



# ANNUAL REPORT

2013 2014 2015 2016 2017



**Asetek A/S**

Assensvej 2  
DK-9220 Aalborg East  
Denmark

Phone: +45 9645 0047  
Fax: +45 9645 0048  
Web: [www.asetek.com](http://www.asetek.com)  
Mail: [info@asetek.com](mailto:info@asetek.com)

CVR-number: 3488 0522  
ISIN-number: DK0060477263

**BOARD OF DIRECTORS**

Samuel Szteinbaum, Chairman  
Chris J. Christopher  
Jim McDonnell  
Jørgen Smidt  
Knut Øversjøen

**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-no 33 77 12 31

**EXECUTIVE MANAGEMENT**



André Sloth Eriksen  
CEO



Peter Dam Madsen  
CFO



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*Asetek is the supplier of cooling components to six data centers among the 200 largest on the TOP500 Supercomputer List*

## CEO COMMENT

# DATA CENTERS - AN IMPORTANT PART OF ASETEK'S FUTURE

Asetek's patented liquid cooling technology has in recent years become the obvious and necessary solution for an increasing number of HPC manufacturers and PC enthusiasts. The reason is the continuing increase in heat dissipation from the ever more powerful super computers demanded by the end users in the markets.

But then how about the more and more data centers that are built to support for example compute power intensive companies or run applications for thousands of smart phone users simultaneously? When does Asetek's top executive and founder expect a global commercial breakthrough for the company's Rack-CDU? When will these liquid cooled racks start selling in large quantities? These racks, into which many servers are installed and stacked, and then assembled by the dozens to become the brain of every data center, cooled efficiently and at low cost by liquid cooling technology from Asetek.

"Technology wise and measured by the number and quality of references, the breakthrough has already come over the last couple of years", says CEO André

Sloth Eriksen. He points out that, as an example, the world's ninth largest super computer (according to the TOP500 Supercomputer List) was built by Fujitsu for the University of Tokyo and the Tsukuba University using Asetek's RackCDU products. And that as late as in November 2017, a new agreement – once again with Fujitsu – was signed to deliver a similar cooling solution for a new datacenter to be built for the National Institute of Advanced Industrial Science and Technology, which will be the fastest super computer in Japan. Large orders, worth millions of dollars. In total, Asetek is the supplier of cooling components to six data centers among the 200 largest on the TOP500 Supercomputer List.

### THINGS TAKE TIME

Better references than these would be hard to dream up, and Asetek works hard every day to ensure that these and other pilot projects are followed up by agreements with additional OEM-customers.

"Objectively, the first of expectedly more of that type of large data center agreements, should be right around the corner. But the data center market is new, and things take time. We learned that lesson already back when we developed and brought processor cooling for PCs to the market. Also here, it took us several years from when we started selling the first units until the commercial breakthrough came," explains André Sloth Eriksen. The manufacturers have to recognize that there is a need for liquid cooling in the data center market – also if they are fully aware of the technology.

"That is how it is to be a first mover as Asetek. But there are only two viable cooling solutions when it comes to tackling the growing cooling challenge which is facing both PCs and data centers. That will be either the traditional energy draining air cooling, or the far more environmentally correct and financially sound liquid cooling" says André Sloth Eriksen.

"I believe data centers will become a significant portion of the good business, that Asetek has developed into. Time is working in our favor in the sense that more and more countries and authorities for environmental reasons work to restrict the commercial use of energy through significant taxation, etc".



## SHAREHOLDERS INFORMATION

Asetek's shares are listed on Oslo Børs. As of December 31, 2017, a total of 25,568,002 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 2017 was NOK 2,648 million (approximately USD 323 million) which was an increase of 99% from the market value at the beginning of 2017.

330,524 shares were held by the Company as treasury shares at December 31, 2017, 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 2017, Asetek A/S had 740 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 14.5% of the share capital at the end of 2017.

### 1 JANUARY 2017

Asetek shares opened the year 2017 at NOK 56.25.

### 31 DECEMBER 2017

At the last day of the year the Asetek shares closed at NOK 105, which was an increase of 87% from the beginning of the year. The Oslo Stock Exchange (OSE) Benchmark Index advanced 19% in 2017. The OSE Information Technology Index advanced 13.8% in 2017.

According to Asetek's registrations, the following shareholders possessed 5% or above of the share capital as per December 31, 2017:

|  | Number of Shares | %     |
|--|------------------|-------|
| Sunstone Technology Ventures Fund I, Denmark | 3,186,341        | 12.5% |
| The ATP Group, Denmark                       | 2,015,838        | 7.9%  |

### 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](http://www.asetek.com) is the primary source of information for interested parties. It is updated regularly with information about Asetek's activities and strategy. Shareholders, analysts, investors, stock-brokers as well as other interested parties who have questions regarding Asetek are requested to inquire via the email address [investor.relations@asetek.com](mailto:investor.relations@asetek.com), which is monitored by the CFO.

**Dividends.** Asetek continues to invest its capital in the development and marketing of its cooling products. Asetek's policy allows for distribution of a dividend to its shareholders of up to 50% of the previous year's net income (after tax profits), after taking into consideration the Company's growth plans, liquidity requirements and necessary financial flexibility.

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

The Board is considering to implement a form of share buy back program.

### REPORTING CALENDAR FOR 2018:

|                         |                  |
|-------------------------|------------------|
| Q1 2018 Report:         | April 25, 2018   |
| Annual General Meeting: | April 25, 2018   |
| Q2 2018 Report:         | August 15, 2018  |
| Q3 2018 Report:         | October 24, 2018 |

## STOCK EXCHANGE NOTICES ISSUED IN 2017

| ISSUE DATE         | SUBJECT   |
|--------------------|---|
| December 4, 2017   | Share Capital Increase upon Exercise of Warrants  |
| November 16, 2017  | Asetek Receives Order from Fujitsu to Cool Japan's Fastest AI Supercomputer System                      |
| November 10, 2017  | Asetek Provides Progress Update on Undisclosed Data Center Customer                                     |
| November 7, 2017   | Cybermedia Center, Osaka University Adopts Asetek Liquid Cooling for New Computer System                |
| November 2, 2017   | Asetek Announces OEM Partnership with E4 Computer Engineering and Installation                          |
| October 31, 2017   | Asetek Announces NEC Corporation as New Data Center OEM Partner   |
| October 25, 2017   | Asetek – Q3 2017: Revenue Growth Driven by High-end Gaming Cooling Demand                               |
| October 18, 2017   | Asetek Presents Third Quarter 2017 Results on Wednesday, 25 October                                     |
| October 9, 2017    | Financial calendar  |
| September 19, 2017 | Share Capital Increase upon Exercise of Warrants  |
| September 12, 2017 | Asetek Settles Dispute with Cooler Master, CMI  |
| September 7, 2017  | Asetek Announces New OEM, Channel Partner, and HPC Installation   |
| August 21, 2017    | Asetek Selected by Lenovo to Cool New Legion Y920 Tower Desktop Gaming PC                               |
| August 16, 2017    | Asetek – Q2 2017: Revenue Growth Driven by Gaming PC Cooling Demand                                     |
| August 14, 2017    | Reminder: Join Asetek Q2 2017 Results webcast on Wednesday, 16 August                                   |
| August 10, 2017    | Asetek presents Second Quarter 2017 Results on Wednesday, 16 August                                     |
| July 28, 2017      | Asetek Receives Two Incremental Orders in Support of US Department of Energy Labs Cluster Installations |
| July 21, 2017      | Update to Full Year 2017 Revenue Guidance   |
| July 14, 2017      | Asetek Announces New Regional OEM and New HPC installation  |
| July 12, 2017      | Asetek receives incremental order for government contract   |
| July 10, 2017      | Issuance of Warrants  |
| July 6, 2017       | Asetek receives follow-on order from Penguin Computing  |
| June 26, 2017      | Asetek receives follow-on order from Penguin Computing  |
| June 23, 2017      | Asetek announces new data center order to cool NVIDIA's P100 GPU accelerators                           |
| June 20, 2017      | Asetek announces previously undisclosed OEM partner and HPC installation                                |
| May 30, 2017       | Share Capital Increase upon Exercise of Warrants  |
| May 9, 2017        | Asetek Wins Two Data Center Orders From OEM Partner Valued at One Million USD                           |

| ISSUE DATE        | SUBJECT   |
|-------------------|---|
| May 3, 2017       | Mandatory Notification of Trade   |
| April 27, 2017    | Arbejdsmarkedets Tillægspension (ATP) increases ownership in Asetek A/S                 |
| April 27, 2017    | Update on Dividend Payment  |
| April 27, 2017    | Asetek Receives Award of \$600K after Patent Infringement Lawsuit                       |
| April 26, 2017    | Issuance of Warrants  |
| April 26, 2017    | Asetek Cash Dividend NOK 1.00 Payment   |
| April 26, 2017    | Outcome of Annual General Meeting   |
| April 26, 2017    | Asetek – Q1 2017: Reaffirming 2017 expectations   |
| April 25, 2017    | Reminder: Join Asetek Q1 2017 Results webcast on Wednesday 26 April                     |
| April 19, 2017    | Asetek presents First Quarter Results 2017 on Wednesday 26 April                        |
| April 10, 2017    | RackCDU D2CT Order for New HPC Installation   |
| April 3, 2017     | Repeat Order from South Korean Customer   |
| March 31, 2017    | Notice of Annual General Meeting April 25, 2017   |
| March 28, 2017    | Share Capital Increase Upon Exercise of Warrants  |
| March 27, 2017    | New HPC Installation to Deploy Asetek Liquid Cooling Solution                           |
| March 27, 2017    | New Datacenter Customer in South Korea  |
| March 22, 2017    | Mandatory Notification of Trade   |
| March 16, 2017    | Mandatory Notification of Trade   |
| March 9, 2017     | Mandatory Notification of Trade: CEO Sells Shares to a Long Term Investor in Asetek A/S |
| February 28, 2017 | Q4 2016: Record Revenue and Profitability on Rising Demand for Liquid Cooling           |
| February 28, 2017 | Annual Report 2016  |
| February 27, 2017 | Reminder: 2016 FY/Q4 Results and Capital Markets Update                                 |
| February 22, 2017 | Financial calendar  |
| February 22, 2017 | Asetek signs Data Center Product Development Agreement                                  |
| January 26, 2017  | Invitation to Capital Markets Update  |
| January 24, 2017  | Asetek Receives Repeat Order for Implementation of RackCDU                              |
| January 10, 2017  | Mandatory Notification of Trade   |



*The end users' needs and desires are of course of vital interest to Asetek*

## LIQUID COOLING TAKES PRIME LOCATION IN THE PC-RIG

Because Asetek does not sell directly to end users but is an important supplier to some of the world's largest and most recognized manufacturers of PCs and servers for data centers, Asetek has not been a consumer brand name. Still, hard-core gamers are quite aware of our liquid cooling technology and how it can improve their PC's performance, enable reliable overclocking and improve heat dissipation by liquid cooling the CPU (Central Processing Unit) and GPU (Graphics Processing Units).

