to achieve this by continuing to develop and defend its market-leading technology and leverage the successful performance achieved at its installed base of universities, enterprises and government entities. Asetek expects significant revenue growth in the data center segment in 2017 compared with 2016. Revenue and operating results are however expected to fluctuate as partnerships with large OEMs are developed.

Consolidated results:
The financial results for 2016 exceeded Management's expectations. In 2017, the Company plans to continue to invest in the data center business with a focus on long-term growth and scalability. In the short-term, management expects to generate positive income on a consolidated basis while the Company continues to focus on design wins to gain traction with data center OEM's, and development of new product releases in the desktop business. Overall, the Company expects modest revenue growth for 2017, with minimal growth in spending and continued investments in the data center business. As such, management expects that the Company will report profitability for 2017 consistent with the results of the latter part of 2016.



A-Star installation, Singapore



Penguin Installation

FAULT-FREE PUMP OPERATION

Installed at end-user locations as diverse as Singapore and Norway, Asetek pumps have run fault-free for 200 million hours.

"At the end of 2016, we have not had a single server pump failure at any of our data center installations around the world," said Mette Nørmølle, Vice President of Engineering. "Our low-pressure architecture is the key to enabling a cost-effective solution that is relied on by data centers demanding unrivaled performance and maximum uptime."

At the heart of Asetek liquid cooling is the Direct-to-Chip (D2C) CPU Cooler. The CPU Cooler is a patented integrated pump and cold plate assembly used to cool server CPUs. Because a single pump has sufficient power to circulate cooling water in a server node, servers with more than one CPU have multiple pumps, providing built in redundancy.

With over 3.5 million units deployed worldwide in desktop PCs and servers, Asetek's cooler pumps incorporate features designed to meet our customers' strict demands for reliability, performance and uptime. Pumps are mechanically sealed with the impeller, the only moving part, suspended in lubricating cooling liquid. As a result, high reliability and low cost are both inherent in the pump design.

Asetek's reliable data center solutions include RackCDU D2C™ and Server Level Sealed Loop (ServerLSL). RackCDU D2C provides cooling energy savings greater than 50% and density increases of 2.5x-5x. ServerLSL provides liquid assisted air cooling for server nodes, replacing less efficient air coolers and enabling the servers to incorporate the highest performing CPUs and GPUs.

EVENTS AFTER THE REPORTING PERIOD

There have been no events since December 31, 2016 which could significantly affect the evaluation of the Group's financial position and revenue.

RISK EXPOSURE AND MANAGEMENT

Asetek's potential to realize the Company's strategic and operational objectives are subject to a number of commercial and financial risks. Asetek is continuously working on identifying risks that can negatively impact the Company's future growth, activities, financial position and results. To the largest extent possible, Asetek tries to accommodate and limit the risks which the Company can affect through its own actions.

Below, some of the risk factors management considers as being of special importance to the Group are described in no specific order. A more thorough elaboration on risk factors can be found in the Company's prospectus dated March 23, 2015, available from the Company's website: www.asetek.com.

Asetek conducts its business with significant focus on continuous risk monitoring and management. The overall goal of risk management is to ensure that the Company is run with a level of risk, which is in a sensible ratio to the activity level, the nature of the business, and the Company's expected earnings and equity.

Significant customer. In 2016, one customer accounted for 53% of total revenue. In the event of a decline or loss of this significant customer, replacement of this revenue stream would be difficult for Asetek to achieve in the short term. Asetek is actively pursuing to diversify its product and technology offering to a broader customer base in efforts to mitigate this risk.

Competition. The markets in which the Company operates are competitive, the technological development is rapid, and the Company may in the future also be exposed to increased competition from current market players or new entrants. Currently, the Company's principal competitor is CoolIT Systems, Inc.

Insurance. It is the Company's policy to cover all relevant risk areas with commercially available insurance products. This currently includes insurance for product liability, operating material and inventory as well as compulsory coverage, which varies from country to country. Management assessments indicate that the necessary and relevant precautions have been taken to thoroughly cover insurance issues. Asetek's insurance policies and overall coverage approach are reviewed at least annually.

Credit risk. Credit risk is the risk of a counterpart neglecting to fulfill its contractual obligations and in so doing imposing a loss on Asetek. The Group's credit risk originates mainly from receivables from the sale of products as well as deposits in financial institutions. Receivables from the sale of products are split between many customers and geographic areas, though one customer represented 46% of trade receivables at December 31, 2016. A systematic credit evaluation of all customers is conducted, and the rating forms the basis for the payment terms offered to the individual customer. Credit risk is monitored centrally.

Intellectual property defense. 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 historically 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.

Manufacturing supply. 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.

Foreign exchange rates. Substantially all of Asetek's revenue is billed in USD. However, many customers resell Asetek products to end users in countries where USD is not the transactional currency. As a result, there is a risk that fluctuations in currency will affect the cost of product to the end user and negatively impact market demand for Asetek products. During 2016, the USD fluctuated moderately, ending the year 3% stronger against the DKK and EUR, and 2% weaker against the Japanese yen. Asetek estimates that about one third of its sold products ultimately are delivered in Europe or Japan, which are the two geographical areas which could have the largest potential impact due to USD fluctuation.

Asetek's raw materials are predominantly purchased from vendors whose underlying currency is CNY. The USD has strengthened approximately 7% versus the CNY during 2016, and Asetek therefore does not expect to pass on a significant portion of its currency risk to its vendors. While Asetek recognizes that USD appreciation adds negative sales price pressure, Asetek has only seen a limited reaction from its markets. Asetek believes that other factors in the end users' buying decision play a larger role than price fluctuation on the liquid cooling component. In addition, Asetek believes that competing products will be prone to the same exchange rate scenarios as Asetek.

Asetek strives to match expenses against income and liabilities against assets. Furthermore, as many expenses and liabilities as feasible are denominated in USD. Despite this, increased fluctuations in USD vs. DKK and CNY will have an influence on the financial position. The Group has not entered into any forward exchange instruments.

Research and development, product innovation, market development. The Company's future success, including the opportunities to ensure growth, depends on the ability to continue developing new solutions and products adapted to the latest technology and the clients' needs as well as improving existing solutions and market position. As such, the Company develops new releases on a regular basis, with emphasis on higher performance, improved efficiency and noise-reduction. Providing new and innovative applications for Asetek's cooling technology is also a focus, as evidenced by the cooling products released for graphics processing units (GPUs) and data center solutions during 2016. Asetek has in recent years increased its focus and investments on building the market for data center liquid cooling products.

Projects and contracts. It is of significant importance to Asetek's overall success that development projects are executed at high quality and at predetermined timeframes and cost prices. Risks are attached to the sale, analysis and design, development and initial manufacturing phases. Asetek has carefully defined the individual phases and the activities contained therein, with a view to active risk management and efficient implementation. Through project reviews and ongoing analyses before, during, and after initiation, Asetek works to ensure that agreements are adhered to and that revenue and margins are as planned.

Taxation. The tax situation of the Company is complex. Since Asetek, in connection with its initial public offering in 2013, moved its Parent company from the U.S. to Denmark, both U.S. and Danish tax authorities may claim that the Company is tax liable to both countries. The tax treaties in place between the two countries may not fully resolve this potential conflict, which is increasing in importance as the Company becomes profitable and potentially desires to pay dividends. The Company is in the process of clarifying the situation.

Employee relations. Asetek is a knowledge-intensive Company and in order to continuously offer optimal solutions, develop innovative products, and ensure satisfactory financial results, it is necessary to attract and develop the right employees. Asetek has the goal of being an attractive workplace and achieves this through various programs including an option incentive program, and attractive working conditions. The Company seeks to support a Company culture founded on individual responsibility and performance as well as team accomplishment.

STATUTORY REPORT ON CORPORATE SOCIAL RESPONSIBILITY

Code of conduct. Asetek's Code of Business Conduct Ethics is the general ethical guideline for business conduct to ensure that Asetek on a global level is dedicated to promote ethical business practices and protect Asetek against corruption and other unethical business behavior. The business conduct guidelines can be found at http://asetek.com/investor-relations/corporate-governance/ethical-guidelines.aspx

Transparency and credibility. Asetek is committed to show complete openness towards shareholders, customers, employees, suppliers and other stakeholders. It is essential that their understanding of the business and products is accurate, updated and truthful.

Anti-corruption. Asetek will not tolerate corruption, money laundering, bribery or other illegal or unethical business activity. The Company's performance and competitiveness are strengthened solely through lawful conduct. The group's anti-corruption position has been clearly communicated to all employees. Furthermore, Asetek has implemented an Ethics Website operated by a third party company. Via the website, all stakeholders can keep themselves informed about Asetek's policies as well as report any concern to the Company's leadership. During 2016, the existence of the policies and the reporting mechanisms were reiterated to the employees. No reports related to alleged infringing activities have been received during 2016.

Internal environment and knowledge resources. Asetek recognizes that its employees are its key assets and it is committed to maintaining a stimulating working environment that offers opportunity for both personal and professional development. The Company maintains a team-oriented culture where all employees have the opportunity to contribute significantly to the success of the Company. This is also necessary to continue to attract and retain highly qualified employees within the computer industry. Asetek welcomes applications for employment from all sectors of the community and strives to promote equal opportunity of employment to all. The Group maintains a positive working environment and sick leave and turnaround is not significant. No work accidents or injuries occurred in 2016. During 2016, the work on internal environment focused on enhancing the collaboration between Asetek's various global locations and cultures. The work resulted in improved collaboration regarding launching of new products.

Equal opportunities. The Board of Directors had previously set a goal for Asetek to have at least 15% female representation at board and management level by 2016. At the end of 2016, the Board of Directors consists of 100% male members and hence the goal has not been met. During 2016 there were no board seat changes. When evaluating new potential board members, the Board of Directors will encourage female candidates, while at the same time will continue to search for relevant experience specific to Asetek. The Board of Directors has renewed its goal in this respect, and will work to achieve 15% female representation at board level by 2018. At other management levels, there is 18% female representation at the end of 2016, which is an increase from the year before (16%). During 2016 the Company has continued to actively encourage women to apply for open positions as well as it has continued its communication with educational institutions which trains both male and female candidates. The work to further increase the female representation continues into 2017.

External environment. Asetek Group operations' effect on the environment is minimal and is typical for a supplier of computer components. The principal manufacturing operations are outsourced to a commercial manufacturer in China, which is continuously monitored on various factors relating to the environment and other social responsibilities. The principal source of strain on the environment from the business is related to shipment of inventory, which is conducted in accordance with normal routine commerce. Asetek does not have a policy on environment and climate change.

Adherence to Human Rights Principles. Asetek supports the fundamental principles of EICC (Electronic Industry Citizenship Coalition) on human rights, employees' rights, child labor, health and safety, environment and anticorruption. Asetek requires that its suppliers respect and conform to the same principles. Asetek periodically reviews via its supplier review and evaluation process that its suppliers conform to the principles. The principles can be found at http://www.eicc.info/eicc_code.shtml. The Company's work in 2016 focused on documenting suppliers' scoring results.

Social responsibility program. The Board of Directors adopted a CSR policy in 2016, which has been made publically available on the Company's website, and which has been implemented throughout the Company. The policy sets out the minimum standards, which the Board expects the staff to adhere to in their internal and external dealings with colleagues, customers, stakeholders and third parties.

CORPORATE GOVERNANCE

The work of the board of directors

Asetek's management model and organization are adapted continuously to ensure the Company is equipped to manage all obligations to shareholders, customers, employees, authorities and other stakeholders to the utmost. The Board of Directors is fundamentally in full agreement with Danish Committee on Corporate Governance recommendations for good company governance. Asetek endeavors to follow the relevant recommendations for the Company, which support the business and ensure value for the Company's stakeholders. The statutory report on Corporate Governance, cf. section 107b of the Danish Financial Statements Act, is available on the Company's website: http://www.asetek.com/media/2354/scgs2016.pdf

Dialogue between the Company and its shareholders. The communication between Asetek and shareholders primarily takes place at the Company's annual general meeting and via company announcements. Asetek shareholders are encouraged to subscribe to the e-mail service to receive company announcements, interim management statements, interim reports and annual reports as well as other news via e-mail.

The general meeting. The general meeting has the final authority over the Company. The Board of Directors emphasize that shareholders are given detailed information and an adequate basis for the decisions to be made by the general meeting.

The general meeting elects the Board of Directors, which currently consists of six members. The board members are elected for one year at a time with the option for re-election.

Amendment of Articles of Association. Unless otherwise required by the Danish Companies Act, resolutions to amend the Articles of Association must be approved by at least 2/3 of the votes cast as well as at least 2/3 of the voting share capital represented at the General Meeting.

Board responsibilities. The Board of Directors' main tasks include participating in developing and adopting the Company's strategy, performing the relevant control functions and serving as an advisory body for the executive management. The Board reviews and adopts the Company's plans and budgets. Items of major strategic or financial importance for the Company are items processed by the Board. The Board is responsible for hiring the CEO and defining his or her work instructions as well as setting of his or her compensation. The Board periodically reviews the Company's policies and procedures to ensure that the Group is managed in accordance with good corporate governance principles, upholding high ethics.

Financial reporting. The Board of Directors receives regular financial reports on the Company's business and financial status.

Notification of meetings and discussion of items. The Board schedules regular meetings each year. Ordinarily, the Board meets 4-6 times a year. The meetings are typically conducted at either the facility in Aalborg, Denmark or in San Jose, California. Additional meetings may be convened on an ad hoc basis. During 2016, the Board met five times.

All Board members receive regular information about the Company's operational and financial progress in advance of the scheduled Board meetings.

The Board members also regularly receive operations reports and participate in strategy reviews. The Company's business plan, strategy and risks are regularly reviewed and evaluated by the Board. The Board Members are free to consult the Company's senior executives as needed. Ordinarily, the Chairman of the Board proposes the agenda for each Board meeting. Besides the Board Members, Board meetings are attended by the Executive Board. Other participants are summoned as needed. The Board approves decisions of particular importance to the Company including the strategies and strategic plans, the approval of significant investments, and the approval of business acquisitions and disposals.

Conflicts of interest. In a situation involving a member of the Board personally, this member will exclude him or herself from the discussions and voting on the issue.

Use of Committees. Currently, the Company has a Nomination Committee, an Audit Committee and a Compensation Committee.

- The Nomination Committee is elected directly by the General Meeting. The Committee consists of three members and must be independent from the Board of Directors and the management, however, it is recommended that the chairman of the Board of Directors is a member. The tasks include proposing candidates for the Board of Directors, propose remuneration for the Board of Directors as well as perform the annual assessment of the Board of Directors. Members: Ib Sønderby (chairman), Scott Pagel and Samuel Szteinbaum. The Committee met two times during 2016.
- The Audit Committee is elected among the members of the Board of Directors and has responsibilities related to financial reporting, the independent auditor, internal reporting and risk management. The Committee consists of two shareholder-elected Board members. The other Board members are entitled to attend if they so desire. Members: Knut Øversjøen (Chairman) and Chris J. Christopher. The Committee met four times during 2016.
- The Compensation Committee has responsibilities related to developing proposals for the applicable remuneration policy and execution of the Management Board. Members: Samuel Szteinbaum (Chairman), Jim McDonnell and Jørgen Smidt. The Committee met two times during 2016.

The Board's self-evaluation. The Board's composition, competencies, working methods and interaction are discussed on an ongoing basis and evaluated formally on an annual basis. In this connection, the Board also evaluates its efforts in terms of corporate governance.

The composition of the Board is considered appropriate in terms of professional experience and relevant special competences to perform the tasks of the Board of Directors. The Board of Directors continuously assesses whether the competences and expertise of members need to be updated. At least half of the members elected by the general meeting are independent persons, and none of the Board members participates in the day-to-day operation of the Company.

A comprehensive list of other management positions held by the Board members can be found in Note 24.

Risk management. Refer to the Risk Exposure and Management section of the Management Report as well as Note 3 of the consolidated financial statements.

The board's authorization to issue shares

At the general meeting held on August 13, 2013 the Board was authorized to issue shares with a nominal value of up to DKK 80,000 for the period until August 14, 2018 in connection with employee warrant programs.

At the Board of Directors meeting on April 23, 2014 warrants permitting subscription of up to 118,210 shares of a nominal value of DKK 0.10 and at an exercise price of NOK 40.10 per share were issued. The exercise price was established as the share price ("closing price") for the Company's share as of the prior day. The warrants were issued to employees and Board members.

At the Board of Directors meeting on August 12, 2014 warrants permitting subscription of up to 32,970 shares of a nominal value of DKK 0.10 and at an exercise price of NOK 33.90 per share were issued. The exercise price was established as the share price ("closing price") for the Company's share as of the prior day. The warrants were issued to employees and Board members.

At the general meeting held on April 30, 2015, the Board was authorized to issue new shares under the warrant program up to a nominal value of DKK 200,000 through April 30, 2020.

At the Board Meeting on August 11, 2015, warrants permitting subscription of up to 700,000 shares of a nominal value of DKK 0.10 and at an exercise price of NOK 10.50 per share were issued. The exercise price was established as the share price ("closing price") for the Company's share as of August 12, 2015. The warrants were issued to employees and Board members.

At the Board Meeting on April 29, 2016, warrants permitting subscription of up to 600,000 shares of a nominal value of DKK 0.10 and at an exercise price of NOK 19.50 per share were issued. The exercise price was established as the share price ("closing price") for the Company's share as of April 28, 2016. The warrants were issued to employees and Board members.

In addition to the above, the Board is authorized to buy and sell Company shares to treasury.

Remuneration of the board of directors

Board members representing their Company's ownership interests are not compensated for their services. Independent board members received a combination of cash compensation and long termed stock option based incentives during 2016. Please see Note 24 for further details.

Remuneration of the executive staff

The Remuneration Committee recommends to the Board, and the Board sets, the terms of employment of the members of the Management Board. Each year, the Remuneration Committee undertakes a review of salary and other remuneration to the CEO as well as for other members of the Management Board.

A summary of the agreements between the Company and its management board members pertaining to termination can be found in Note 6.

The option program and the allocation of options to the employees and Board members are decided upon by the Board of Directors.

STATEMENT BY MANAGEMENT

The Executive Board and the Board of Directors have today considered and adopted the Annual Report of Asetek A/S for the financial year January 1 to December 31, 2016. The annual report is prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed companies.

In our opinion, the Consolidated Financial Statements and Financial Statements give a true and fair view of the financial position at December 31, 2016 of the Group and the Parent company and of the results of the Group and Parent company operations and cash flows for 2016.

In our opinion, Management's Report includes a true and fair account of the development in the operations and financial circumstances of the Group and the Parent company as well as a description of the most significant risks and elements of uncertainty facing the Group and the Parent company.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Aalborg, Denmark
February 27, 2017

Executive Board

André Sloth Eriksen
Chief Executive Officer

Peter Dam Madsen
Chief Financial Officer

Board of Directors

Samuel Szteinbaum, Chairman

Chris J. Christopher

Jim McDonnell

Jørgen Smidt

Peter Gross

Knut Øversjøen

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Asetek A/S

Our opinion

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2016 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

What we have audited

- the statement of comprehensive income for the financial year 1 January to 31 December 2016;
- the balance sheet at December 31 2016;
- the statement of changes in equity for the financial year 1 January to 31 December 2016;
- the cash flow statement for the financial year 1 January to 31 December 2016; and
- the notes to the financial statements, including summary of significant accounting policies for the Group as well as for the Parent Company. Collectively referred to as the "financial statements".

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Capitalization of development costs As explained on page 16, Asetek A/S continuously develops new solutions and products adapted to the latest technology and the clients' needs as well as improving existing solutions and market position. As described in note 14 USD 1,871K of internal development costs have been capitalized within Intangible Assets. We focused on this area due to the size of the internal costs capitalized, and the fact that there is judgement involved in assessing whether the criteria set out in the accounting standards for capitalization of such costs have been met, particularly: • The technical feasibility of the project; and • The likelihood of the project delivering sufficient future economic benefits. In the light of the development of new solutions and products adapted to the latest technology, we also focussed on whether the carrying value of existing capitalised solutions and products was impaired.	We obtained a breakdown, by value, of all individual development projects capitalized in the period and reconciled this to the amounts recorded in the general ledger, identifying no significant reconciling differences. We tested the largest capitalized development projects in 2016 totalling to USD 708K, together with a sample of smaller projects from the remaining population, as follows: • We obtained business cases from management including description of the development project, feasibility analysis, budgeted costs and budgeted revenue. This also included descriptions on how the specific requirements of the relevant accounting standards and other guidance, most notably IAS 38 were met. • We discussed the assumptions for budgets and compared historical budgets with realized amounts to challenge management's explanations. We found that the explanations supports our understanding of developments in the business and supported management's assessment that the costs met the relevant capitalization criteria. • We obtained explanations from management of why the projects are impaired or not. We challenged both management and the project manager as to whether the development of new solutions and products superseded or impaired any of the existing assets on the balance sheet. We noted that, as disclosed in note 14 an impairment charge of USD 186K was recorded in this regard, but did not identify any further indicators of impairment. We also applied our own understanding of both new and existing projects that is no longer in use or its life was shortened by any development activity. We found no such items. To determine whether costs were directly attributable to projects, we obtained listings of hours worked on individual projects and compared a sample of the individual hours recorded with the capitalized hours. We also checked the hours charged equated to the value of costs capitalized, by applying the approved salary rates per employee to the timesheet hours, without significant exception. We reconciled specifications of the basis used for capitalized overheads and discussed the appropriateness of included costs in respect of relevant accounting rules and guidance. Furthermore, we compared a sample of the direct costs capitalized with external vendor invoices, without significant exception.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of deferred tax assets As explained in note 11, Asetek A/S has recognized USD 4,874k as deferred tax assets. The deferred tax assets primarily relates to tax losses from previous years. The tax losses can be carried forward against future taxable income. The tax losses relates to losses realized in Denmark and the U.S. We focused on this area due to the size of the deferred tax asset and the size of the total tax losses. Furthermore, there is judgement involved in assessing whether the criteria set out in the accounting standards (IAS 12) for recognising deferred tax assets have been met, particularly: • The probability that future taxable profit will be available, against which the unused tax losses can be utilised. Furthermore, the group has not recognized deferred tax assets in previous years as the group has not realised or expected to realise sufficient taxable profits against which the unused tax losses could be utilized. Because of the realised taxable profits for 2016 and the expectations for the future years, management has recognised a deferred tax asset of USD 4,874k. Therefore, judgments and the group's ability to recognise future taxable profits has been more significant in 2016 than previous.	We obtained the management's valuation of the deferred tax assets and reconciled this to the amounts recorded in the financial statements, identifying no significant reconciling differences. We challenged and applied professional skepticism to the judgments and estimates made by management in relation to the deferred tax assets through the following audit procedures: • We received the Group's budgets and forecasts for the period 2017-2019. We tested and challenged the assumptions made by management by comparing to realized figures and realized growth for 2015-2016 • We compared the budgets with the deferred tax asset recognised and challenged management on their plan for utilising the tax losses • We utilised relevant country tax specialists in order to ensure compliance to pending tax rules