Nearly half of the power consumption by the data center is spent on cooling alone. In a global environmental context, this is of significant importance. Towards 4 per cent of the global power consumption today goes to data centers, half of which is used for cooling. About half of this – 1 per cent of all the globe's energy consumption – could be saved by using Asetek's patented liquid cooling technology. The indirect benefits in reduced CO2 emissions and hence the global climate footprint are potentially significant.

So far so good. Of course, savings on power costs and global warming issues may or may not be on

the gamers mind. But add to this that OEM's have enhanced Asetek's liquid cooled products by creating eye catching head turners, which is more and more valued in this end user segment when gamers buy their equipment. A real gaming PC often has a see-through chassis, and the entire rig is showered in flashing and colorful lights, enhancing the visual expression. This is not only "cool" but a status symbol when the gamers team up for LAN-parties, etc.

Asetek delivers first and foremost efficient liquid cooling components which, for example, NZXT's users create spectacular, flashy cooling systems for do-it-yourself gaming PCs.

The liquid cooling component does not carry the Asetek name. But the prime location and distinct Asetek design of the cooling pump/cold plate unit makes it uniquely visible with its shape for highlighting and provides the platform for the centerpiece of the OEM's logo and branding.

"It is our impression that many gamers are aware that their liquid cooling component is developed and manufactured by Asetek, and that that in itself is a stamp

of approval for the PC as a whole", explains John Hamill, Asetek's COO.

"The end users' needs and desires are of vital interest to Asetek. We therefore constantly consider how to be proactive in creating the basis for differentiation in the end product which ties to Asetek's core competencies within liquid cooling."





NZXT

LIQUID COOLING DONE RIGHT

## MANAGEMENT REPORT

### The Year 2017 Outlined - Summary

// Revenue of \$58.2 million representing 14% growth

// Desktop revenue was \$53.2 million, up 16% from 2016

// Data center revenue of \$5.0 million as OEM relationships develop

// The year 2017 was a year of growth and major accomplishments for Asetek.

// Revenue in 2017 totaled \$58.2 million, a record level for the Company and growth of 14% over 2016 (\$50.9 million).

/ Desktop revenue of \$53.2 million, represented a 16% increase from 2016 (\$45.8 million), fueled by significant growth in shipments to Asetek's largest customers in the Do-it-Yourself (DIY) market.

/ Data center revenue was \$5.0 million in 2017, roughly flat development over 2016 (\$5.2 million).

// Gross margin decreased to 36.0% in 2017 from 38.8% in 2016. The change reflects increased product costs and foreign exchange impact related to the weakening of the U.S. dollar during 2017.

// Asetek reported pre-tax income of \$1.5 million for the year, compared with pre-tax income of \$5.0 million in 2016. Adjusted EBITDA was \$6.8 million in 2017, compared with \$7.4 million in 2016.

/ Operating profit (adjusted EBITDA) from the desktop segment was \$16.0 million for the year, an increase from \$15.1 million profit in 2016.

/ Operating loss (adjusted EBITDA) from the data center segment was \$7.3 million for the year, compared with an operating loss of \$5.1 million in 2016. The data center spending reflects continued investment in development, sales and marketing, production resources and equipment/ tools.

/ Headquarters expenses of \$2.4 million were lower than 2016 (\$2.7 million). An increase in intellectual property defense costs and share based compensation were offset by \$0.9 million of net award receipts from successful patent litigation.

// Operational achievements during the year:

/ Asetek continued its success as the leading supplier of liquid cooling solutions for high-end computing, shipping over one million sealed loop liquid cooling units in 2017, representing growth of 7% from 2016.

/ The Company announced several design wins in the desktop market in 2017 –

Thermaltake selected Asetek liquid cooling for its Floe Riing RGB all-in-one cooler series

Fractal Design chose Asetek for its new Celsius Series CPU Cooler

Asetek retention kits are now included with all shipments of AMD's new Ryzen Threadripper. Retention kits enable customers to easily attach Asetek liquid cooling systems to CPUs.

Asetek products are now liquid cooling Lenovo's Legion Y920 tower computer, a new high-performance gaming machine.

/ In 2017, the Company announced the addition of new partners –

An undisclosed major player in the data center market was announced early in the year, with which the Company developed new products in 2017 that are expected to launch in 2018.

New data center OEM customers announced in 2017 included NEC Corporation, Acer Inc., Intech & Company and E4 Computer Engineering.

/ Data center sales to Fujitsu Technology Solutions GmbH ("Fujitsu") totaled \$2.3 million.

/ Progress on Asetek's contract with the U.S. Department of Defense (DoD) continued with installation at one of the DoD's largest HPC data centers. The total value of the contract increased in 2017 to \$3.7 million.

## 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 well over 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 2017

### PROFIT AND LOSS

Total revenue for 2017 was \$58.2 million, representing an increase of 14% from 2016 (\$50.9 million). Sealed loop cooling unit shipments for 2017 totaled 1,020,000, a 7% increase over 2016 (949,000). Average Selling Prices (ASP) for the year 2017 increased to \$52.18, from \$48.23 in 2016.

Gross margin decreased to 36.0% in 2017 from 38.8% in 2016. The change reflects increased product costs and the weakening of the US dollar during 2017.

In 2017, total operating expense was \$18.2 million, a 21% increase from 2016 (\$15.1 million), reflecting several factors. Additional staffing to support planned

growth caused total personnel costs to increase to \$11.0 million (\$8.0 million). Included in personnel costs was share based compensation of \$1.6 million (\$0.3 million). Legal cost incurred associated with defense of existing IP and securing new IP was \$1.8 million in 2017 (\$1.4 million). In 2017, this was partly offset by \$0.9 million of net awards received from successful patent litigation.

Adjusted EBITDA was \$6.8 million in 2017, compared with \$7.4 million in 2016. Adjusted EBITDA in 2017 represents operating income of \$2.8 million, plus depreciation of \$2.4 million, plus share based compensation of \$1.6 million.

Foreign currency transactions in 2017 resulted in a \$1.2 million loss (\$0.3 million gain in 2016). The U.S. dollar weakened by 12% against the Danish krone in 2017.

In 2017, income tax benefit associated with net operating loss carryforwards recorded as deferred tax assets totaled \$3.0 million (\$4.6 million benefit in 2016).

Asetek earned \$5.7 million total comprehensive income for 2017, compared with total comprehensive income of \$9.2 million in 2016. Comprehensive income included a positive \$1.3 million translation adjustment in 2017 (negative \$0.5 million in 2016).

### BALANCE SHEET

Asetek's total assets at the end of 2017 were \$49.2 million, compared with \$41.2 million at the end of 2016. The increase in assets was mainly due to investment in equipment and capitalized product costs. The Company's deferred tax assets also increased in value. The growth in long-term assets was partially offset by payment of \$2.9 million in dividends. Cash and cash equivalents at December 31, 2017 was \$18.4 million, an increase from \$17.6 million in 2016.

Total liabilities increased \$2.9 million to \$15.8 million in 2017 (\$12.9 million in 2016). Accrued liabilities rose \$1.1 million principally due to new development projects. Trade payables increased \$0.8 million due to increased operating activities and cost of goods. Short-term debt grew by \$0.5 million due to lease equipment additions and draw down on the Company's line of credit. The increases were partially offset by reduced accrued compensation and benefits.

### STATEMENT OF CASH FLOWS

Net cash provided by operating activities was \$6.1 million in 2017 (\$7.8 million provided in 2016). The operating cash flow mainly reflects operating income and increased collection of receivables.

Cash used by investing activities was \$4.3 million, related principally to additions in capitalized development, manufacturing equipment and software. The figure compares with \$2.9 million used in 2016.

Cash used by financing activities was \$2.1 million,

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

Net change in cash and cash equivalents was positive \$0.8 million in 2017, compared with positive \$4.6 million in the same period last year.

## MANAGEMENT REPORT

### LIQUIDITY AND FINANCING

As of December 31, 2017, the Company has working capital of \$19.0 million and non-current liabilities of \$0.8 million. From its inception and until the end of 2015, Asetek 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.

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  | 2017         | 2016       | 2015       | 2014       | 2013       |
|--|--------------|------------|------------|------------|------------|
| <b>FINANCIAL HIGHLIGHTS: (\$000'S)</b>               |              |            |            |            |            |
| Revenue  | 58,194       | 50,921     | 35,982     | 20,847     | 20,729     |
| Gross profit   | 20,969       | 19,750     | 12,412     | 8,710      | 8,049      |
| Gross margin %                                       | 36.0%        | 38.8%      | 34.5%      | 41.8%      | 38.8%      |
| EBITDA   | 5,187        | 7,119      | 67         | (7,739)    | (5,649)    |
| Operating income (loss)                              | 2,757        | 4,669      | (2,323)    | (9,510)    | (7,679)    |
| Finance income (expenses)                            | (1,258)      | 322        | 238        | (385)      | 955        |
| Net income (loss)                                    | 4,475        | 9,637      | (1,647)    | (8,757)    | (6,281)    |
| Acquisition of property and equipment                | 2,742        | 1,222      | 958        | 172        | 952        |
| <b>Sealed loop units shipped (000's) (unaudited)</b> | <b>1,020</b> | <b>949</b> | <b>727</b> | <b>425</b> | <b>426</b> |
| <b>YEAR-END VALUES (\$000'S):</b>                    |              |            |            |            |            |
| Total assets   | 49,176       | 41,164     | 27,748     | 12,814     | 20,983     |
| Total equity   | 33,394       | 28,290     | 18,646     | 7,422      | 14,808     |
| Total liabilities                                    | 15,782       | 12,874     | 9,102      | 5,392      | 6,175      |
| <b>Employees</b>                                     | <b>93</b>    | <b>79</b>  | <b>71</b>  | <b>68</b>  | <b>69</b>  |
| <b>KEY RATIOS:</b>                                   |              |            |            |            |            |
| Average selling price per desktop unit (\$)          | 52.2         | 48.2       | 47.0       | 45.5       | 46.8       |
| Revenue per employee (\$000's)                       | 626          | 645        | 507        | 307        | 300        |
| Days sales outstanding                               | 80           | 93         | 85         | 52         | 74         |
| Inventory turns per year                             | 21.4         | 21.2       | 13.2       | 11.2       | 11.9       |

#### KEY RATIO:

Average selling price per desktop unit (\$)  
 Revenue per employee (\$000's)  
 Days sales outstanding  
 Inventory turns per year

#### FORMULA USED FOR KEY RATIO CALCULATIONS

Total desktop units sold / Total desktop revenue  
 Revenue / Employees  
 Trade receivables / (Revenue / 365 days)  
 Costs of goods sold / (beginning inventory + ending inventory) / 2

## EXPECTATIONS FOR 2018

### DESKTOP:

The double-digit revenue growth within the desktop segment in each of the past three years was driven by several factors, including the continuous influx of new, more powerful technologies as well as recurring releases of popular, high profile computer games. The growth has also been driven by customers' desire for a more immersive gaming experience, which is increasing demand for new technologies such as 4K screen resolution and virtual reality capability. These new technologies require high performing graphics processors (GPUs), which also demand advanced cooling. Asetek expects continued growth from this segment in 2018, with annual revenues expected to grow in the range of 5% to 15%. The Company will continue to develop new products and expects to add new customers within the desktop segment. The resource consumption, as expressed in overhead expenses, is expected to remain relatively stable in 2018 when comparing with 2017.

### DATA CENTER:

The high performance computing (HPC) industry's increasing demand for high density combined with extreme high performance is accelerating the adoption of Asetek's data center liquid cooling.

Increasingly, Asetek liquid cooling is being deployed because it comes with a very strong value proposition for data centers. 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

revenue growth of 50% to 75% in the data center segment in 2018 compared with 2017. The overhead expenses are expected to increase slightly compared to 2017. Revenue and operating results are however expected to fluctuate as partnerships with OEMs are developed.

### CONSOLIDATED RESULTS:

While the desktop results were in line with forecasts, the consolidated financial results for 2017 did not fully meet Management's expectations. In 2018, 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, and taking the weighted revenue composition between the desktop and the data center segments into consideration, the Company expects moderate revenue growth for 2018, with minimal growth in spending and continued investments in the data center business. As such, management expects that the Company will report profitability for 2018 that exceeds the 2017 achievement.



## MANAGEMENT REPORT

### 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.

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.

**Customer concentration.** In 2017, two customers accounted for 39% and 20% of total revenue. In the event of a decline or loss of these significant customers, replacement of the revenue streams 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.

**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. Two customers represented 37% and 23% of trade receivables at December 31, 2017. 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 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. 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. During 2017, the USD weakened against DKK by 12%, against the EUR by 13%, and by 4% against the Japanese yen.

Asetek's raw materials are predominantly purchased from vendors whose underlying currency is CNY. The USD has weakened approximately 6% versus the CNY during 2017. As a result, Asetek's product costs have increased in 2017. In the event that the USD weakens further, the Company expects product costs to increase and gross margins to be negatively impacted. While USD/CNY fluctuation may impact future revenues, 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 are prone to the same exchange rate scenarios as Asetek.

A significant portion of Asetek's overhead costs are incurred in DKK. As a result, fluctuations in USD vs. DKK will continue to have an influence on results of operations and 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 during 2017. 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. In connection with its initial public offering in 2013, Asetek moved its Parent company from the U.S. to Denmark. As a result, 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.

**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. No reports related to alleged infringing activities have been received during 2017.

## 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 is not significant. During 2017, employee attrition was 18%, which is in the midrange of a recent Radford report on turnover rates at technology companies. One third of Asetek's employees at December 31, 2017 have been continuously employed by the Company for five years or longer. No working accidents or injuries occurred in 2017. During 2017, the work on internal environment continued to focus on enhancing the collaboration between Asetek's various global locations and cultures. The work resulted in improved collaboration regarding launching of new products. In order to enable the Company to support initiatives aimed at improving working conditions, the Company monitors sick leave by job type.



*Many traditional sports clubs are now becoming aware of the opportunities that are opened through eSports*

## ESPORTS INTEREST MOVES KIDS TO ATTEND MORE “REAL” SPORTS



eSports and its follower base is growing explosively across the globe. The largest competitions pull thousands of excited fans to the venues. And international team tournaments such as ESL ProLeague draws streamers, tv-viewers and investors by offering prize sums worth millions of Euros and Dollars. ESports are now seriously being talked about as an Olympic discipline.

The interest for eSports has at the same time driven an explosion in the interest for high end gaming machines. And dedicated gamers want liquid cooling for their hard working and often over-clocked PC, which has increased the demand for Asetek's patented liquid cooling technology.

eSports has become a top professional sports entertainment venue within the much larger gaming segment of globally popular games as Counter Strike or League of Legends etc. It is now being compared to the soccer European Championships or NHL, NBA and NFL in USA. The popularity of eSports teams such as SK Gaming or FaZe Clan is rising to the levels seen for Barcelona soccer or Golden State Warriors basketball.

But it is not only passive entertainment? Should the kids not also exercise and do real sports, the older generation may think.

“Quite often we see that eSports has exactly that effect when organized well”, says Sune Pløger. His day job is to be a machine shop operator at Asetek, but at the same time, Sune is also a volunteer eSports consultant at DGI (a national Danish sports association). In that role he spends his spare time visiting many traditional sports clubs, for example swimming and gymnastics clubs, which by also offering an eSports experience are able to attract new young members, who were previously not seen in the sports clubs.

“Many traditional sports clubs are now becoming aware of the opportunities that are opened through eSports”, says Sune Pløger during a lunch break in the Asetek manufacturing plant.

“Instead of fearing to lose members, the sports clubs now establish sub groups, where eSports and socializing is organized”, Sune explains. He highlights how eSports in that way have created an outreach

and provided contact to young kids with physical challenges such as the overweight. In the past they often stayed away from traditional sports clubs, where they felt uncomfortable and ended up at the bottom of the totem pole.

Now they join because physical obstacles don't prevent them from aspiring to become star eSport players. And these new members end up exercising more and improving their physical condition. Sune himself is involved in educating instructors from the traditional sports clubs how to create the best environment for teaching new eSports players that even with computer gaming the best results and reaction time will only come if you are in your optimal physical shape.

“This becomes a part of the training on team level. The new Messi or LeBron James of eSports will also be in optimal physical condition”, says Sune.





WE'RE HERE TO STAY LEGENDS TAKE ALL

## MANAGEMENT REPORT

| Sick Leave by Job Type        | 2017 | 2016 |
|-------------------------------|------|------|
| Office-based employees        | 1.2% | 1.1% |
| Manufacturing employees       | 4.2% | 5.9% |
| Outsourcing partner employees | 0.2% | 0.3% |

**Equal opportunities.** The Board of Directors has set a goal for Asetek to have at least 15% female representation at board and management level by 2018. At the end of 2017, the Board of Directors consists of 100% male members and hence the goal has not yet been met. During 2017 one Board member did not make himself available for re-election. 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. At other management levels, there is 18% female representation at the end of 2017, which is unchanged from the year before (18%). During 2017 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 2018.

**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 regularly 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.

The Company monitors the consumption of select resources at its manufacturing partner, enabling an ongoing discussion about how to design manufacturing processes that minimize the use of environmental resources.

| Resource Consumption                     | 2017     | 2016     |
|--|----------|----------|
| Electricity consumption per desktop unit | 0.25 kWh | 0.23 kWh |

**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](http://www.eicc.info/eicc_code.shtml). The Company's work in 2017 focused on documenting suppliers' scoring results.

**Social responsibility program.** The Company has developed a policy which addresses several topics related to corporate citizenship. The policy is available on the Company's website.



## 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. In this process, Asetek uses the corporate governance recommendations from NASDAQ Copenhagen as an important source of inspiration. The recommendations can be found at <http://www.nasdaqomx.com/listing/europe/surveillance/copenhagen/corporategovernance>

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. Over the years, the focus towards corporate governance principles has increased, and the work will continue. 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/2687/scgs2017.pdf>

#### Danish Recommendation for Corporate Governance 2017:

|   |    |
|---|----|
| Complies with recommendations           | 40 |
| Partially complies with recommendations | 5  |
| Does not comply with recommendations    | 7  |

### 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 five 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 2017, one meeting was conducted at the Company facility in China. During 2017, 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 Szeinbaum. The Committee met three times during 2017.

// 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 Christopher. The Committee met four times during 2017.

// The Compensation Committee has responsibilities related to developing proposals for the applicable remuneration policy and execution of the Management Board. Members: Samuel Szeinbaum (Chairman), Jim McDonnell and Jørgen Smidt. The Committee met three times during 2017.

**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 regularly 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 authorization to issue new shares under the warrant program was changed 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.

At the Board Meeting on April 25, 2017, warrants permitting subscription of up to 509,687 shares of a nominal value of DKK 0.10 and at an exercise price of NOK 76.25 per share were issued. The exercise price was established as the share price ("closing price") for the Company's shares as of April 25, 2017. The warrants were issued to employees and Board members.

At the Board Meeting on July 7, 2017, warrants permitting subscription of up to 106,999 shares of a nominal value of DKK 0.10 and at an exercise price of NOK 113.00 per share were issued. The exercise price was established as the share price ("closing price") for

the Company's shares as of July 7, 2017. The warrants were issued to employees.

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 2017. At the Board meeting in April 2017, it was decided that, beginning in 2018, the Board will no longer receive warrants as a component of its remuneration. 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, 2017. 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, 2017 of the Group and the Parent company and of the results of the Group and Parent company operations and cash flows for 2017.

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, 2018

### EXECUTIVE BOARD:



André Sloth Eriksen  
Chief Executive Officer



Peter Dam Madsen  
Chief Financial Officer

### BOARD OF DIRECTORS:



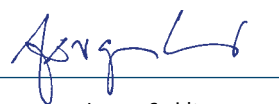
Samuel Szeinbaum, Chairman



Chris J. Christopher



Jim McDonnell



Jørgen Smidt



Knut Øversjøen



*I often compare the requirements to Asetek's test program and documentation work with what goes on in the automotive and aircraft industries*

## YEARS' WORTH OF TESTING IS A MAIN CONTRIBUTOR TO ASETEK'S SUCCESS



At Asetek, we have over many years invested significant resources in product reliability related to our groundbreaking liquid cooling technology for PCs and data centers. Nobody fancies uncontrolled water inside their PC or server. On the other hand, the world's most recognized OEMs and manufacturers are now very aware of the possibilities for substantial energy savings and increased performance enabled by Asetek's patented liquid cooling systems.

When many of the world leading manufacturers today build in Asetek cooled processors and GPUs in their HPC- (High Performance Computing) and datacenter-solutions, a requirement for the manufacture of these mission critical servers and nodes is solid documentation, which Asetek provides representing many years of work in reliability and lifetime testing of its products, parts and materials.

No matter if we talk about rubber alloys, hoses, cold plates or O-rings etc. Reliability is always first and foremost.

"I often compare the requirements and approach of Asetek's test programs and documentation work with

what goes on in the automotive and aircraft industries. As important as it is to correctly manage fuel supply in an aircraft system, it is just as important for us to manage the dynamics of the closed liquid circuits in our products. There can be no doubt that everything is tested, rechecked and 110% OK," says Bjarne Mikkelsen, Asetek's lab team manager, while showing around labs filled with top notch measuring equipment and highly specialized employees.

Bjarne Mikkelsen has the overall responsibility for both Asetek's internal and external test- and documentation program. This includes performance and reliability tests which are carried out at extreme temperatures in climate chambers. Additionally, tests are conducted in so called HALT chambers (Highly Accelerated Lifetime Test) to ensure that product designs are robust and do not fail during earthquakes or other extreme impacts. Through lifetime testing it is confirmed that Asetek's products have an operational lifetime of at least 50,000 hours. Lastly, there is a group of testing processes to assure that the products live up to regulatory requirements, for instance related to electromagnetics, flammability and contents of prohibited substances.