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Statements Act.
Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Responsibilities for the Financial Statements and the Audit

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of Consolidated Financial Statements and Parent Company Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Aarhus, February 27, 2017
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR-nr. 33 77 12 31

Henrik Trangeled Kristensen
State Authorised Public Accountant

Henrik Berring Rasmussen
State Authorised Public Accountant

PROFIT & LOSS

Asetek A/S
Consolidated Statement of Comprehensive Income
For the years ended December 31, 2016 and 2015

USD 000's	Note	2016	2015
Revenue	4	50,921	35,982
Cost of sales	8	(31,171)	(23,570)
Gross profit		**19,750**	**12,412**
Research and development		(3,428)	(3,938)
Selling, general and administrative		(11,653)	(12,641)
Other income		-	1,844
Total operating expenses	**8**	**(15,081)**	**(14,735)**
Operating income		**4,669**	**(2,323)**
Foreign exchange gain	9	330	305
Finance income	9	48	1
Finance costs	9	(56)	(68)
Total financial income		**322**	**238**
Income before tax		**4,991**	**(2,085)**
Income tax (expense) benefit	10, 11	4,646	438
Income for the year		**9,637**	**(1,647)**
Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:			
Foreign currency translation adjustments		(455)	181
Total comprehensive income		**9,182**	**(1,466)**
Income per share: (in USD)			
Basic	12	0.39	(0.07)
Diluted	12	0.38	(0.07)

All operations are continuing.

The Notes on the following pages are an integral part of these consolidated financial statements.

BALANCE SHEET

Asetek A/S
Consolidated Balance Sheet
As of December 31, 2016 and 2015

USD 000's	Note	2016	2015
ASSETS			
Non-current assets			
Intangible assets	14	1,871	1,852
Property and equipment	15	1,684	1,188
Deferred income tax assets	11	4,874	-
Other assets		642	496
Total non-current assets		**9,071**	**3,536**
Current assets			
Inventory	17	1,158	1,786
Trade receivables and other	16	13,325	9,366
Cash and cash equivalents		17,610	13,060
Total current assets		**32,093**	**24,212**
Total assets		**41,164**	**27,748**
EQUITY AND LIABILITIES			
Equity			
Share capital	18	417	416
Share premium		-	76,665
Retained earnings		28,130	(58,633)
Translation and other reserves		(257)	198
Total equity		**28,290**	**18,646**
Non-current liabilities			
Long-term debt	19	264	259
Total non-current liabilities		**264**	**259**
Current liabilities			
Short-term debt	19	524	375
Accrued liabilities		1,305	789
Accrued compensation and employee benefits		1,413	1,272
Trade payables		9,368	6,407
Total current liabilities		**12,610**	**8,843**
Total liabilities		**12,874**	**9,102**
Total equity and liabilities		**41,164**	**27,748**

The Notes on the following pages are an integral part of these consolidated financial statements.

CASH FLOWS

Asetek A/S
Consolidated Cash Flow Statement
For the years ended December 31, 2016 and 2015

USD 000's	Note	2016	2015
Cash flows from operating activities			
Income (loss) for the year		9,637	(1,647)
Depreciation and amortization	14, 15	2,450	2,390
Finance costs	9	8	67
Income tax expense (income)	10, 11	(4,646)	(438)
Impairment of intangible assets		28	-
Cash receipt (payment) for income tax		(40)	934
Share based payments expense	7	328	321
Changes in trade receivables, inventories, other assets		(3,895)	(6,937)
Changes in trade payables and accrued liabilities		3,936	4,243
Net cash used in operating activities		**7,806**	**(1,067)**
Cash flows from investing activities			
Additions to intangible assets	14	(1,835)	(1,489)
Purchase of property and equipment	15	(1,077)	(882)
Net cash used in investing activities		**(2,912)**	**(2,371)**
Cash flows from financing activities			
Funds drawn against line of credit		142	90
Proceeds from issuance of share capital	18	133	13,148
Cash paid for fees related to financing	18	-	(832)
Principal and interest payments on finance leases		(100)	(76)
Net cash provided by financing activities		**175**	**12,330**
Effect of exchange rate changes on cash and cash equivalents		(519)	(2)
Net changes in cash and cash equivalents		**4,550**	**8,890**
Cash and cash equivalents at beginning of period		13,060	4,170
Cash and cash equivalents at end of period		**17,610**	**13,060**
Supplemental disclosure - non-cash transactions			
Equipment acquired under finance leases		$ 140	$ 76

The Notes on the following pages are an integral part of these consolidated financial statements

EQUITY

Asetek A/S
Consolidated Statement of Changes in Equity
For the years ended December 31, 2016 and 2015

(USD 000's)	Share capital	Share premium	Translation reserves	Other reserves	Accumulated deficit	Total
Equity at December 31, 2014	**264**	**64,451**	**26**	**(12)**	**(57,307)**	**7,422**
Total comprehensive income for 2015						
Loss for the year	-	-	-	-	(1,647)	(1,647)
Foreign currency translation adjustments	-	-	181	-	-	181
Total comprehensive loss for 2015	**-**	**-**	**181**	**-**	**(1,647)**	**(1,466)**
Transactions with owners in 2015						
Shares issued	152	12,993	-	3	-	13,148
Less: issuance costs	-	(779)	-	-	-	(779)
Share based payment expense	-	-	-	-	321	321
Transactions with owners in 2015	**152**	**12,214**	**-**	**3**	**321**	**12,690**
Equity at December 31, 2015	**416**	**76,665**	**207**	**(9)**	**(58,633)**	**18,646**
Total comprehensive income for 2016						
Income for the year	-	-	-	-	9,637	9,637
Foreign currency translation adjustments	-	-	(455)	-	-	(455)
Total comprehensive income for 2016	**-**	**-**	**(455)**	**-**	**9,637**	**9,182**
Transactions with owners in 2016						
Shares issued	1	133	-	-	-	134
Transfer	-	(76,798)	-	-	76,798	-
Share based payment expense	-	-	-	-	328	328
Transactions with owners in 2016	**1**	**(76,665)**	**-**	**-**	**77,126**	**462**
Equity at December 31, 2016	**417**	**-**	**(248)**	**(9)**	**28,130**	**28,290**

The Notes on the following pages are an integral part of these consolidated financial statements

NOTES

1. GENERAL INFORMATION

Asetek A/S ('the Company'), and its subsidiaries (together, 'Asetek Group', 'the Group' or 'Asetek') designs, develops and markets liquid cooling solutions used in personal computers, servers and data centers. 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'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

The consolidated financial statements have been prepared on a historical cost convention, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the supplementary Danish information requirements for class D publicly listed companies. The amendment to Danish Statements ÅRL § 97a has been early adopted. Certain prior period amounts have been reclassified to conform to current period presentation.

2.2. Consolidation

The consolidated financial statements comprise the Company and its consolidated subsidiaries. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Intercompany transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from the intercompany transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

2.3. Foreign currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Company's operations in the United States of America, Denmark and China are the U.S. dollar, Danish kroner, and Chinese Yuan Renminbi, respectively. The consolidated financial statements are presented in U.S. dollars, which is the Group's presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized as operating expense in the income statement in foreign exchange (loss)/gain.

Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates;
- All resulting exchange differences are recognized in other comprehensive income

2.4. Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided over the estimated useful lives of the depreciable assets, generally three to five years, using the straight-line method. The assets' useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized as other income or expense in the consolidated income statement. Property and equipment is grouped as follows:

Group	Estimated Useful Life
Leasehold improvements	Lesser of 5 years or lease term
Plant and machinery	5 years
Tools, equipment, fixtures	3 to 5 years

2.5. Research and development

Research costs are expensed as incurred. Costs directly attributable to the design and testing of new or improved products to be held for sale by the Group are recognized as intangible assets within development projects when all of the following criteria are met:

- It is technically feasible to complete the product so that it will be available for sale;
- management intends to complete the product and use or sell it;
- there is an ability to use or sell the product;
- it can be demonstrated how the product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the product are available; and
- the expenditure attributable to the product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the product include the employee costs associated with development. Other development expenditures that do not meet these criteria are recognized as expense when incurred. Development costs previously recognized as expense are not recognized as an asset in a subsequent period. Development costs recognized as assets are amortized on a straight-line basis over their estimated useful lives, which generally range between three and forty-eight months. Amortization expense related to capitalized development costs is included in research and development expense.

2.6. Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment annually, and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of 1) an asset's fair value less costs to sell or 2) its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that previously suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7. Financial assets

Recognition and Measurement. The Group determines the classification of its financial assets at initial recognition. Financial assets within the scope of IAS 39 are classified as follows:

- 'Financial assets at fair value through profit or loss' are financial assets held for trading, and are classified as current if they are expected to be settled within twelve months.
- 'Loans and receivables' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets except when they have maturities of twelve months or more from the balance sheet date.
- 'Available-for-sale financial assets' are all others that are designated in this category or not classified in the other categories.

For all years presented, the Group's financial assets include only 'loans and receivables'.

Impairment of financial assets. For financial assets carried at amortized cost, the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. As of December 31, 2016, the Company has not incurred any impairment losses on financial assets.

2.8. Financial liabilities

Recognition and measurement. Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, or other liabilities. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognized initially at fair value less, in the case of other liabilities, directly attributable transaction costs. The measurement of financial liabilities depends on their classification as follows:

- 'Financial liabilities at fair value through profit or loss' are liabilities entered into that do not meet the hedge accounting criteria as defined by IAS 39. Gains or losses on liabilities held for trading are recognized in profit and loss.
- 'Other liabilities' – After initial recognition, interest bearing debt is subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Offsetting of financial instruments. Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.9. Inventories

Inventories are stated at the lower of actual cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale. Adjustments to reduce the cost of inventory to its net realizable value, if required, are made for estimated excess, obsolescence, or impaired balances.

2.10. Trade receivables

Trade receivables are amounts due from customers for product sold in the ordinary course of business. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any provision for impairment. If collection is expected in one year or less, trade receivables are classified as current assets.

2.11. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits with banks, overdrafts and other short-term highly liquid investments with original maturities of three months or less.

2.12. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.13 Share-based payments

The Company issues options (or warrants) that allow management and key personnel to acquire shares in the Company. Through equity-settled, share-based compensation plans, the Company receives services from employees as consideration for the granting of equity options to purchase shares in the Company at a fixed exercise price. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions. The grant date fair value of options granted is recognized as an employee expense with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options (vesting period). The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions as set forth in the share option program. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. At each reporting date, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. The impact of the revision to original estimates, if any, is recognized in the Statement of Comprehensive Income, with a corresponding adjustment to equity.