### FINISHED PRODUCTS ARE TESTED TOO

Where it is Bjarne Mikkelsen who has the overall responsibility for tests related to ongoing development projects, it is operations quality manager Brian Lindegaard Petersen, who is managing both incoming and outgoing inspection in Asetek's Danish facility. This includes verification of components delivered from Asetek's approved suppliers as well the completed Asetek products prior to shipment to Asetek's customers who ordered a RackCDU product, etc.

"Obviously we test to see if all the parts are properly assembled. Also, all individual parts are randomly checked for everything from micro size cracks to air bubbles in molded plastic parts, where we use CT-scanners", says Brian Lindegaard Petersen.



## INDEPENDANT 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 2017 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 2017 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 Consolidated Financial Statements and Parent Company Financial Statements of Asetek A/S for the financial year 1 January to 31 December 2017 comprise statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, 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 the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable 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 judgement, were of most significance in our audit of the Financial Statements for 2017. 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.

#### Capitalization of development costs

**Key audit matter:** Asetek A/S continuously develops new solutions and products adapted to the latest technology and the customer's needs as well as improving existing. As described in note 14 USD 2,754k of internal development costs have been capitalized in 2017.

We focused on this area because significant judgement is 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 capitalised solutions and products was impaired.

Reference is made to note 14 in the Consolidated Financial Statements.

**How our audit addressed the key audit matter:** We tested the largest capitalized development projects in 2017 together with a sample of smaller projects from the remaining population, as follows:

// We assessed the business cases prepared by 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 estimates.

// 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 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.

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 equaled to the value of costs capitalized, by applying the approved salary rates per employee to the timesheet hours. We reconciled specifications of the basis used for capitalized indirect costs 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.

#### Valuation of deferred tax assets

**Key audit matter:** As explained in note 11, the Group has recognized USD 7,778k as deferred tax assets. The deferred tax asset relates to tax losses which can be carried forward against future taxable income. The tax losses relates to losses realized in Denmark and the US.

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.

Because of the realised taxable profits for 2016 and 2017 and the expectations for the future years, management has recognised a deferred tax asset related to utilisation of tax losses for a period of five years.

Reference is made to note 10 in the Consolidated Financial Statements.

**How our audit addressed the key audit matter:** We assessed management's valuation of the deferred tax assets and reconciled this to the amounts recorded in the financial statements.

We challenged and applied professional scepticism to the judgements and estimates made by management in relation to the deferred tax assets through the following audit procedures:

// We assessed the Group's budgets for the period 2018-2022. We tested and challenged the assumptions made by management by comparing to realized figures and realized growth for 2017.

// 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 with enacted 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.

#### MANAGEMENT'S RESPONSIBILITIES 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 judgement and maintain professional scepticism 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.

## AUDITOR'S REPORT

- // 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.

Aalborg, February 27, 2018

PricewaterhouseCoopers  
Statsautoriseret Revisionspartnerselskab  
CVR no 3377 1231



Henrik Trangeled Kristensen  
State Authorised Public Accountant  
mne23333



Henrik Berring Rasmussen  
State Authorised Public Accountant  
mne34157

## PROFIT & LOSS

### ASETEK A/S - CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2017 and 2016

| (USD 000's)   | Note   | 2017            | 2016            |
|---|--------|-----------------|-----------------|
| Revenue   | 4      | 58,194          | 50,921          |
| Cost of sales   | 8      | (37,225)        | (31,171)        |
| <b>GROSS PROFIT</b>   |        | <b>20,969</b>   | <b>19,750</b>   |
| Research and development  |        | (4,220)         | (3,428)         |
| Selling, general and administrative   |        | (14,905)        | (11,653)        |
| Other income  |        | 913             | -               |
| <b>TOTAL OPERATING EXPENSES</b>   | 8      | <b>(18,212)</b> | <b>(15,081)</b> |
| <b>OPERATING INCOME</b>   |        | <b>2,757</b>    | <b>4,669</b>    |
| Foreign exchange (loss) gain  | 9      | (1,239)         | 330             |
| Finance income  | 9      | 84              | 48              |
| Finance costs   | 9      | (103)           | (56)            |
| <b>TOTAL FINANCIAL INCOME (EXPENSES)</b>  |        | <b>(1,258)</b>  | <b>322</b>      |
| <b>INCOME BEFORE TAX</b>  |        | <b>1,499</b>    | <b>4,991</b>    |
| Income tax benefit  | 10, 11 | 2,976           | 4,646           |
| <b>INCOME FOR THE YEAR</b>  |        | <b>4,475</b>    | <b>9,637</b>    |
| <i>Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:</i> |        |                 |                 |
| Foreign currency translation adjustments  |        | 1,253           | (455)           |
| <b>TOTAL COMPREHENSIVE INCOME</b>   |        | <b>5,728</b>    | <b>9,182</b>    |
| <b>INCOME PER SHARE: (IN USD)</b>   |        |                 |                 |
| Basic   | 12     | 0.18            | 0.39            |
| Diluted   | 12     | 0.17            | 0.38            |

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, 2017 and 2016

| (USD 000's)                                | Note | 2017          | 2016          |
|--|------|---------------|---------------|
| <b>ASSETS</b>                              |      |               |               |
| <b>NON-CURRENT ASSETS</b>                  |      |               |               |
| Intangible assets                          | 14   | 2,754         | 1,871         |
| Property and equipment                     | 15   | 3,856         | 1,684         |
| Deferred income tax assets                 | 11   | 7,778         | 4,874         |
| Other assets                               |      | 794           | 642           |
| <b>TOTAL NON-CURRENT ASSETS</b>            |      | <b>15,182</b> | <b>9,071</b>  |
| <b>CURRENT ASSETS</b>                      |      |               |               |
| Inventory                                  | 17   | 2,316         | 1,158         |
| Trade receivables and other                | 16   | 13,280        | 13,325        |
| Cash and cash equivalents                  |      | 18,398        | 17,610        |
| <b>TOTAL CURRENT ASSETS</b>                |      | <b>33,994</b> | <b>32,093</b> |
| <b>TOTAL ASSETS</b>                        |      | <b>49,176</b> | <b>41,164</b> |
| <b>EQUITY AND LIABILITIES</b>              |      |               |               |
| <b>EQUITY</b>                              |      |               |               |
| Share capital                              | 18   | 419           | 417           |
| Retained earnings                          |      | 31,976        | 28,130        |
| Translation and other reserves             |      | 999           | (257)         |
| <b>TOTAL EQUITY</b>                        |      | <b>33,394</b> | <b>28,290</b> |
| <b>NON-CURRENT LIABILITIES</b>             |      |               |               |
| Long-term debt                             | 19   | 816           | 264           |
| <b>TOTAL NON-CURRENT LIABILITIES</b>       |      | <b>816</b>    | <b>264</b>    |
| <b>CURRENT LIABILITIES</b>                 |      |               |               |
| Short-term debt                            | 19   | 1,051         | 524           |
| Accrued liabilities                        |      | 2,432         | 1,305         |
| Accrued compensation and employee benefits |      | 1,335         | 1,413         |
| Trade payables                             |      | 10,148        | 9,368         |
| <b>TOTAL CURRENT LIABILITIES</b>           |      | <b>14,966</b> | <b>12,610</b> |
| <b>TOTAL LIABILITIES</b>                   |      | <b>15,782</b> | <b>12,874</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b>        |      | <b>49,176</b> | <b>41,164</b> |

*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, 2017 and 2016

| (USD 000's)  | Note   | 2017           | 2016           |
|--|--------|----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                  |        |                |                |
| Income (loss) for the year                                   |        | 4,475          | 9,637          |
| Depreciation and amortization                                | 14, 15 | 2,430          | 2,450          |
| Finance costs  | 9      | 19             | 8              |
| Income tax expense (income)                                  | 10, 11 | (2,976)        | (4,646)        |
| Impairment of intangible assets                              |        | 5              | 28             |
| Cash receipt (payment) for income tax                        |        | (43)           | (40)           |
| Share based payments expense                                 | 7      | 1,597          | 328            |
| Changes in trade receivables, inventories, other assets      |        | 693            | (3,895)        |
| Changes in trade payables and accrued liabilities            |        | (75)           | 3,936          |
| <b>NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES</b>      |        | <b>6,125</b>   | <b>7,806</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                  |        |                |                |
| Additions to intangible assets                               | 14     | (2,426)        | (1,835)        |
| Purchase of property and equipment                           | 15     | (1,872)        | (1,077)        |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                 |        | <b>(4,298)</b> | <b>(2,912)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                  |        |                |                |
| Funds drawn against line of credit                           |        | 295            | 142            |
| Proceeds from issuance of share capital                      | 18     | 686            | 133            |
| Payment of dividends   | 18     | (2,910)        | -              |
| Principal and interest payments on finance leases            |        | (199)          | (100)          |
| <b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>      |        | <b>(2,128)</b> | <b>175</b>     |
| Effect of exchange rate changes on cash and cash equivalents |        | 1,089          | (519)          |
| <b>NET CHANGES IN CASH AND CASH EQUIVALENTS</b>              |        | <b>788</b>     | <b>4,550</b>   |
| Cash and cash equivalents at beginning of period             |        | 17,610         | 13,060         |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>            |        | <b>18,398</b>  | <b>17,610</b>  |
| <b>SUPPLEMENTAL DISCLOSURE - NON-CASH ITEMS</b>              |        |                |                |
| Equipment acquired under finance lease                       | 15     | \$ 868         | \$ 140         |

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, 2017 and 2016

| (USD 000's)                              | Share capital | Share premium | Translation reserves | Other reserves | Retained earnings | Total         |
|--|---------------|---------------|----------------------|----------------|-------------------|---------------|
| <b>EQUITY AT DECEMBER 31, 2015</b>       | <b>416</b>    | <b>76,665</b> | <b>207</b>           | <b>(9)</b>     | <b>(58,633)</b>   | <b>18,646</b> |
| 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           |
| <b>Equity at December 31, 2016</b>       | <b>417</b>    | <b>-</b>      | <b>(248)</b>         | <b>(9)</b>     | <b>28,130</b>     | <b>28,290</b> |
| Total comprehensive income for 2017      |               |               |                      |                |                   |               |
| Income for the year                      | -             | -             | -                    | -              | 4,475             | 4,475         |
| Foreign currency translation adjustments | -             | -             | 1,253                | -              | -                 | 1,253         |
| Total comprehensive income for 2017      | -             | -             | 1,253                | -              | 4,475             | 5,728         |
| Transactions with owners in 2017         |               |               |                      |                |                   |               |
| Shares issued                            | 2             | -             | -                    | 3              | 684               | 689           |
| Dividends                                | -             | -             | -                    | -              | (2,910)           | (2,910)       |
| Share based payment expense              | -             | -             | -                    | -              | 1,597             | 1,597         |
| Transactions with owners in 2017         | 2             | -             | -                    | 3              | (629)             | (624)         |
| <b>Equity at December 31, 2017</b>       | <b>419</b>    | <b>-</b>      | <b>1,005</b>         | <b>(6)</b>     | <b>31,976</b>     | <b>33,394</b> |