2.14. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.15. Revenue recognition and other income

Revenue represents sale of the Group's products to customers which are principally resellers and original equipment manufacturers. Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, sales tax, returns and after eliminating sales within the Group.

The Group recognizes revenue when shipment or delivery has occurred, the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow to the entity. Customer purchase orders and/or contracts are used as evidence of an arrangement. Delivery occurs when products are shipped to the specified location and the risks of obsolescence and loss have been transferred to the customer. For certain customers with vendor-managed inventory, delivery does not occur until product is acquired by the customer from the vendor-managed inventory location. The Company assesses collectability based primarily on the creditworthiness of the customer as determined by credit checks and customer payment history. Customers do not generally have a right of return.

The Company enters into contracts with the United States government and California state government to deliver products and services under time and materials and costs-plus arrangements. Revenue under such contracts is recorded as costs are incurred and includes estimated earned fees in proportion that costs incurred-to-date bear to total estimated costs. The Company also periodically receives funding from government agencies and other customers to assist with the development and testing of specific technologies. Such awards are recognized over the period that the costs are incurred and are recorded as an offset to research and development expense.

Income received as a result of patent litigation settlement is recorded as other income as an offset to operating expense in the period the award is granted.

2.16. Leases

Leases in which more than an insignificant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

The Group leases certain property and equipment. Leases of property and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases and the asset is accounted for as if it has been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments over the term of the lease.

Finance lease payments are allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Amounts due within one year are classified as current liabilities. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.17. Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. If the impact of time value is significant, the provision is calculated by discounting anticipated future cash flow using a discount rate before tax that reflects the market's pricing of the present value of money and, if relevant, risks specifically associated with the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

2.18. Contingent liabilities

Contingent liabilities are not recognized in the financial statements. Significant contingent liabilities are disclosed, with the exception of contingent liabilities where the probability of the liability occurring is remote.

2.19. Segment reporting

Business segmentation. The Group is reporting on two distinct segments: Desktop and Data center. 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 and headquarters administration have been classified separately as headquarters costs and excluded from segment operating expenses as indicated. The CEO is the Group's chief operating decision-maker.

The CEO assesses the performance of each segment principally on measures of revenue, gross margins, and adjusted EBITDA.

Geographical segmentation. Each of the Group's offices in its three principal geographies fulfills a particular function that serves the Asetek Group as a whole. The majority of costs incurred in each of the geographies are generally incurred for the benefit of the entire Group and not to generate revenue in the respective geography. As a result, the financial results of the Group are not divided between multiple geographical segments for key operating decision-making. Revenue and assets by geography is measured and reported in Note 4, Geographical information.

2.20. Cash flow statement

The cash flow statement is prepared using the indirect method.

2.21. Critical accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Areas where significant judgment has been applied are:

- Valuation of deferred tax assets: deferred income tax assets are recognized to the extent that the realization of the tax benefit to offset future tax liabilities is considered to be probable. Through 2015, the Group had not recognized deferred income tax assets due to historical losses and uncertainty of future profits. In the 2015 tax filings, the Group utilized $1.0 million of net operating loss carryforwards to reduce U.S. taxable income. In 2016, as a result of current earnings and future earnings estimates, the Company recorded deferred tax assets for the estimated amount of net operating losses that will be utilized to offset future taxable income. In future periods, management will continue to assess the probability of realization of the assets' value and adjust the valuation in accordance with IAS 12.
- Capitalization of development costs: 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. The application of this policy involves the ongoing consideration by management of the forecasted economic benefit from such projects compared to the level of capitalized costs, together with the selection of amortization periods appropriate to the life of the associated revenue from the product. If customer demand for products or the useful lives of products vary from management estimates, impairment charges on intangibles could increase.

2.22. Defined contribution plan

In 2008, the Company established a defined contribution savings plan (the "Plan") in the U.S. that meets the requirements under Section 401(k) of the U.S. Internal Revenue Code. This Plan covers substantially all U.S. employees who meet the minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pre-tax basis. Company contributions to the Plan may be made at the discretion of the board of directors. Through December 31, 2016, there have been no contributions made to the Plan by the Company.

2.23. Changes in accounting policy and disclosures

Applied new standards and amendments included in Annual Report for 2016. Certain new standards, amendments to standards, and annual improvements to standards and interpretations are effective for annual periods beginning after January 1, 2016, and have been applied in preparing these consolidated financial statements. None of these have a significant effect on the consolidated financial statements of the Group.

New standards and amendments not applied in the Annual Report for 2016. A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group:

EU Endorsed as of December 31, 2016

Standard	Content	Effective Date
IFRS 15: Revenue from Contracts with Customers	The IASB has issued a new standard for the recognition of revenue. IFRS 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The principle is applied to each individual performance obligation identified in the contract. This standard may potentially affect the timing of revenue recognition, recognition of variable consideration, allocation of revenue from multi-element arrangements, recognition of revenue from license rights, up-front fees, and additional disclosure requirements. This standard is not expected to have a significant effect on the consolidated financial statements of the Asetek Group.	1-Jan-18

IFRS 9: Financial Instruments - on the measurement and classification of financial assets and liabilities	The standard replaces IAS 39, Financial instrument, recognition and measurement. The number of classification categories for financial assets is reduced to three: amortised cost, fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI). Entities taking the fair value option are required under IFRS 9 to present the share of the fair value change for the period which is attributable to changes in the entity's own credit risk in other comprehensive income. Further, the impairment model for financial assets is changed to a model based on expected credit losses under which changes to the credit risk imply changes to the provision for bad debts. The hedge accounting rules are relaxed so as to be aligned with the entity's risk management practices. This standard is not expected to have a significant effect on the consolidated financial statements of the Asetek Group.	1-Jan-18

Not endorsed by EU as of December 31, 2016

Standard	Content	Effective Date
IFRS 14: Regulatory deferral accounts	New common standard on regulatory assets (surplus/deficit) for first-time adopters of IFRS. The EU has, however, positively decided that this standard should not be applicable within the EU.	1-Jan-16
IFRS 16: Leases	New standard on the accounting treatment of operating leases. In the future, leases are to be recognized in the balance sheet with a lease asset and a corresponding lease liability. Asetek expects to implement the standard when it comes into effect. Asetek is examining the effect of the standard which cannot yet be determined.	1-Jan-19
IAS 12: Income Taxes	Amendments clarifying the requirements for recognising deferred tax assets on unrealised losses on securities adjusted to fair value through other comprehensive income.	1-Jan-17
IAS 7: Statement of Cash Flows	Additional disclosures on reconciliation of financial liabilities required. Interest-bearing debt to be reconciled from beginning to end of period.	1-Jan-17
IFRS 15: Revenue from Contracts with Customers	Clarifications concerning the identification of performance obligations, principal versus agent considerations and license considerations.	1-Jan-18
IFRS 2: Share based payment	Changes to vesting conditions for cash-settled share-based payment schemes and the accounting treatment of modifications to a cash-based scheme.	1-Jan-18
IFRIC 22: Foreign Currency Transactions and Advance Consideration	The exchange rate at the date of transaction of the advance consideration is to be applied. In case of multiple advance payments, a date of transaction is to be determined for each payment.	1-Jan-17
IAS 40: Investment Property	Amendments clarify the use of the provisions of IAS 40, Investment Property, on transfers to and from investment property.	1-Jan-18
Annual improvements: IFRS 1, First time adoption	Minor amendment deletes short-term exemptions for first-time adopters of IFRS related to transitional provisions in specific standards because they have now served their intended	1-Jan-17
Annual improvements: IFRS 12, Disclosure of interest in other entities	A purfewpo dsies. closure requirements under IFRS 12 also applicable to interests classified as held for sale, held for distribution or as discontinued operations under IFRS 5. Assets classified as held for sale are exempt from other disclosure requirements under IFRS 12.	1-Jan-17
Annual improvements: IAS 28, Investments in Associates	The option to measure at fair value through profit or loss an investment in an associate or a joint venture held by an entity that is a venture capital organization is available for each investment in an associate or joint venture on an investment-by-investment basis.	1-Jan-18

3. RISK MANAGEMENT AND DEBT

The Group's activities expose it to a variety of risks: liquidity risk, market risk (including foreign exchange risk and interest rate risk) and credit risk. The primary responsibility for Asetek's risk management and internal controls in relation to the financial reporting process rests with executive management. Asetek's internal control procedures are integrated in the accounting and reporting systems and include procedures with respect to review, authorization, approval and reconciliation. Management is in charge of ongoing efficient risk management, including the identification of material risks, the development of systems for risk management, and that significant risks are routinely reported to the board of directors.

Liquidity risk. The Group incurred losses from operations and negative cash flows from operations from inception through 2015; positive cash flows and net earnings were generated for the first time in 2016. The Group secured liquidity through its initial public offering of common shares in 2013 and subsequent equity offerings in 2015. Previously the Group issued convertible preferred shares, convertible debt and notes payable to shareholders, and secured bank lines of credit and trade receivables financing. The Group's corporate finance team monitors risk of a shortage of funds through regular updates and analysis of cash flow projections and maturities of financial assets and liabilities. The finance teams also review liquidity, balance sheet ratios (such as days' sales outstanding, inventory turns) and other metrics on a regular basis to ensure compliance both on a short- and long-term basis.

In October 2016, the Board of Directors announced a new dividend policy and intends to propose a cash dividend of NOK1.00 per share to the Annual General Meeting in 2017. When proposing the annual dividend level, the Board takes into consideration the Company's growth plans, liquidity requirements and necessary financial flexibility. In addition to the new dividend policy, Asetek will continue to invest its capital in the development and marketing of its cooling products.

The following are contractual maturities of financial liabilities, including estimated interest payments on an undiscounted basis.

Debt Maturities

As of December 31, 2016

(USD 000's)	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Line of credit	(414)	-	-	-	(414)
Finance leases	-	(27)	(83)	(264)	(374)
Lease deposit	-	-	(82)	-	(82)
Trade payables and accrued liabilities	-	(11,343)	(661)	-	(12,004)
	(414)	**(11,370)**	**(826)**	**(264)**	**(12,874)**

As of December 31, 2015

(USD 000's)	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Line of credit	(288)	-	-	-	(288)
Finance leases	-	(22)	(65)	(259)	(346)
Lease deposit	-	-	(84)	-	(84)
Trade payables and accrued liabilities	-	(7,993)	(391)	-	(8,384)
	(288)	**(8,015)**	**(540)**	**(259)**	**(9,102)**

Market risk factors. The Group's current principal financial liabilities consist of short-term debt on revolving lines of credit. The Group's financial assets mainly comprise trade receivables, cash and deposits. The Group's operations are exposed to market risks, principally foreign exchange risk and interest rate risk.

(a) Foreign exchange risk. With few exceptions, the Group's inventory purchase and sale transactions are denominated in U.S. dollars. The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures, principally with respect to the Danish kroner. Foreign exchange risk arises from operating results and net assets associated with Denmark-based operations where the Danish krone is the functional currency. Transactions that are denominated in Danish kroner result in foreign exchange gains (losses) in the U.S. dollar-based financial statements, and translation of the Denmark entity balance sheet accounts from Danish kroner to U.S. dollars affect the equity balances of the Group. The Company's Denmark entity has a revolving line of credit available totaling 3.5 million Danish kroner ($0.5 million) as of December 31, 2016. The Group does not enter into derivatives or other hedging transactions to manage foreign exchange risk. Management mitigates this exposure through timely settlement of intercompany operating liabilities.

The ending exchange rate at December 31, 2016 was 7.05 Danish kroner to one U.S. dollar (6.83 to the U.S. dollar at December 31, 2015). The effect of a 10% strengthening (weakening) of the Danish kroner against the U.S. dollar for the reporting period would have resulted in an increase (decrease) in post-tax income for fiscal year 2016 of $823,000 and comparable increase in 2015 of the post-tax loss of $210,000.

(b) Interest rate risk. As of December 31, 2016, Asetek had the following debt outstanding that is subject to interest rate risk:

- Line of credit with Sydbank – 3.5 million Danish kroner revolving line of credit available to Asetek A/S. Total line in USD is approximately $0.5 million, $414 thousand of which was outstanding at December 31, 2016. The line carries interest at the Danish CIBOR 3 rate plus 4.5 percentage points, which in total was 2.75% at December 31, 2016. Based on the line's revolving, short-term nature, interest rate risk is not significant.

Capital and debt management. Because the Company is in the relatively early stages of developing its data center market, its primary focus has been to support its product development initiatives, maintain liquidity through use of financing alternatives, and maximize shareholder value. The Group manages its capital and debt structure with consideration of economic conditions. In March 2013, the Company completed an initial public offering on the Oslo Stock Exchange, raising net $21.4 million, to support its market strategies and liquidity needs. In March 2015, the Company raised $11.6 million of net proceeds through private placement of 10 million new common shares, at a price of NOK 10.00 per share. In April 2015, the Company issued 480 thousand new shares in a public offering at NOK 10.00 per share, receiving proceeds of $0.6 million. With regard to future capital needs, the Company will continue to consider both equity and debt financing strategies.

Credit risk factors. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is exposed to credit risk primarily through trade receivables and cash deposits. Management mitigates credit risk through standard review of customer credit-worthiness and maintaining its liquid assets primarily with reputable banks, principally Wells Fargo Bank in the U.S. and Sydbank in Denmark. The carrying amount of the financial assets represents the maximum credit exposure. Trade receivables that are deemed uncollectible are charged to expense with an offsetting allowance recorded against the trade receivable. Historically, bad debt expense has not been significant. Certain customers in the Desktop segment have accounted for a significant portion of the Company's revenues in the years presented, as follows. In 2016 and 2015, one customer accounted for 53% and 60% of revenue, respectively. At December 31, 2016 and 2015, one customer represented 46% and 62% of outstanding trade receivables, respectively. The reserve for uncollectible trade accounts was $37,000 at December 31, 2016 and $19,000 at December 31, 2015. The aged trade receivables and bad debt reserve balances for all years presented are provided in Note 16.

The maximum exposure to credit risk at the reporting dates was:

(USD 000's)	2016	2015
Cash and cash equivalents	17,610	13,060
Trade receivables and other	13,325	9,366
Other assets	642	496
Maximum credit exposure	**31,577**	**22,922**

4. GEOGRAPHICAL INFORMATION

The Group operates internationally in several geographical areas mainly in Asia, Europe and the Americas.
The following table presents the Group's revenue and assets in each of the principal geographical areas:

(USD 000's)	2016		
	Revenue	Current assets	Non-current assets
Asia	42,620	11,254	15
Americas	7,087	2,686	2,223
Europe	1,214	18,153	6,833
Total	**50,921**	**32,093**	**9,071**

(USD 000's)	2015		
	Revenue	Current assets	Non-current assets
Asia	30,377	7,699	9
Americas	4,216	2,412	835
Europe	1,389	14,101	2,692
Total	**35,982**	**24,212**	**3,536**

Revenue in Denmark (country of domicile) was $0.1 million in 2016 ($0.2 million in 2015). Non-current assets in Denmark were $6.8 million in 2016 ($2.7 million in 2015). Revenue in Hong Kong, Taiwan and USA represented 55%, 18% and 13% of total revenue in 2016, respectively (62%, 18% and 10%, respectively, in 2015).

For the purpose of the above presentation, the information pertaining to revenue and current assets is calculated based on the location of the customers, whereas information pertaining to non-current assets is based on the physical location of the assets. The information pertaining to current assets is calculated as a summation of assets such as trade receivables and finished goods inventories reasonably attributable to the specific geographical area.

5. SEGMENT INFORMATION

The Company reports on two segments, Desktop and Data center. The Desktop and Data center segments are identified by their specific sets of products and specific sets of customers. The CEO is the Group's chief operating decision-maker. The CEO assesses the performance of each segment principally on measures of revenue, gross margins, and adjusted EBITDA. The following tables represent the results by operating segment in 2016 and 2015. Income and expense items below adjusted EBITDA, to arrive at income (loss) before tax, are provided as supplemental disclosures.

Condensed income statement - years ended December 31,	2016				2015			
(USD 000's)	**Desktop**	**Datacenter**	**Not allocable to divisions**	**Total**	**Desktop**	**Datacenter**	**Not allocable to divisions**	**Total**
Revenue	45,752	5,169	-	50,921	34,121	1,861	-	35,982
Cost of goods sold	27,482	3,689	-	31,171	22,486	1,084	-	23,570
Gross profit	**18,270**	**1,480**	**-**	**19,750**	**11,635**	**777**	**-**	**12,412**
Operating costs	3,128	6,559	2,616	12,303	4,405	6,667	2,796	13,868
Litigation settlement received	-	-	-	-	-	-	(1,844)	(1,844)
Adjusted EBITDA	**15,142**	**(5,079)**	**(2,616)**	**7,447**	**7,230**	**(5,890)**	**(952)**	**388**
Depreciation in operating expense	806	1,644	-	2,450	1,005	1,385	-	2,390
Share based compensation	77	137	114	328	81	127	113	321
Financial income (expenses)	-	-	322	322	-	-	238	238
Income (loss) before tax	**14,259**	**(6,860)**	**(2,408)**	**4,991**	**6,144**	**(7,402)**	**(827)**	**(2,085)**

Condensed balance sheet - as of December 31,								
Total investment	**5,546**	**2,542**	**20,202**	**28,290**	**4,255**	**2,429**	**11,963**	**18,646**
Total assets	14,709	3,436	23,020	41,164	10,615	3,136	13,997	27,748
Total liabilities	9,162	894	2,818	12,874	6,360	708	2,034	9,102

Changes in intangible assets - years ended December 31,								
Opening balance, intangible assets	**665**	**1,187**	**-**	**1,852**	**936**	**1,398**	**-**	**2,334**
Gross additions	736	1,099	-	1,835	548	941	-	1,489
Amortization and other	(499)	(1,317)	-	(1,816)	(819)	(1,152)	-	(1,971)
Ending balance, intangible assets	**902**	**969**	-	**1,871**	**665**	**1,187**	-	**1,852**

6. SALARY COSTS AND REMUNERATIONS

(USD 000's)	2016	2015
Salaries	6,891	6,766
Retirement fund contributions	61	55
Social cost	321	114
Share based payment	328	321
Other expenses	167	207
Total personnel expenses before capitalization	**7,768**	**7,463**
Capitalized as development cost	(1,227)	(1,163)
Total personnel expenses in statement of income	**6,541**	**6,300**
Average number of employees	**79**	**71**

The staff costs are specified as follows:

(USD 000's)	2016	2016
Research and development	2,235	1,936
Selling, general and administrative	5,533	5,527
Total personnel expenses before capitalization	**7,768**	**7,463**

Compensation to the Board of Directors and Officers in 2016

(USD 000's)	Remuneration	Options	Total
Board of Directors	75	48	123
Officers	967	114	1,081
	1,042	**162**	**1,204**

Compensation to the Board of Directors and Officers in 2015

(USD 000's)	Remuneration	Options	Total
Board of Directors	50	32	82
Officers	1,079	123	1,202
	1,129	**155**	**1,284**

The figures listed include incentive based compensation for management and staff. Incentive based compensation is based on a combination of quarterly cash based rewards and periodic grants of options (or warrants) to buy the Company's common shares. The above remuneration for Officers include $22,000 and $22,000 in pension payments in 2016 and 2015, respectively. The bonus plan for the CEO is approved by the Board of Directors at the beginning of the year and the bonus payments for the CEO and the upper management are reviewed by the Board of Directors on an annual basis. All bonus plans are structured to include an absolute dollar cap.

The Company's CEO has an agreement of six months' severance pay in case of termination or termination in connection with change of control. The Company's CFO has an agreement of six months' severance pay in case of termination. Except for the Company's CEO and CFO, no member of the administrative, management or supervisory bodies has contracts with the Company or any of its subsidiaries providing for benefits upon termination of employment.

As of December 31, 2016, The Company's CEO, André Eriksen, held or was in control of 300,000 common shares of the Company and 14,688 options exercisable at $0.96 per share, 86,933 warrants exercisable at $1.30 (NOK10.50) per share, 101,799 warrants exercisable at $2.40 (NOK19.50) per share, 96,167 warrants exercisable at $6.11 (NOK36.50) per share and 24,750 warrants exercisable at $6.70 (NOK40.10) per share. The Company's CFO, Peter Dam Madsen, held 72,741 common shares of the Company and 14,221 options exercisable at $0.96 or $0.94 per share, 50,875 warrants exercisable at $1.30 (NOK10.50) per share, 49,837 warrants exercisable at $2.40 (NOK19.50) per share, 37,800 warrants exercisable at $6.11 (NOK36.50) per share, and 10,313 warrants exercisable at $6.70 (NOK40.10) per share.

7. SHARE BASED PAYMENT

Asetek's Equity Incentive Plan ('the Plan') is a share option program where the employees and other parties that deliver services to the Group have been granted share options (or warrants). The options, if vested and executed, will be settled in common shares of the Company.

The options are granted at the time of employment and, at the discretion of the Board of Directors, under other circumstances. The options are granted with exercise prices equaling the fair market value of the underlying security. The exercise prices of option grants are determined based on the closing market price of the shares on the day of the grant. Share based compensation expense was $328,000 and $321,000 for the years ended December 31, 2016 and 2015, respectively.

The Plan was adopted by the Board of Directors in 2008 and has the following purpose:

- To attract and retain the best available personnel for positions of substantial responsibility;
- to provide additional incentive to employees, directors and consultants, and
- to promote the success of the Company's business.

As of December 31, 2016 there is a total of 3,813,166 common shares authorized under the Plan.

Date of authorization	Number of options
March 2013	1,048,187
August 2013	764,979
April 2015	2,000,000
Total number of warrents authorized	**3,813,166**

In April 2016, 600,000 warrants were granted with exercise prices of $2.40 (NOK19.50) per share. In August, 2015, 700,000 warrants were granted with exercise prices of $1.30 (NOK10.50) per share. In August, 2014, 32,970 warrants were granted with exercise prices of $5.50 (NOK33.90) per share. In April 2014, 118,210 warrants were granted with exercise prices of $6.70 (NOK40.10) per share. Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

		Weighted Average Exercise		Weighted Average Exercise
Activity for exercise prices of $0.94 to $2.40	**2016**	**Price**	**2015**	**Price**
Outstanding on January 1	997,933	1.20	486,073	0.95
Options/warrants granted	600,000	2.40	700,000	1.30
Options/warrants exercised	(95,879)	1.35	(181,399)	0.95
Options/warrants forfeited	(84,657)	1.28	(6,741)	0.96
Outstanding on December 31	**1,417,397**	**1.69**	**997,933**	**1.20**
Exercisable on December 31	**602,829**	**1.37**	**368,648**	**1.02**

The weighted average market price per share on the date of exercise for the above shares was $4.84 in 2016 and $1.48 in 2015.