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. 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                    |

## NOTES

### 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 expenditures 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

## NOTES

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. In the 2015 and 2016 tax filings, the Group utilized net operating loss carryforwards to reduce taxable income. In 2017, as a result of current earnings and future earnings estimates, the Company has deferred tax assets representing 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 develop-

ment 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, 2017, 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 2017. Certain new standards, amendments to standards, and annual improvements to standards and interpretations are effective for annual periods beginning after January 1, 2017, 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 2017. A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, 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:



## NOTES

| Standard  | Content   | Effective date |
|---|---|----------------|
| <b>EU ENDORSED AS OF DECEMBER 31, 2017</b>  |   |                |
| IFRS 15: Revenue from Contracts with Customers  | IFRS 15 pertains to revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Under IFRS 15, revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The Company will apply this standard from January 1, 2018. Management has reviewed the revenue streams of the Company for potential impact of this new standard. While the Company occasionally enters into multi-element contracts with customers, the preponderance of Asetek revenue is generated based on purchase orders for specific products, under which revenue is recognized upon delivery to the customer. At delivery, the customer effectively takes control of the product. As a result, the Company does not anticipate that the measurement and recognition of revenue will materially change as a result of this new standard. | 1-Jan-18       |
| 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 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: amortized 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. As Asetek's financial assets are all classified as amortized costs, and credit losses have historically not been significant, this standard is not expected to have a significant effect on the consolidated financial statements of the Asetek Group.                          | 1-Jan-19       |
| 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 will implement the standard from January 1, 2019. The Company is examining the effect of the standard, though it is not expected to have a significant impact to the consolidated financial statements based on the current level of operating lease activity.   | 1-Jan-19       |
| <b>NOT ENDORSED BY EU AS OF DECEMBER 31, 2017</b>   |   |                |
| IFRIC 23: Uncertainty over Income Tax Treatments  | IFRIC 23 clarifies how to apply the recognition and measurement requirements of IAS 12, Income Taxes, when there is uncertainty in income tax treatments. According to IFRIC 23, an entity must determine the probability of the relevant tax authority accepting each tax treatment used in their income tax filing, including considering the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The Company will adopt IFRIC 23 from January 1, 2019 and is currently evaluating the effect that the standard will have on the consolidated financial statements.   | 1-Jan-19       |
| Annual Improvements to IFRS Standards 2014-2016   | IFRS 1 First-time Adoption: deletes the short-term exemptions in paragraphs E3-E7; IAS 28 Investments in Associates and Joint Ventures: clarifies election to measure investments at fair value through profit and loss.  | 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-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 first generated in 2016 and have continued in 2017. 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.

Asetek will continue to invest its capital principally in the development and marketing of its cooling products. In October 2016, the Board of Directors implemented a dividend policy and paid a cash dividend of NOK1.00 in 2017. When considering payment of dividends, the Board takes into consideration the Company's growth plans, liquidity requirements and necessary financial flexibility.

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

#### DEBT MATURITIES

| AS OF DECEMBER 31, 2017<br>(USD 000's) | On Demand | Less than 3 months | 3 to 12 months | 1 to 5 years | Total    |
|--|-----------|--------------------|----------------|--------------|----------|
| Line of credit                         | (783)     | -                  | -              | -            | (783)    |
| Finance leases                         | -         | (66)               | (202)          | (816)        | (1,084)  |
| Trade payables and accrued liabilities | -         | (11,985)           | (1,930)        | -            | (13,915) |
|  | (783)     | (12,051)           | (2,132)        | (816)        | (15,782) |

| AS OF DECEMBER 31, 2016<br>(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) |

## NOTES

**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 5.5 million Danish kroner (\$0.8 million) as of December 31, 2017. 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, 2017 was 6.21 Danish kroner to one U.S. dollar (7.05 to the U.S. dollar at December 31, 2016). 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 in post-tax income for

fiscal year 2017 of \$106,000 and comparable increase in 2016 of the post-tax income of \$823,000.

(b) Interest rate risk. As of December 31, 2017, Asetek had the following debt outstanding that is subject to interest rate risk:

// Line of credit with Sydbank – 5.5 million Danish kroner revolving line of credit available to Asetek A/S. Total line in USD is approximately \$0.8 million, \$0.78 million of which was outstanding at December 31, 2017. The line carries interest at the Danish CIBOR 3 rate plus 2.75 percentage points, which in total was 2.5% at December 31, 2017. 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 2017, the Company's two largest customers accounted for 39% and 20% of revenue (53% and 9% in 2016), respectively. At December 31, 2017 two customers represented 37% and 23% of outstanding trade receivables (46% and 18% at December 31, 2016), respectively. The reserve for uncollectible trade accounts was \$92,000 at December 31, 2017 and \$37,000 at December 31, 2016. 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)                    | 2017          | 2016          |
|--------------------------------|---------------|---------------|
| Cash and cash equivalents      | 18,398        | 17,610        |
| Trade receivables and other    | 13,280        | 13,325        |
| Other assets                   | 794           | 642           |
| <b>MAXIMUM CREDIT EXPOSURE</b> | <b>32,472</b> | <b>31,577</b> |

## 4. GEOGRAPHICAL INFORMATION

The Group operates internationally in several geographical areas mainly in Asia, Europe and the Americas.

The following tables present the Group's revenue and assets in each of the principal geographical areas and countries, where significant:

|              | (USD 000's)   |                |                    |
|--------------|---------------|----------------|--------------------|
|              | Revenue       | Current assets | Non-current assets |
| Asia         | 48,529        | 11,577         | 81                 |
| Americas     | 6,480         | 4,035          | 2,180              |
| Europe       | 3,185         | 18,382         | 12,921             |
| <b>TOTAL</b> | <b>58,194</b> | <b>33,994</b>  | <b>15,182</b>      |

|              | (USD 000's)   |                |                    |
|--------------|---------------|----------------|--------------------|
|              | 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              |
| <b>TOTAL</b> | <b>50,921</b> | <b>32,093</b>  | <b>9,071</b>       |

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.

| (USD 000's)  | Revenue       |               |
|--------------|---------------|---------------|
|              | 2017          | 2016          |
| Denmark      | 317           | 133           |
| Hong Kong    | 23,096        | 28,219        |
| Taiwan       | 18,856        | 9,051         |
| USA          | 6,337         | 6,390         |
| All others   | 9,588         | 7,128         |
| <b>TOTAL</b> | <b>58,194</b> | <b>50,921</b> |

| (USD 000's)  | Non-current assets |              |
|--------------|--------------------|--------------|
|              | 2017               | 2016         |
| Denmark      | 12,921             | 6,833        |
| USA          | 2,180              | 2,223        |
| China        | 81                 | 15           |
| <b>TOTAL</b> | <b>15,182</b>      | <b>9,071</b> |

## 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 2017 and 2016. Income and expense items below adjusted EBITDA, to arrive at income (loss) before tax, are provided as supplemental disclosures.

| Condensed income statement<br>- years ended December 31,<br>(USD 000's) | 2017          |                |                            |               | 2016          |                |                            |               |
|---|---------------|----------------|----------------------------|---------------|---------------|----------------|----------------------------|---------------|
|   | Desktop       | Datacenter     | Not allocable to divisions | Total         | Desktop       | Datacenter     | Not allocable to divisions | Total         |
| Revenue   | 53,227        | 4,967          | -                          | 58,194        | 45,752        | 5,169          | -                          | 50,921        |
| Cost of goods sold  | 33,459        | 3,766          | -                          | 37,225        | 27,482        | 3,689          | -                          | 31,171        |
| <b>GROSS PROFIT</b>   | <b>19,768</b> | <b>1,201</b>   | <b>-</b>                   | <b>20,969</b> | <b>18,270</b> | <b>1,480</b>   | <b>-</b>                   | <b>19,750</b> |
| Operating costs   | 3,777         | 8,474          | 2,847                      | 15,098        | 3,128         | 6,559          | 2,616                      | 12,303        |
| Litigation settlement received  | -             | -              | (913)                      | (913)         | -             | -              | -                          | -             |
| <b>ADJUSTED EBITDA</b>  | <b>15,991</b> | <b>(7,273)</b> | <b>(1,934)</b>             | <b>6,784</b>  | <b>15,142</b> | <b>(5,079)</b> | <b>(2,616)</b>             | <b>7,447</b>  |
| Depreciation in operating expense                                       | 1,033         | 1,397          | -                          | 2,430         | 806           | 1,644          | -                          | 2,450         |
| Share based compensation  | 348           | 813            | 436                        | 1,597         | 77            | 137            | 114                        | 328           |
| Financial income (expenses)   | -             | -              | (1,258)                    | (1,258)       | -             | -              | 322                        | 322           |
| <b>INCOME (LOSS) BEFORE TAX</b>   | <b>14,610</b> | <b>(9,483)</b> | <b>(3,628)</b>             | <b>1,499</b>  | <b>14,259</b> | <b>(6,860)</b> | <b>(2,408)</b>             | <b>4,991</b>  |

| Condensed balance sheet<br>- as of December 31,<br>(USD 000's) | 2017          |              |                            |               | 2016          |              |                            |               |
|--|---------------|--------------|----------------------------|---------------|---------------|--------------|----------------------------|---------------|
|  | Desktop       | Datacenter   | Not allocable to divisions | Total         | Desktop       | Datacenter   | Not allocable to divisions | Total         |
| <b>TOTAL INVESTMENT</b>  | <b>5,963</b>  | <b>2,337</b> | <b>25,094</b>              | <b>33,394</b> | <b>5,546</b>  | <b>2,542</b> | <b>20,202</b>              | <b>28,290</b> |
| <b>TOTAL ASSETS</b>  | <b>15,833</b> | <b>4,832</b> | <b>28,511</b>              | <b>49,176</b> | <b>14,709</b> | <b>3,436</b> | <b>23,020</b>              | <b>41,164</b> |
| <b>TOTAL LIABILITIES</b>                                       | <b>9,870</b>  | <b>2,495</b> | <b>3,417</b>               | <b>15,782</b> | <b>9,162</b>  | <b>894</b>   | <b>2,818</b>               | <b>12,874</b> |

| Changes in intangible assets<br>- years ended December 31,<br>(USD 000's) | 2017         |              |                            |              | 2016       |              |                            |              |
|---|--------------|--------------|----------------------------|--------------|------------|--------------|----------------------------|--------------|
|   | Desktop      | Datacenter   | Not allocable to divisions | Total        | Desktop    | Datacenter   | Not allocable to divisions | Total        |
| <b>OPENING BALANCE, INTANGIBLE ASSETS</b>                                 | <b>902</b>   | <b>969</b>   | <b>-</b>                   | <b>1,871</b> | <b>665</b> | <b>1,187</b> | <b>-</b>                   | <b>1,852</b> |
| Gross additions   | 970          | 1,456        | -                          | 2,426        | 736        | 1,099        | -                          | 1,835        |
| Amortization and other  | (560)        | (983)        | -                          | (1,543)      | (499)      | (1,317)      | -                          | (1,816)      |
| <b>ENDING BALANCE, INTANGIBLE ASSETS</b>                                  | <b>1,312</b> | <b>1,442</b> | <b>-</b>                   | <b>2,754</b> | <b>902</b> | <b>969</b>   | <b>-</b>                   | <b>1,871</b> |