		Weighted Average Exercise		Weighted Average Exercise
Activity for exercise prices of $5.50 to $6.70	**2016**	**Price**	**2015**	**Price**
Outstanding on January 1	645,525	6.18	764,979	6.18
Options/warrants forfeited	(65,702)	5.59	(119,454)	6.19
Outstanding on December 31	**579,823**	**6.18**	**645,525**	**6.18**
Exercisable on December 31	**495,795**	**6.18**	**418,277**	**6.18**

Of the options and warrants outstanding at December 31, 2016, 125,771 have an exercise price of $0.94 per share, 143,513 have an exercise price of $0.96 per share, 562,749 have an exercise price of $1.30 (NOK10.50) per share, 585,364 have an exercise price of $2.40 (NOK19.50) per share, 26,626 have an exercise price of $5.50 (NOK33.90) per share, 457,647 have an exercise price of $6.11 (NOK36.50) per share, and 95,550 have an exercise price of $6.70 (NOK40.10) per share. The weighted average remaining contractual term is 4.74 years. The Company calculated the fair value of each option award on the date of grant using the Black-Scholes option pricing model. The warrants granted in 2016 have an estimated total value of $328,000. The warrants granted in 2015 have an estimated total value of $241,000. The following weighted average assumptions were used for the period indicated. weighted average remaining contractual term is 4.74 years. The Company calculated the fair value of each option award on the date of grant using the Black-Scholes option pricing model.

The warrants granted in 2016 have an estimated total value of $328,000. The warrants granted in 2015 have an estimated total value of $241,000. The following weighted average assumptions were used for the period indicated.

Valuation assumptions	2016	2015
Risk-free interest rate	1.04%-1.12%	1.18% - 1.42%
Dividend yield	0.0%	0.0%
Expected life of options (years)	3.58-4.07	3.75-4.6
Expected volatility	32%	31%-53%

All options are intended to be exercisable at a price per share not less than the per share fair market value of the common shares underlying those options on the date of grant.

8. EXPENSES BY NATURE

(USD 000's)	2016	2015
Inventories recognized as cost of sales (Note 17)	31,171	23,570
Personnel expenses (Note 6)	7,768	7,463
Depreciation and amortization	2,450	2,390
Legal, patent, consultants and auditor	3,188	4,413
Litigation settlement received	-	(1,844)
Facilities and infrastructure	1,397	1,387
Other expenses	2,113	2,415
Total operating expenses before capitalization	**48,087**	**39,794**
Less: capitalized costs for development projects (Note 14)	(1,835)	(1,489)
Total expenses	**46,252**	**38,305**

Depreciation and amortization expense by classification on the income statement is as follows:

(USD 000's)	2016	2015
Depreciation and amortization included in:		
Research and development	1,241	1,388
Selling, general and administrative	1,209	1,002
Total	**2,450**	**2,390**

9. FINANCE COSTS AND INCOME

(USD 000's)	2016	2015
Foreign exchange gain	330	305
Interest cost on line of credit	(3)	(6)
Interest cost on finance leases	(15)	(14)
Interest income	48	1
Other banking and finance fees	(38)	(48)
Total finance income	**322**	**238**

10. INCOME TAXES

Tax on profit/loss for the year is specified as follows:

(USD 000's)	2016	2015
Current income tax	(228)	438
Deferred income tax	4,874	-
Tax benefit	**4,646**	**438**

The tax benefit for 2016 represents deferred tax assets recognized associated with net operating loss carryforwards. See Note 11. The 2015 tax benefit represents principally credits realized in Denmark associated with investment in research and development. The tax benefit on the group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

(USD 000's)	2016	2015
Income (loss) before tax	**4,991**	**(2,085)**
Tax calculated at domestic rates applicable to profits/losses in respective countries	(1,281)	422
Tax effects of:		
Expenses not deductible for tax purposes	(18)	(152)
Benefit of tax losses recognized	5,948	-
Temporary differences between book and tax	(3)	168
Tax benefit	**4,646**	**438**

11. DEFERRED INCOME TAX

(USD 000's)	2016	2015
Potential tax assets from prior year losses	11,480	13,907
Tax assets not considered probable to realize before expiration	(6,606)	(13,907)
Deferred income tax asset	**4,874**	**-**

At December 31, 2016, potential income tax assets totaled $11.5 million (2015: $13.9 million) in respect of losses amounting to $56.6 million that should be applied to different tax rates. The losses can be carried forward against future taxable income. In 2016, the Group recorded deferred tax assets totaling $4.9 million, which represents the net tax benefit that the Company considers probable to be realized through the year 2019, based on Company budget for 2017, and estimates for 2018 and 2019. It is not possible to establish reasonably accurate budgets for periods beyond 2019. Prior to 2016, the Group did not recognize deferred income tax assets due to uncertainty of realizability.

In accordance with IAS 12, the Company recognizes deferred tax assets arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilized by the Company. The estimated tax benefit is calculated considering recent historical levels of income, expectations and risks associated with estimates of future taxable income. The calculation utilizes the statutory tax rates that are expected to apply to taxable income for the years in which the asset is expected to be realized.

Losses of the U.S. parent company and U.S. subsidiary will begin to expire in 2028 for carryforward purposes. Losses of the Denmark subsidiary do not expire. Expiration of the carryforward of losses is summarized as follows:

(USD 000's)	Tax effected loss
Expire in years 2028 to 2034	1,461
Do not expire	3,413
Total	**4,874**

12. EARNINGS PER SHARE

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.

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

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

13. FINANCIAL INSTRUMENTS CATEGORY AND FAIR VALUE ESTIMATION

The Company uses the following valuation methods for fair value estimation of its financial instruments:

- Quoted prices (unadjusted) in active markets (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

All of the Company's financial assets as of December 31, 2016 are classified as 'loans and receivables' having fixed or determinable payments that are not quoted in an active market (Level 3). As of December 31, 2016, all of the Company's financial liabilities are carried at amortized cost.

The Company believes that book value approximates fair value for all financial instruments as of December 31, 2016. The values of the Group's assets and liabilities are as follows:

As of December 31, 2016

(USD 000's)	Loans and receivables
Assets as per balance sheet:	
Trade receivables and other	13,325
Cash and cash equivalents	17,610
	30,935

As of December 31, 2016

(USD 000's)	Liabilities at fair value through profit and loss	Other financial liabilities at amortized cost	Total
Liabilities as per balance sheet:			
Long-term debt	-	264	264
Short-term debt	-	524	524
Trade payables and accrued liabilities	-	12,086	12,086
	-	**12,874**	**12,874**

As of December 31, 2015

(USD 000's)	Loans and receivables
Assets as per balance sheet:	
Trade receivables and other	9,366
Cash and cash equivalents	13,060
	22,426

As of December 31, 2015

(USD 000's)	Liabilities at fair value through profit and loss	Other financial liabilities at amortized cost	Total
Liabilities as per balance sheet:			
Long-term debt	-	259	259
Short-term debt	-	375	375
Trade payables and accrued liabilities	-	8,468	8,468
	-	**9,102**	**9,102**

14. INTANGIBLE ASSETS

The Group routinely incurs costs directly attributable to the design and testing of new or improved products to be held for sale. These costs are capitalized as intangible assets and amortized over the estimated useful lives of the products, typically three to forty-eight months. The following table presents a summary of these development projects.

(USD 000's)	2016	2015
Cost:		
Balance at January 1	6,340	4,866
Additions	1,835	1,489
Deletions - completion of useful life	(1,231)	-
Impairment loss	(186)	(15)
Balance at December 31	**6,758**	**6,340**
Accumulated amortization and impairment losses:		
Balance at January 1	(4,488)	(2,532)
Amortization for the year	(1,784)	(1,970)
Amortization associated with deletions	1,227	3
Amortization associated with impairment losses	158	11
Balance at December 31	**(4,887)**	**(4,488)**
Carrying amount	**1,871**	**1,852**

Impairment tests are performed annually on developed assets. Impairment tests are also performed on completed assets whenever there are indications of a need for write-offs and for assets still in development regardless of whether there have been indications for write downs. If the value of expected future free cash flow of the specific development project is lower than the carrying value, the asset is written down to the lower value.

The booked value includes capitalized salary expenses and other net assets for the cash flow producing project. Expected future free cash flow is based on budgets and anticipations prepared by management. The main parameters are the development in revenue, EBIT and working capital.

15. PROPERTY AND EQUIPMENT

The following table presents a summary of property and equiptment activity.

(USD 000's)	Leasehold improvements	Machinery	Other fixtures, fittings, tools, equipment	Total
Cost:				
Balance at January 1, 2015	277	1,761	435	2,473
Additions	42	565	351	958
Disposals	-	(64)	(36)	(100)
Exchange rate difference	(19)	(136)	(41)	(196)
Balance at December 31, 2015	**300**	**2,126**	**709**	**3,135**
Balance at January 1, 2016	300	2,126	709	3,135
Additions	70	820	332	1,222
Disposals	-	(64)	(15)	(79)
Exchange rate difference	(10)	(83)	(34)	(127)
Balance at December 31, 2016	**360**	**2,799**	**992**	**4,151**
Acccumulated depreciations				
Balance at January 1, 2015	(113)	(1,311)	(319)	(1,743)
Disposals	-	64	36	100
Depreciations for the year	(44)	(303)	(73)	(420)
Exchange rate differences	5	85	26	116
Balance at December 31, 2015	**(152)**	**(1,465)**	**(330)**	**(1,947)**
Balance at January 1, 2016	(152)	(1,465)	(330)	(1,947)
Disposals	-	64	15	79
Depreciations for the year	(53)	(444)	(169)	(666)
Exchange rate differences	5	47	16	68
Balance at December 31, 2016	**(200)**	**(1,798)**	**(468)**	**(2,466)**
Carrying amount at December 31, 2015	**148**	**661**	**379**	**1,188**
Carrying amount at December 31, 2016	**160**	**1,001**	**524**	**1,685**

At December 31, 2016, property and equipment includes leased equipment at a gross value of approximately $656,000 which had accumulated amortization of $476,000. (2015: gross value of $527,000 and accumulated amortization of $333,000).

16. TRADE RECEIVABLES AND OTHER

Trade receivables are non-interest bearing and are generally on payment terms of Net 30 days

(USD 000's)	2016	2015
Gross trade receivables	12,986	8,408
Provision for uncollectible accounts	(37)	(19)
Net trade receivables	**12,949**	**8,389**
Other receivables and assets	376	977
Total trade receivables and other	**13,325**	**9,366**

The aging of trade receivables as of the reporting date is as follows

(USD 000's)	Total	0 to 30 days	31 to 60 days	61 to 90 days	Over 90 days
December 31, 2016	12,986	6,596	5,721	271	398
December 31, 2015	8,408	4,753	3,266	249	140

The trade receivables of Asetek Danmark A/S carry a general lien of 6 million Danish krone ($0.9 million), representing collateral on Sydbank's engagement with the Company. The carrying amount of trade receivables is approximately equal to fair value due to the short term to maturity. Regarding credit risks, refer to Note 3.