## NOTES

### 6. SALARY COSTS AND REMUNERATIONS

| (USD 000's)  | 2017          | 2016         |
|--|---------------|--------------|
| Salaries   | 7,449         | 6,891        |
| Retirement fund contributions                          | 305           | 61           |
| Social cost  | 1,082         | 488          |
| Share based payment                                    | 1,597         | 328          |
| Other expenses   | 599           | 195          |
| <b>TOTAL PERSONNEL EXPENSES BEFORE CAPITALIZATION</b>  | <b>11,032</b> | <b>7,963</b> |
| Capitalized as development cost                        | (1,526)       | (1,227)      |
| <b>TOTAL PERSONNEL EXPENSES IN STATEMENT OF INCOME</b> | <b>9,506</b>  | <b>6,736</b> |
| <b>AVERAGE NUMBER OF EMPLOYEES</b>                     | <b>93</b>     | <b>79</b>    |

The staff costs are specified as follows:

| (USD 000's)                                    | 2017   | 2016  |
|--|--------|-------|
| Research and development                       | 3,151  | 2,369 |
| Selling, general and administrative            | 7,881  | 5,594 |
| Total personnel expenses before capitalization | 11,032 | 7,963 |

Compensation to the Board of Directors, Officers and Other Executives

| USD 000's)   | 2017       |              |              |              | 2016       |              |            |              |
|--------------|------------|--------------|--------------|--------------|------------|--------------|------------|--------------|
|              | Directors  | Officers     | Executives   | Other Total  | Directors  | Officers     | Executives | Other Total  |
| Salary       | -          | 606          | 758          | 1,364        | -          | 657          | 655        | 1,312        |
| Bonus        | 84         | 154          | 170          | 408          | 75         | 278          | 181        | 534          |
| Share based  | 82         | 455          | 515          | 1,052        | 48         | 114          | 65         | 227          |
| Other        | -          | 123          | 43           | 166          | -          | 22           | 24         | 56           |
| <b>TOTAL</b> | <b>166</b> | <b>1,338</b> | <b>1,486</b> | <b>2,990</b> | <b>123</b> | <b>1,081</b> | <b>925</b> | <b>2,129</b> |

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 \$50,000 and \$22,000 in pension payments in 2017 and 2016, 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 twelve months' severance pay in case of termination or termination in connection with change of control. The Company's CFO has an agreement of seven months' severance pay in case of termination or termination in connection with change of control. Except for the Company's CEO and CFO and other members of the executive group, 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.

Share Ownership of Officers at December 31, 2017

|                                | André S. Eriksen | Peter D. Madsen |
|--------------------------------|------------------|-----------------|
| Common shares                  | 200,000          | 77,587          |
| Options at \$0.96              | 14,688           | 9,375           |
| Warrants at:                   |                  |                 |
| \$1.30 (NOK10.50)              | 86,933           | 50,875          |
| \$2.40 (NOK19.50)              | 101,799          | 49,837          |
| \$6.11 (NOK36.50)              | 96,167           | 37,800          |
| \$6.70 (NOK40.10)              | 24,750           | 10,313          |
| \$8.91 (NOK76.25)              | 130,981          | 44,215          |
| <b>TOTAL SHARES CONTROLLED</b> | <b>655,318</b>   | <b>280,002</b>  |

### 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 \$1,597,000 and \$328,000 for the years ended December 31, 2017 and 2016, 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, 2017 there is a total of 2,469,163 common shares authorized under the Plan.



In July 2017, the Company granted 106,999 warrants with exercise prices of \$13.49 (NOK113.00) per share. In April 2017, the Company granted 509,687 warrants with exercise prices of \$8.91 (NOK76.25) per share. In April 2016, 600,000 warrants were granted with exercise prices of \$2.40 (NOK19.50) per share. All options and warrants 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.

Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

Of the 106,999 warrants granted in July 2017, none were exercisable or forfeited as of December 31, 2017.

All warrants granted to employees generally become exercisable gradually over a period of four years.

The composition of options and warrants outstanding at December 31, 2017 is as follows:

| Exercise price per share | Number of shares |
|--------------------------|------------------|
| \$0.94                   | 3,912            |
| \$0.96                   | 134,269          |
| \$1.30 (NOK10.50)        | 492,620          |
| \$2.40 (NOK19.50)        | 533,937          |
| \$5.50 (NOK33.90)        | 16,021           |
| \$6.11 (NOK36.50)        | 404,568          |
| \$6.70 (NOK40.10)        | 95,550           |
| \$8.91 (NOK76.25)        | 508,163          |
| \$13.49 (NOK113.00)      | 106,999          |
| <b>TOTAL</b>             | <b>2,296,039</b> |

The Company calculated the fair value of each option award on the date of grant using the Black-Scholes option pricing model, which requires subjective assumptions, including future stock price volatility and expected time to exercise. The expected volatility was based on the historical volatility of the Company's stock price. The weighted average remaining contractual term of options outstanding is 4.7 years. The warrants granted in April 2017 have an estimated total value of \$2.2 million. The warrants granted in July 2017 have an estimated total value of \$0.6 million. The warrants granted in April 2016 have an estimated total value of \$0.3 million.

The following weighted average assumptions were used for the period indicated.

| Activity for exercise prices of \$0.94 to \$2.40 | Weighted Average Exercise |             | Weighted Average Exercise |             |
|--|---------------------------|-------------|---------------------------|-------------|
|  | 2017                      | Price       | 2016                      | Price       |
| Outstanding on January 1                         | 1,417,397                 | 1.69        | 997,933                   | 1.20        |
| Options/warrants granted                         | -                         | -           | 600,000                   | 2.40        |
| Options/warrants exercised                       | (243,789)                 | 1.31        | (95,879)                  | 1.35        |
| Options/warrants forfeited                       | (8,432)                   | 2.29        | (84,657)                  | 1.28        |
| <b>OUTSTANDING ON DECEMBER 31</b>                | <b>1,165,176</b>          | <b>1.76</b> | <b>1,417,397</b>          | <b>1.69</b> |
| <b>EXERCISABLE ON DECEMBER 31</b>                | <b>647,882</b>            | <b>1.63</b> | <b>602,829</b>            | <b>1.37</b> |

The weighted average market price per share on the date of exercise for the above shares was \$10.28 in 2017 and \$4.84 in 2016.

| Activity for exercise prices of \$5.50 to \$8.91 | Weighted Average Exercise |             | Weighted Average Exercise |             |
|--|---------------------------|-------------|---------------------------|-------------|
|  | 2017                      | Price       | 2016                      | Price       |
| Outstanding on January 1                         | 586,167                   | 6.18        | 651,869                   | 6.18        |
| Options/warrants granted                         | 509,687                   | 8.91        | -                         | -           |
| Options/warrants exercised                       | (70,494)                  | 6.03        | -                         | -           |
| Options/warrants forfeited                       | (1,058)                   | 5.50        | (65,702)                  | 5.59        |
| <b>OUTSTANDING ON DECEMBER 31</b>                | <b>1,024,302</b>          | <b>7.54</b> | <b>586,167</b>            | <b>6.18</b> |
| <b>EXERCISABLE ON DECEMBER 31</b>                | <b>612,657</b>            | <b>6.61</b> | <b>495,795</b>            | <b>6.18</b> |

The weighted average market price per share on the date of exercise for the above shares was \$12.47 in 2017.

| Valuation assumptions            | 2017          | 2016         |
|----------------------------------|---------------|--------------|
| Risk-free interest rate          | 1.60% - 1.78% | 1.04 - 1.12% |
| Dividend yield                   | 0.0%          | 0.0%         |
| Expected life of options (years) | 3.58 - 4.07   | 3.58 - 4.07  |
| Expected volatility              | 74% - 77%     | 32%          |

## NOTES

### 8. EXPENSES BY NATURE

| (USD 000's)   | Note | 2017          | 2016          |
|---|------|---------------|---------------|
| Inventories recognized as cost of sales               | 17   | 37,225        | 31,171        |
| Personnel expenses                                    | 6    | 11,032        | 7,963         |
| Depreciation and amortization                         |      | 2,430         | 2,450         |
| Legal, patent, consultants and auditor                |      | 3,636         | 3,188         |
| Litigation settlement received                        |      | (913)         | -             |
| Facilities and infrastructure                         |      | 928           | 1,397         |
| Other expenses  |      | 3,546         | 1,918         |
| <b>TOTAL OPERATING EXPENSES BEFORE CAPITALIZATION</b> |      | <b>57,884</b> | <b>48,087</b> |
| Less: capitalized costs for development projects      | 14   | (2,447)       | (1,835)       |
| <b>TOTAL EXPENSES</b>                                 |      | <b>55,437</b> | <b>46,252</b> |

Included as an offset to operating expense is litigation settlement received, which represents net awards from patent litigation and is reported as other income in the consolidated statement of comprehensive income.

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

| (USD 000's)                                | 2017         | 2016         |
|--|--------------|--------------|
| Depreciation and amortization included in: |              |              |
| Research and development                   | 1,185        | 1,241        |
| Selling, general and administrative        | 1,245        | 1,209        |
| <b>TOTAL</b>                               | <b>2,430</b> | <b>2,450</b> |

## 9. FINANCE COSTS AND INCOME

| (USD 000's)                     | 2017           | 2016       |
|---------------------------------|----------------|------------|
| Foreign exchange gain (loss)    | (1,239)        | 330        |
| Interest cost on line of credit | (5)            | (3)        |
| Interest cost on finance leases | (37)           | (15)       |
| Interest income                 | 84             | 48         |
| Other banking and finance fees  | (61)           | (38)       |
| <b>TOTAL FINANCE INCOME</b>     | <b>(1,258)</b> | <b>322</b> |

## 10. INCOME TAXES

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

| (USD 000's)                          | 2017         | 2016         |
|--------------------------------------|--------------|--------------|
| Current income tax (expense) benefit | 73           | (228)        |
| Deferred income tax benefit          | 2,903        | 4,874        |
| <b>TAX BENEFIT</b>                   | <b>2,976</b> | <b>4,646</b> |

The tax benefit represents deferred tax assets recognized associated with net operating loss carryforwards. See Note 11. 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)   | 2017         | 2016         |
|---|--------------|--------------|
| <b>INCOME (LOSS) BEFORE TAX</b>   | <b>1,499</b> | <b>4,991</b> |
| Tax calculated at domestic rates applicable to profits/losses in respective countries | (630)        | (1,281)      |
| Tax effects of:   |              |              |
| Foreign R&D tax credit  | 88           | -            |
| Expenses not deductible for tax purposes  | (28)         | (18)         |
| Benefit of tax losses recognized  | 3,684        | 5,948        |
| Temporary differences between book and tax  | (138)        | (3)          |
| <b>TAX (EXPENSE) BENEFIT</b>  | <b>2,976</b> | <b>4,646</b> |

## 11. DEFERRED INCOME TAX

| (USD 000's)   | 2017         | 2016         |
|---|--------------|--------------|
| Potential tax assets from prior year losses                     | 9,256        | 11,480       |
| Tax assets not considered probable to realize before expiration | (1,478)      | (6,606)      |
| <b>DEFERRED INCOME TAX ASSETS</b>                               | <b>7,778</b> | <b>4,874</b> |

At December 31, 2017, potential income tax assets totaled \$9.3 million (2016: \$11.5 million) in respect of remaining losses to be carried forward amounting to \$57.4 million that should be applied to different tax rates. The losses can be carried forward against future taxable income. In 2017, the Group recorded deferred tax assets totaling \$7.8 million (\$4.9 million in 2016), which represents the net tax benefit that the Company considers probable to be realized in the future, based on Company budget for the following year and estimates for the subsequent years. 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 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 | 1,462             |
| Do not expire                | 6,316             |
| <b>TOTAL</b>                 | <b>7,778</b>      |

## NOTES

### 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.

|   | 2017          | 2016          |
|---|---------------|---------------|
| Income attributable to equity holders of the Company (USD 000's)      | \$4,475       | \$9,637       |
| Weighted average number of common shares outstanding (000's)          | 25,129        | 24,851        |
| <b>BASIC EARNINGS PER SHARE</b>                                       | <b>\$0.18</b> | <b>\$0.39</b> |
| Weighted average number of common shares outstanding (000's)          | 25,129        | 24,851        |
| Instruments with potentially dilutive effect:                         |               |               |
| Warrants and options (000's)  | 1,372         | 752           |
| Weighted average number of common shares outstanding, diluted (000's) | 26,501        | 25,603        |
| <b>DILUTED EARNINGS PER SHARE</b>                                     | <b>\$0.17</b> | <b>\$0.38</b> |

### 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, 2017 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, 2017, 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, 2017. The values of the Group's assets and liabilities are as follows:

As of December 31, 2017

| (USD 000's)                         | Loans and receivables |
|-------------------------------------|-----------------------|
| <i>Assets as per balance sheet:</i> |                       |
| Trade receivables and other         | 13,280                |
| Cash and cash equivalents           | 18,398                |
|                                     | <b>31,678</b>         |

As of December 31, 2017

| (USD 000's)                              | Liabilities at fair value through profit and loss | Other financial liabilities at amortized cost | Total         |
|--|---|---|---------------|
| <i>Liabilities as per balance sheet:</i> |   |   |               |
| Long-term debt                           | -   | 816   | 816           |
| Short-term debt                          | -   | 1,051   | 1,051         |
| Trade payables and accrued liabilities   | -   | 13,915  | 13,915        |
|  | -   | <b>15,782</b>                                 | <b>15,782</b> |

As of December 31, 2016

| (USD 000's)                         | Loans and receivables |
|-------------------------------------|-----------------------|
| <i>Assets as per balance sheet:</i> |                       |
| Trade receivables and other         | 13,325                |
| Cash and cash equivalents           | 17,610                |
|                                     | <b>30,935</b>         |

As of December 31, 2016

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

## 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)  | 2017           | 2016           |
|--|----------------|----------------|
| <b>COST:</b>   |                |                |
| Balance at January 1                                   | 6,758          | 6,340          |
| Additions  | 2,447          | 1,835          |
| Deletions - completion of useful life                  | (458)          | (1,231)        |
| Impairment loss  | (65)           | (186)          |
| <b>BALANCE AT DECEMBER 31</b>                          | <b>8,682</b>   | <b>6,758</b>   |
| <b>ACCUMULATED AMORTIZATION AND IMPAIRMENT LOSSES:</b> |                |                |
| Balance at January 1                                   | (4,887)        | (4,488)        |
| Amortization for the year                              | (1,538)        | (1,784)        |
| Amortization associated with deletions                 | 437            | 1,227          |
| Amortization associated with impairment losses         | 60             | 158            |
| <b>BALANCE AT DECEMBER 31</b>                          | <b>(5,928)</b> | <b>(4,887)</b> |
| <b>CARRYING AMOUNT</b>                                 | <b>2,754</b>   | <b>1,871</b>   |

Impairment tests are performed annually on developed assets and assets under construction. 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, appropriate indirect cost 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 equipment activity.

| (USD 000's)                                 | Leasehold improvements | Machinery      | Other fixtures, fittings, tools equipment | Total          |
|---|------------------------|----------------|---|----------------|
| <b>COST:</b>                                |                        |                |   |                |
| 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)          |
| <b>BALANCE AT DECEMBER 31, 2016</b>         | <b>360</b>             | <b>2,799</b>   | <b>992</b>                                | <b>4,151</b>   |
| Balance at January 1, 2017                  | 360                    | 2,799          | 992                                       | 4,151          |
| Additions                                   | 415                    | 1,603          | 724                                       | 2,742          |
| Disposals                                   | -                      | (376)          | (36)                                      | (412)          |
| Exchange rate difference                    | 57                     | 393            | 156                                       | 606            |
| <b>BALANCE AT DECEMBER 31, 2017</b>         | <b>832</b>             | <b>4,419</b>   | <b>1,836</b>                              | <b>7,087</b>   |
| <b>ACCUMULATED DEPRECIATIONS:</b>           |                        |                |   |                |
| 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             |
| <b>BALANCE AT DECEMBER 31, 2016</b>         | <b>(200)</b>           | <b>(1,798)</b> | <b>(468)</b>                              | <b>(2,466)</b> |
| Balance at January 1, 2017                  | (200)                  | (1,798)        | (468)                                     | (2,466)        |
| Disposals                                   | -                      | 374            | 36  | 410            |
| Depreciations for the year                  | (86)                   | (597)          | (209)                                     | (892)          |
| Exchange rate differences                   | (20)                   | (202)          | (61)                                      | (283)          |
| <b>BALANCE AT DECEMBER 31, 2017</b>         | <b>(306)</b>           | <b>(2,223)</b> | <b>(702)</b>                              | <b>(3,231)</b> |
| <b>CARRYING AMOUNT AT DECEMBER 31, 2016</b> | <b>160</b>             | <b>1,000</b>   | <b>524</b>                                | <b>1,684</b>   |
| <b>CARRYING AMOUNT AT DECEMBER 31, 2017</b> | <b>526</b>             | <b>2,196</b>   | <b>1,134</b>                              | <b>3,856</b>   |

At December 31, 2017, property and equipment includes leased equipment at a gross value of approximately \$1,477,000 which had accumulated amortization

of \$476,500. (2016: gross value of \$656,000 and accumulated amortization of \$476,000).

## NOTES

### 16. TRADE RECEIVABLES AND OTHER

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

| (USD 000's)                              | 2017          | 2016          |
|--|---------------|---------------|
| Gross trade receivables                  | 12,801        | 12,986        |
| Provision for uncollectible accounts     | (92)          | (37)          |
| <b>NET TRADE RECEIVABLES</b>             | <b>12,709</b> | <b>12,949</b> |
| Other receivables and assets             | 571           | 376           |
| <b>TOTAL TRADE RECEIVABLES AND OTHER</b> | <b>13,280</b> | <b>13,325</b> |

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

| (USD 000's)       | Total  | Not yet due | Past due:    |               |              |
|-------------------|--------|-------------|--------------|---------------|--------------|
|                   |        |             | 1 to 30 days | 31 to 60 days | Over 60 days |
| December 31, 2017 | 12,801 | 10,222      | 2,392        | 24            | 163          |
| December 31, 2016 | 12,986 | 10,176      | 2,391        | 306           | 113          |

The trade receivables of Asetek Danmark A/S carry a general lien of 6 million Danish krone (\$1.0 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)                   | 2017        | 2016        |
|-------------------------------|-------------|-------------|
| Balance at January 1          | (37)        | (19)        |
| Additions                     | (92)        | (37)        |
| Reversals                     | 37          | 19          |
| <b>BALANCE AT DECEMBER 31</b> | <b>(92)</b> | <b>(37)</b> |

### 17. INVENTORIES

| (USD 000's)                            | 2017         | 2016         |
|--|--------------|--------------|
| Raw materials                          | 843          | 705          |
| Finished goods                         | 1,610        | 571          |
| Total gross inventories                | 2,453        | 1,276        |
| Less: provision for inventory reserves | (137)        | (118)        |
| <b>TOTAL NET INVENTORIES</b>           | <b>2,316</b> | <b>1,158</b> |

| (USD 000's)   | 2017     | 2016     |
|---|----------|----------|
| Inventories recognized as cost of sales during the period | (37,225) | (31,171) |
| Write-down of inventories to net realizable value         | (137)    | (118)    |

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

| (USD 000's)                   | 2017         | 2016         |
|-------------------------------|--------------|--------------|
| Balance at January 1          | (118)        | (105)        |
| Additions                     | (137)        | (118)        |
| Write-offs                    | 118          | 105          |
| <b>BALANCE AT DECEMBER 31</b> | <b>(137)</b> | <b>(118)</b> |

## 18. SHARE CAPITAL

The Company has reserved 1,150 thousand shares (4.5% of total shares, nominal value DKK 115 thousand) for future exercises of options. In 2017, a total of 314 thousand options (1.2% of total shares, nominal value DKK 31 thousand) were exercised resulting in 298 thousand common shares issued and \$0.7 million funds received by the Company. 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.

As of December 31, 2017, there are 25,235 thousand common shares outstanding with a nominal value of 0.10 DKK per share and 331 thousand shares (1.3% of total shares, nominal value DKK 35 thousand) held in treasury. Included in equity is a reserve for treasury shares of approximately \$6,000 at December 31, 2017.

A dividend in respect of the year ended December 31, 2016 of NOK1.00 per share, for a total payout of \$2.9 million, was paid in 2017.

The following table summarizes common share activity in the years presented:

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

| (USD 000's)                                      | 2017          | 2016          |
|--|---------------|---------------|
| Common shares outstanding - January 1            | 24,919        | 24,823        |
| Options and warrants exercised and shares issued | 316           | 96            |
| <b>COMMON SHARES OUTSTANDING - DECEMBER 31</b>   | <b>25,235</b> | <b>24,919</b> |

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:

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

| (USD 000's)                                 | 2017           | 2016          |
|---|----------------|---------------|
| Line of credit                              | (783)          | (414)         |
| Finance leases - due within one year        | (268)          | (110)         |
| Sublease deposit                            | -              | (82)          |
| <b>DEBT INCLUDED IN CURRENT LIABILITIES</b> | <b>(1,051)</b> | <b>(606)</b>  |
| Finance leases - due after one year         | (816)          | (264)         |
| <b>TOTAL DEBT</b>                           | <b>(1,867)</b> | <b>(870)</b>  |
| Less: cash and equivalents                  | 18,398         | 17,610        |
| <b>NET DEBT</b>                             | <b>16,531</b>  | <b>16,740</b> |

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, 2017, the total line was 5.5 million Danish kroner, which equates to \$0.88 million at December 31, 2017. Interest on the line is payable monthly at the Danish CIBOR 3 rate plus 2.75 percentage points, which in total was 2.5% at December 31, 2017. As of December 31, 2017, the Company had 4.86 million Danish kroner (\$0.78 million) outstanding on the line. (2.92 million Danish kroner outstanding at December 31, 2016).