A summary of the activity in the provision for uncollectible accounts is as follows:

(USD 000's)	2016	2015
Balance at January 1	(19)	(48)
Additions	(37)	(19)
Reversals	19	48
Balance at December 31	**(37)**	**(19)**

Other receivables. Other receivables include $0.4 million of income tax benefit receivable as of December 31, 2015. Refer to Note 10.

17. INVENTORIES

(USD 000's)	2016	2015
Raw materials	705	542
Finished goods	571	1,349
Total gross inventories	**1,276**	**1,891**
Less: provision for inventory reserves	(118)	(105)
Total net inventories	**1,158**	**1,786**

(USD 000's)	2016	2015
Inventories recognized as cost of sales during the period	(31,171)	(23,570)
Write-down of inventories to net realizable value	(118)	(105)

A summary of activity in the provision for inventory reserves is as follows

(USD 000's)	2016	2015
Balance at January 1	(105)	(78)
Additions	(118)	(105)
Write-offs	105	78
Balance at December 31	**(118)**	**(105)**

18. SHARE CAPITAL

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

The Company has reserved 1,150 thousand shares (4.5% of total shares, nominal value DKK 115 thousand) for future exercises of options. In 2016, a total of 96 thousand options (0.4% of total shares, nominal value DKK 10 thousand) were exercised resulting in $0.1 million funds received by the Company. In 2015, a total of 181 thousand options (0.7% of total shares, nominal value DKK 18 thousand) were exercised resulting in $0.2 million funds received by the Company.

As of December 31, 2016, there are 24,919 thousand common shares outstanding with a nominal value of 0.10 DKK per share and 502 thousand shares (2.0% of total shares, nominal value DKK 50 thousand) held in treasury. Included in equity is a reserve for treasury shares of approximately $9,000 at December 31, 2016.

A dividend in respect of the year ended December 31, 2016 of NOK 1.00 per share, for a total payout of $2.9 million, is to be proposed at the annual general meeting on April 25, 2017. These financial statements do not reflect this dividend payable.

The following table summarizes common share activity in the years presented

(000's)	2016	2015
Common shares outstanding - January 1	24,823	14,165
Offerings of new shares	-	10,480
Treasury shares purchased	-	(3)
Options and warrants exercised	96	181
Common shares outstanding - December 31	**24,919**	**24,823**

Refer to 'Shareholder information' in this report for information on the composition of Asetek shareholders

19. NET DEBT

The following is a summary of the Company's outstanding and net debt:

(USD 000's)	2016	2015
Line of credit	(414)	(288)
Finance leases - due within one year	(110)	(87)
Sublease deposit	(82)	(84)
Debt included in current liabilities	**(606)**	**(459)**
Finance leases - due after one year	(264)	(259)
Total debt	**(870)**	**(718)**
Less: cash and equivalents	17,610	13,060
Net debt	**16,740**	**12,342**

Asetek A/S Danmark line of credit. In September 2012, the Company entered into a revolving line of credit agreement with Sydbank. The line is collateralized by the trade receivables of Asetek Danmark A/S and is payable on demand. At December 31, 2016, the total line was 3.5 million Danish kroner, which equates to $496 thousand at December 31, 2016. Interest on the line is payable monthly at the Danish CIBOR 3 rate plus 4.5 percentage points, which in total was 2.75% at December 31, 2016. As of December 31, 2016, the Company had 2.92 million Danish kroner ($414 thousand) outstanding on the line. (1.97 million Danish kroner outstanding at December 31, 2015).

20. LEASES

Operating leases. The Company leases some of its facilities under noncancelable operating leases. Total expense from operating leases was $546,000 in 2016 ($538,000 in 2015). The Company's office space in Aalborg, Denmark is under lease through August 2020 or later. The Company subleases a portion of this facility to another tenant and under the sublease agreement received payments totaling $0.3 million for rent and expenses during the year ended December 31, 2016 ($0.2 million in 2015). The Company's office in San Jose, California is under lease through December 2018. Future minimum operating lease payments are as follows as of the balance sheet date:

(USD 000's)	2016	2015
Minimum operating lease payments due:		
In the following year	523	483
In the second year	522	483
In the third year	345	488
In the fourth year	201	352
In the fifth year and thereafter	-	205
	1,591	**2,011**

Finance leases. The Company has finance leases outstanding for manufacturing, engineering and test equipment and the leases generally have terms of 60 months. There are no lease commitments beyond five years. Future minimum lease payments under finance leases are as follows as of the respective balance sheet date:

(USD 000's)	2016	2015
Minimum finance lease payments as of December 31	400	346
Less: Amount representing interest	(26)	(14)
Total obligations under finance leases	**374**	**332**
Obligations under finance leases due within one year	110	87
Obligations under finance leases due after one year	264	259
	374	**346**

21. TRANSACTIONS WITH RELATED PARTIES

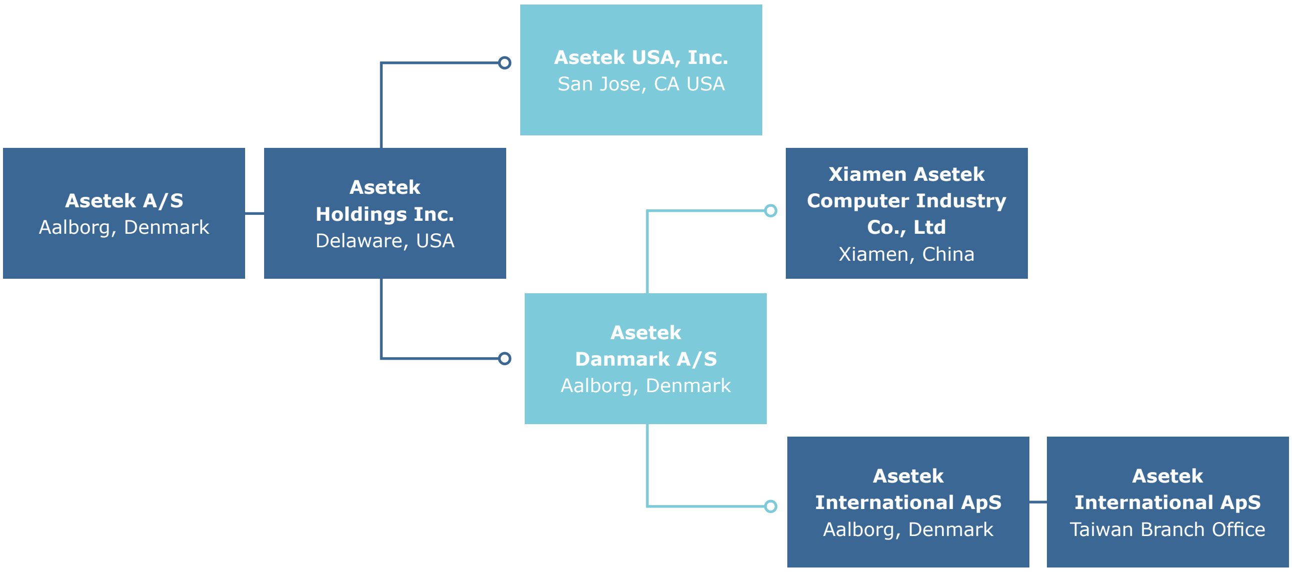
The Company's chairman is a member of the board of directors of a reseller of Company products. During the years ended December 31, 2016 and 2015, the Company had sales of inventory to the reseller of $26.9 million and $21.7 million, which represented 53% and 60% of total revenues, respectively. As of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

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

22. SUBSIDIARIES

The following entities are included in the consolidated accounts:

Company	Domicile	Stake	Voting Share	Activity
Asetek A/S	Denmark	100%	100%	Trading
Asetek Holdings, Inc.	USA	100%	100%	Inactive
Asetek USA, Inc.	USA	100%	100%	Trading
Asetek Danmark A/S	Denmark	100%	100%	Trading
Xiamen Asetek Computer Industry Co., Ltd.	China	100%	100%	Trading
Asetek International ApS	Denmark	100%	100%	Trading
Asetek International ApS - Branch Office	Taiwan	100%	100%	Trading



23. AUDIT FEES

The Group's principal auditors perform audits for all of Asetek's entities except for the Xiamen, China subsidiary, which is audited by a local firm. The Group's principal auditors received a total fee of $118,000 and $172,000 in 2016 and 2015, respectively.

The fee is distributed between these services:

(USD 000's)	2016	2015
Statutory audit	58	87
Other assurance services	19	51
Tax services	41	34
Total	**118**	**172**

24. BOARD OF DIRECTORS

The members of the Board of Directors have reported, that they had the below listed other director positions as of the date of this filing. For the year 2016, the board members have been compensated as listed below.

Name	Current directorships and position	Share compensation from Asetek in 2016 and current holdings
Samuel Szteinbaum	Corsair Components, Inc. – Board member The Wonder Years Inc. – Chairman and CEO The Wash Stop, Inc. – President	14,757 warrants to buy shares at a price of $2.40 (NOK19.50). The warrants are vesting over 12 months and are exercisable for 7 years. Also holds 152,254 shares, and 12,822 warrants at $6.11/share and 11,000 warrants at $6.70/share from grants in prior years. $15,000 in cash compensation.
Chris J. Christopher	Rocky Mountain Innosphere – Board member CloudRegen – Board member	14,757 warrants to buy shares at a price of $2.40 (NOK19.50). The warrants are vesting over 12 months and are exercisable for 7 years. Also holds 55,840 shares and 17,760 options at $0.96/share, 12,822 warrants at $6.11/share, 15,654 warrants at $1.30/share and 11,000 warrants at $6.70/share from prior year grants. $15,000 in cash compensation.
Jim McDonnell	None	14,757 warrants to buy shares at a price of $2.40 (NOK19.50). The warrants are vesting over 12 months and are exercisable for 7 years. Also holds 16,400 shares, 6,408 warrants at $5.50/share and 15,654 warrants at $1.30/share from prior year grants. $15,000 in cash compensation.
Peter Gross	Glumac, Inc. TBC – Board member I3 Solutions, Inc. – Board member Virtual Power Systems, Inc. – Board member	14,757 warrants to buy shares at a price of $2.40 (NOK19.50). The warrants are vesting over 12 months and are exercisable for 7 years. Also holds 350 shares, 6,408 warrants at $5.50/share and 15,654 warrants at $1.30/share from prior year grants. $15,000 in cash compensation.
Knut Øversjøen	Nordic Energy AS – Chairman Kov Invest Holding, Chairman and CEO Spond AS – Board member Scandec Systems, Chairman & CEO Falcon Industrial Partners, AS – Chairman Guardian Corporate AS – Board member Aega ASA – Chairman Aega ASA – Chairman Relacom AB – Board Member Relacom Finland - Chairman	14,757 warrants to buy shares at a price of $2.40 (NOK19.50). The warrants are vesting over 12 months and are exercisable for 7 years. Also holds 24,468 shares and 12,822 warrants at $6.11/share, 11,000 warrants at $6.70/share and 15,654 warrants at $1.30/share from prior year grants. $15,000 in cash compensation.
Jørgen Smidt	Flatfrog AB – Board member Microtask OY – Board member FreeSpee – Board member	Holds 16,600 shares.

25. POST BALANCE SHEET EVENTS

The Company has evaluated the period after December 31, 2016 up through the date of the Statement by Management and determined that there were no transactions that required recognition or disclosure in the Company's financial statements.

26. CONTINGENT LIABILITIES

Joint taxation. The Danish group enterprises are jointly and severally liable for tax on group income subject to joint taxation, as well as for Danish withholding taxes by way of dividend tax, royalty tax, tax on unearned income and any subsequent adjustments to these.

Legal proceedings. In the ordinary course of conducting our business, the Company is involved in various intellectual property proceedings, including those in which it is a plaintiff that are complex in nature and have outcomes that are difficult to predict. Asetek records accruals for such contingencies to the extent that it is probable that a liability will be incurred and the amount of the related loss can be reasonably estimated. The Company's assessment of each matter may change based on future unexpected events. An unexpected adverse judgment in any pending litigation could cause a material impact on the Group's business operations, intellectual property, results of operations or financial position. There are no material updates to matters previously reported on the Asetek 2015 Annual Report, except:

In December 2014, the U.S. District Court unanimously ruled in favor of Asetek on all claims in a patent infringement lawsuit against CMI USA, Inc. ("CMI"). The jury awarded Asetek damages of $0.4 million, representing a 14.5% royalty on CMI's infringing sales since 2012. In September 2015, the court refused additional demands from CMI, issued a permanent injunction barring CMI from selling infringing products in the U.S., and awarded an enhanced royalty rate (25.4%) beginning in 2015, because CMI continued to sell infringing products after the verdict. In October 2015, CMI filed an appeal with the Federal Circuit U.S. Court of Appeals. In December 2016, the Federal Circuit U.S. Court of Appeals affirmed the U.S. District Court's decision on infringement, invalidity and damages in favor of Asetek, but remanded the issue of injunction back to the District Court for further review. CMI has filed an appeal to challenge the Federal Circuit Court's ruling and Asetek has filed its response.

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

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

Other significant commitments of the Company are referenced within the respective Notes to these consolidated financial statements.

ANNUAL REPORT 2016 – PARENT COMPANY

For year ended December 31, 2016

ASETEK

CVR-nr. 33 77 12 31

Comprehensive Income Statement, Parent Company

For the years ended December 31, 2016 and 2015

USD 000's	Note	2016	2015
Service fees	11	774	413
Total revenue		**774**	**413**
Research and development	3, 4, 5	(74)	(51)
Selling, general and administrative	3, 4, 5	(1,473)	(1,260)
Total operating expenses		**(1,548)**	**(1,311)**
Operating loss		**(773)**	**(898)**
Foreign exchange (loss)/gain	6	(15)	454
Finance income	6	121	561
Finance costs	6	(21)	(38)
Total financial income		**85**	**977**
Income (loss) before tax		**(689)**	**79**
Income tax	7	(2)	(175)
Loss for the year		**(691)**	**(96)**
Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:			
Foreign currency translation adjustments		-	-
Total comprehensive loss		**(691)**	**(96)**

All operations are continuing.

Balance Sheet, Parent Company

As of December 31, 2016 and 2015

USD 000's	Note	2016	2015
ASSETS			
Non-current assets			
Investments in subsidiaries	8	20,100	20,100
Receivables from subsidiaries	9	117	3,462
Total non-current assets		**20,217**	**23,562**
Current assets			
Other assets		10	43
Cash and cash equivalents		13,719	10,570
Total current assets		**13,729**	**10,613**
Total assets		**33,945**	**34,175**
EQUITY AND LIABILITIES			
Equity			
Share capital	10	417	416
Share premium		-	33,753
Retained earnings		33,075	(448)
Translation and other reserves		(9)	(9)
Total equity		**33,483**	**33,712**
Current liabilities			
Accrued liabilities		462	463
Total current liabilities		**462**	**463**
Total liabilities		**462**	**463**
Total equity and liabilities		**33,945**	**34,175**

Statement of Cash Flows, Parent Company

For the years ended December 31, 2016 and 2015

USD 000's	Note	2016	2015
Cash flows from operating activities			
Loss for the year		(691)	(96)
Share based payments expense	4	328	314
Changes in other current assets		33	107
Changes in trade payables and accrued liabilities		(1)	421
Net cash provided by (used in) operating activities		**(331)**	**746**
Cash flows from investing activities			
Investment in subsidiaries	8	-	(18,600)
Net receipts from subsidiaries	9	3,343	12,608
Net cash provided by (used in) investing activities		**3,343**	**(5,992)**
Cash flows from financing activities			
Proceeds from issuance of share capital	10	134	13,148
Cash paid for fees related to stock offering	10	-	(832)
Net cash provided by financing activities		**134**	**12,316**
Net changes in cash and cash equivalents		**3,146**	**7,070**
Cash and cash equivalents at beginning of period		10,570	3,500
Cash and cash equivalents at end of period		**13,719**	**10,570**

Statement of Changes in Equity, Parent Company

(USD 000's)	Share capital	Share premium	Translation reserves	Other reserves	Accumulated deficit	Total
Equity at December 31, 2014	**264**	**21,539**	**-**	**(12)**	**(666)**	**21,125**
Total comprehensive income for 2015						
Loss for the year	-	-	-	-	(96)	(96)
Total comprehensive loss for 2015	**-**	**-**	**-**	**-**	**(96)**	**(96)**
Transactions with owners in 2015						
Shares issued	152	12,993	-	3	-	13,148
Less: issuance cost	-	(779)	-	-	-	
Share based payment expense	-	-	-	-	314	314
Transactions with owners in 2015	**152**	**12,214**	**-**	**3**	**314**	**12,683**
Equity at December 31, 2015	**416**	**33,753**	**-**	**(9)**	**(448)**	**33,712**
Total comprehensive income for 2016						
Loss for the year	-	-	-	-	(691)	(691)
Total comprehensive loss for 2016	**-**	**-**	**-**	**-**	**(691)**	**(691)**
Transactions with owners in 2016						
Shares issued	1	133	-	-	-	134
Transfer	-	(33,886)	-	-	33,886	-
Share based payment expense	-	-	-	-	328	328
Transactions with owners in 2016	**1**	**(33,753)**	**-**	**-**	**34,214**	**462**
Equity at December 31, 2016	**417**	**-**	**-**	**(9)**	**33,075**	**33,483**

ASETEK A/S NOTES TO THE ANNUAL REPORT – PARENT COMPANY

1. GENERAL INFORMATION

Reference is made to Note 1 to the Consolidated Financial Statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 2016 financial statements for Asetek A/S have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by IASB and adopted by the EU.

The financial statements are presented in U.S. Dollars (USD), which is the functional currency.

The accounting policies for the Parent Company are the same as for the Asetek Group, as per Note 2 to the consolidated financial statements, with the exception of the items listed below.

2.1. Dividends on investments in subsidiaries, joint ventures and associates.

Dividends on investments in subsidiaries, joint ventures and associates are recognized as income in the income statement of the Parent Company in the financial year in which the dividend is declared.

2.2. Investments in subsidiaries, joint ventures and associates.

Investments in subsidiaries, joint ventures and associates are measured at the lower of cost, which equals book value, or recoverable amount. An impairment test on the investment in subsidiaries is performed if the carrying amount of the subsidiaries' net assets exceeds the carrying value of the Parent Company's investments.

3. TOTAL OPERATING EXPENSES

Operating expenses consisted of the following for the year ended December 31,

(USD 000's)	2016	2015
Personnel expenses (Note 4)	1,170	974
Legal, consultants and auditor	238	198
Other expenses	139	139
Total expenses	**1,548**	**1,311**

4. PERSONNEL EXPENSES

Total personnel costs for the year ended December 31,

(USD 000's)	2016	2015
Salaries, pension and other	842	660
Share based payment	328	314
Total personnel expenses	**1,170**	**974**

Total personnel costs are specified as follows:

(USD 000's)	2016	2015
Research and development	74	51
Selling, general and administrative	1,096	923
Total personnel expenses	**1,170**	**974**

The figures listed above include a portion of the executive management's cash compensation based on an estimate of the actual resources allocated to the management of the parent company. Also, the figures include incentive based compensation in the form of share options and warrants granted to employees in the Asetek Group.

Remuneration of the Group Board of Directors is specified in Note 6 to the Consolidated Financial Statements.

The Company's share based incentive pay program is described in Note 7 of the Consolidated Financial Statements.

5. AUDIT FEES

(USD 000's)	2016	2015
Statutory audit	18	29
Other assurance services	25	48
Tax services	33	34
Total	**76**	**111**

6. FINANCIAL INCOME AND COST

(USD 000's)	2016	2015
Foreign currency exchange (loss) gain	**(15)**	**454**
Interest income on loans to subsidiaries	83	561
Interest from bank accounts	38	-
Total finance income	**121**	**561**
Interest cost on loans from subsidiaries	20	37
Other finance expense	1	1
Total finance cost	**21**	**38**

7. INCOME TAX

Reference is made to Notes 10 and 11 to the Consolidated Financial Statements.

8. INVESTMENT IN SUBSIDIARIES

(USD 000's)	Investment in Asetek Holdings, Inc,
Balance at December 31, 2014	1,500
Additions	18,600
Balance at December 31, 2015	**20,100**
Additions	-
Balance at December 31, 2016	**20,100**
Carrying amount at December 31, 2014	1,500
Carrying amount at December 31, 2015	20,100
Carrying amount at December 31, 2016	20,100

Asetek A/S acquired 100% of Asetek Holdings, Inc. through the exchange of shares in February 2013. At the time of acquisition, Asetek Holdings, Inc. had negative net equity, resulting in the initial investment to be valued at zero. Asetek Holdings, Inc. represents Asetek A/S's only direct investment in subsidiaries.

9. RECEIVABLES FROM SUBSIDIARIES

As of december 31,

(USD 000's)	2016	2015
Asetek Danmark A/S	931	3,156
Asetek USA, Inc.	(945)	216
Asetek Xiamen	56	21
Asetek Holdings, Inc.	75	69
Net receivables from subsidiaries	**117**	**3,462**

%	2016	2015
Average effective interest rate	**5.31%**	**5.31%**

The fair value of receivables corresponds in all material respects to the carrying amount

10. EQUITY

Reference is made to Note 18 to the Consolidated Financial Statements.

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

11. TRANSACTIONS WITH RELATED PARTIES

Asetek A/S charges its subsidiaries a management service fee. Reference is made to Note 21 to the Consolidated Financial Statements.

12. EVENTS AFTER THE REPORTING PERIOD

Reference is made to Note 25 to the Consolidated Financial Statements.

13. CONTINGENT LIABILITIES

The Danish group enterprises are jointly and severally liable for tax on group income subject to joint taxation, as well as for Danish withholding taxes by way of dividend tax, royalty tax, tax on unearned income and any subsequent adjustments to these. Asetek A/S has executed a guarantee to its Group's principal bank, Sydbank, for all outstanding matters with its wholly owned subsidiary, Asetek Danmark A/S.

Reference is made to Note 26 to the Consolidated Financial Statements.

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