Reconciliation of liability for line of credit

| (USD 000's)                        | 2017         | 2016         |
|------------------------------------|--------------|--------------|
| Beginning balance                  | (414)        | (288)        |
| Net paid (drawn) on line of credit | (295)        | (141)        |
| Foreign exchange impact            | (74)         | 15           |
| <b>ENDING BALANCE</b>              | <b>(783)</b> | <b>(414)</b> |

## NOTES

### 20. LEASES

**Operating leases.** The Company leases some of its facilities under noncancelable operating leases. Total expense from operating leases was \$584,000 in 2017 (\$546,000 in 2016).

The Company's office space in Aalborg, Denmark is under lease through July 2025. The Company subleased a portion of this facility to another tenant and under the sublease agreement received payments totaling \$88,000 for rent and expenses during the year ended December 31, 2017 (\$0.3 million in 2016). The sublease ended June 30, 2017. 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)                           | 2017         | 2016         |
|---------------------------------------|--------------|--------------|
| Minimum operating lease payments due: |              |              |
| In the following year                 | 582          | 523          |
| In the second year                    | 399          | 522          |
| In the third year                     | 399          | 345          |
| In the fourth year                    | 395          | 201          |
| In the fifth year and thereafter      | 1,413        | -            |
|                                       | <b>3,189</b> | <b>1,591</b> |

**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)  | 2017         | 2016       |
|--|--------------|------------|
| Minimum finance lease payments as of December 31     | 1,161        | 400        |
| Less: amount representing interest                   | (77)         | (26)       |
| <b>TOTAL OBLIGATIONS UNDER FINANCE LEASES</b>        | <b>1,084</b> | <b>374</b> |
| Obligations under finance leases due within one year | 268          | 110        |
| Obligations under finance leases due after one year  | 816          | 264        |
|  | <b>1,084</b> | <b>374</b> |

Reconciliation of finance lease liability

| (USD 000's)                 | 2017         | 2016       |
|-----------------------------|--------------|------------|
| Beginning balance           | 374          | 346        |
| Additions to finance leases | 789          | 140        |
| Finance lease payments      | (162)        | (98)       |
| Foreign exchange impact     | 83           | (14)       |
| <b>ENDING BALANCE</b>       | <b>1,084</b> | <b>374</b> |

### 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, 2017 and 2016, the Company had sales of inventory to the reseller of \$22.7 million and \$26.9 million, which represented 39% and 53% of total revenues, respectively. As of December 31, 2017 and 2016, the Company had outstanding trade receivables from the reseller of \$4.8 million and \$6.0 million, respectively.

The Company's CEO serves as Chairman of the Board for ITSecurity A/S, a vendor that supplies information technology services to the Company. In 2017, the Company purchased services totaling approximately \$0.4 million (\$0.3 million in 2016) from this vendor. At December 31, 2017 and 2016, the Company had outstanding payables to this vendor of \$24,000 and \$17,000, respectively.

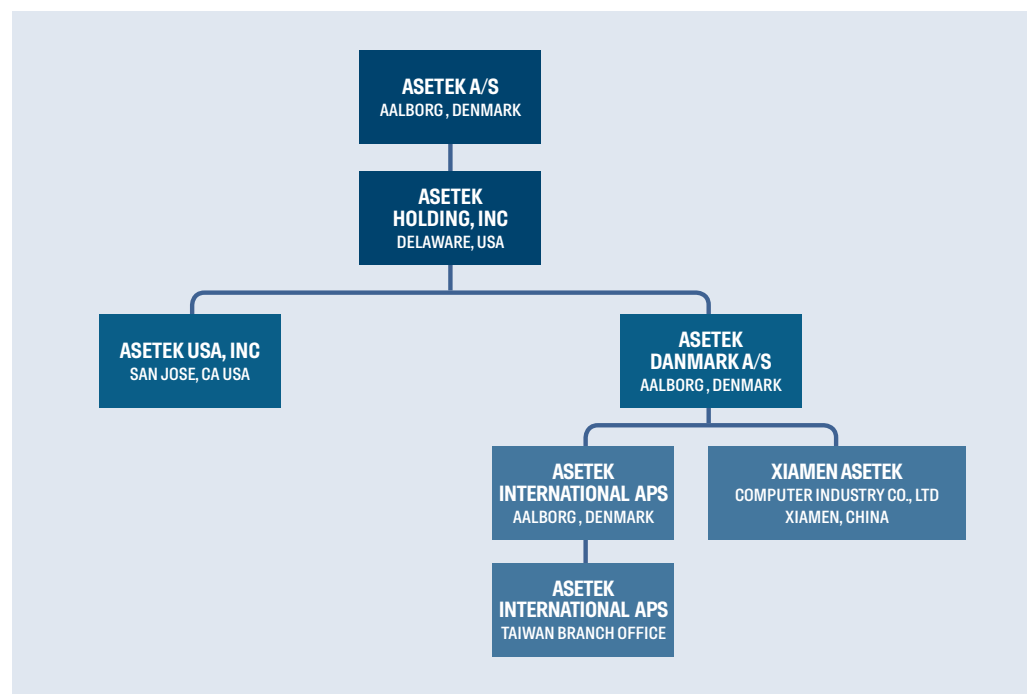
The Company's CFO serves as a board member for iFEED ApS. Asetek had no transactions with iFEED ApS in 2017.



## 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 \$175,000 and \$118,000 in 2017 and 2016, respectively. Tax services provided in 2017 included advisory on deferred taxes, transfer pricing and dividend payment.

The fee is distributed between these services:

| (USD 000's)              | 2017       | 2016       |
|--------------------------|------------|------------|
| Statutory audit          | 128        | 58         |
| Other assurance services | 2          | 19         |
| Tax services             | 45         | 41         |
| <b>TOTAL</b>             | <b>175</b> | <b>118</b> |

## NOTES

### 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 2017, the board members have been compensated as listed below.

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.  
**Board of Directors 2017 Compensation and Current Holdings**

| Name and other board positions              | Asetek equity holdings                        | Shares  | 2017 Cash Compensation |
|---|---|---------|------------------------|
| <b>SAMUEL SZTEINBAUM</b>                    | Owned shares                                  | 152,254 | \$ 12,369              |
| Corsair Components, Inc. - Board member     | Warrants @ \$2.40 (NOK19.50)                  | 14,757  |                        |
| The Wonder Years Inc. - Chairman and CEO    | Warrants @ \$6.11 (NOK36.50)                  | 12,822  |                        |
| The Wash Stop, Inc. - President             | Warrants @ \$6.70 (NOK40.10)                  | 11,000  |                        |
|   | Granted in 2017: Warrants @ \$8.91 (NOK76.25) | 4,400   |                        |
| <b>CHRIS CHRISTOPHER</b>                    | Owned shares                                  | 55,840  | \$ 12,369              |
| Rocky Mountain Innosphere - Board member    | Options @ \$0.96                              | 17,760  |                        |
|   | Warrants @ \$1.30 (NOK10.50)                  | 15,654  |                        |
|   | Warrants @ \$2.40 (NOK19.50)                  | 14,757  |                        |
|   | Warrants @ \$6.11 (NOK36.50)                  | 12,822  |                        |
|   | Warrants @ \$6.70 (NOK40.10)                  | 11,000  |                        |
|   | Granted in 2017: Warrants @ \$8.91 (NOK76.25) | 4,400   |                        |
| <b>JIM MCDONNELL</b>                        | Owned shares                                  | 16,400  | \$ 12,443              |
| VFO - Sr. Vice President, Sales & Marketing | Warrants @ \$1.30 (NOK10.50)                  | 15,654  |                        |
|   | Warrants @ \$2.40 (NOK19.50)                  | 14,757  |                        |
|   | Warrants @ \$5.50 (NOK33.90)                  | 6,408   |                        |
|   | Granted in 2017: Warrants @ \$8.91 (NOK76.25) | 4,400   |                        |
| <b>KNUT ØVERSJØEN</b>                       | Owned shares                                  | 22,500  | \$ 12,369              |
| Nordic Energy AS - Chairman                 | Warrants @ \$2.40 (NOK19.50)                  | 2,460   |                        |
| Kov Invest Holding, Chairman and CEO        | Warrants @ \$6.11 (NOK36.50)                  | 12,822  |                        |
| Spond AS - Board member                     | Warrants @ \$6.70 (NOK40.10)                  | 11,000  |                        |
| Scandec Systems, Chairman and CEO           | Granted in 2017: Warrants @ \$8.91 (NOK76.25) | 4,400   |                        |
| Falcon Industrial Partners, AS - Chairman   |   |         |                        |
| Guardian Corporate AS - Board member        |   |         |                        |
| Relacom AB - Board member                   |   |         |                        |
| Relacom Finland - Chairman                  |   |         |                        |
| <b>JØRGEN SMIDT</b>                         | Owned shares                                  | 16,600  | \$ -                   |
| Flatfrog AB - Board member                  |   |         |                        |
| Microtask OY - Board member                 |   |         |                        |
| FreeSpee AB - Chairman                      |   |         |                        |

## 25. POST BALANCE SHEET EVENTS

The Company has evaluated the period after December 31, 2017 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

Legal proceedings. In the ordinary course of conducting its 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 2016 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. Upon appeal from CMI, in April 2017, the Court of Appeals affirmed the prior rulings regarding infringement, validity, damages and injunction against CMI, reversed the injunction solely against Cooler

Master based on the current record, and remanded to the district court for further investigation regarding whether Cooler Master should also be enjoined along with CMI. Those further proceedings were settled in September 2017 by a confidential settlement agreement by Asetek, Cooler Master, and CMI and the entry of a Final Consent Judgment and Stipulated Dismissal by the district court. In a related case, in September 2017, Asetek executed a settlement agreement and permanent injunction with an online retailer that prohibits the retailer from offering for sale the infringing Cooler Master products.

In April 2016, Asetek initiated patent infringement proceedings against Cooler Master and Coolergiant before the District Court The Hague, pertaining to commerce in The Netherlands. In the case against Cooler Master, by decision on September 20, 2017, the Court dismissed Asetek's claim. Asetek will file an appeal in the first quarter 2018. In the case against Coolergiant, the court is assessing the validity of the Asetek patent and will proceed in April 2018.

On September 30, 2014, Asia Vital Components Co., Ltd. filed suit against Asetek Danmark A/S in the Eastern District of Virginia, requesting a declaratory judgment of non-infringement and invalidity of Asetek's U.S. Patents 8,240,362 and 8,245,764. Asetek disputes these allegations. In December 2016 the court granted Asetek's motion to transfer the case to the Northern District of California, which issued its claim construction order in January 2018. No trial date has been set.

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



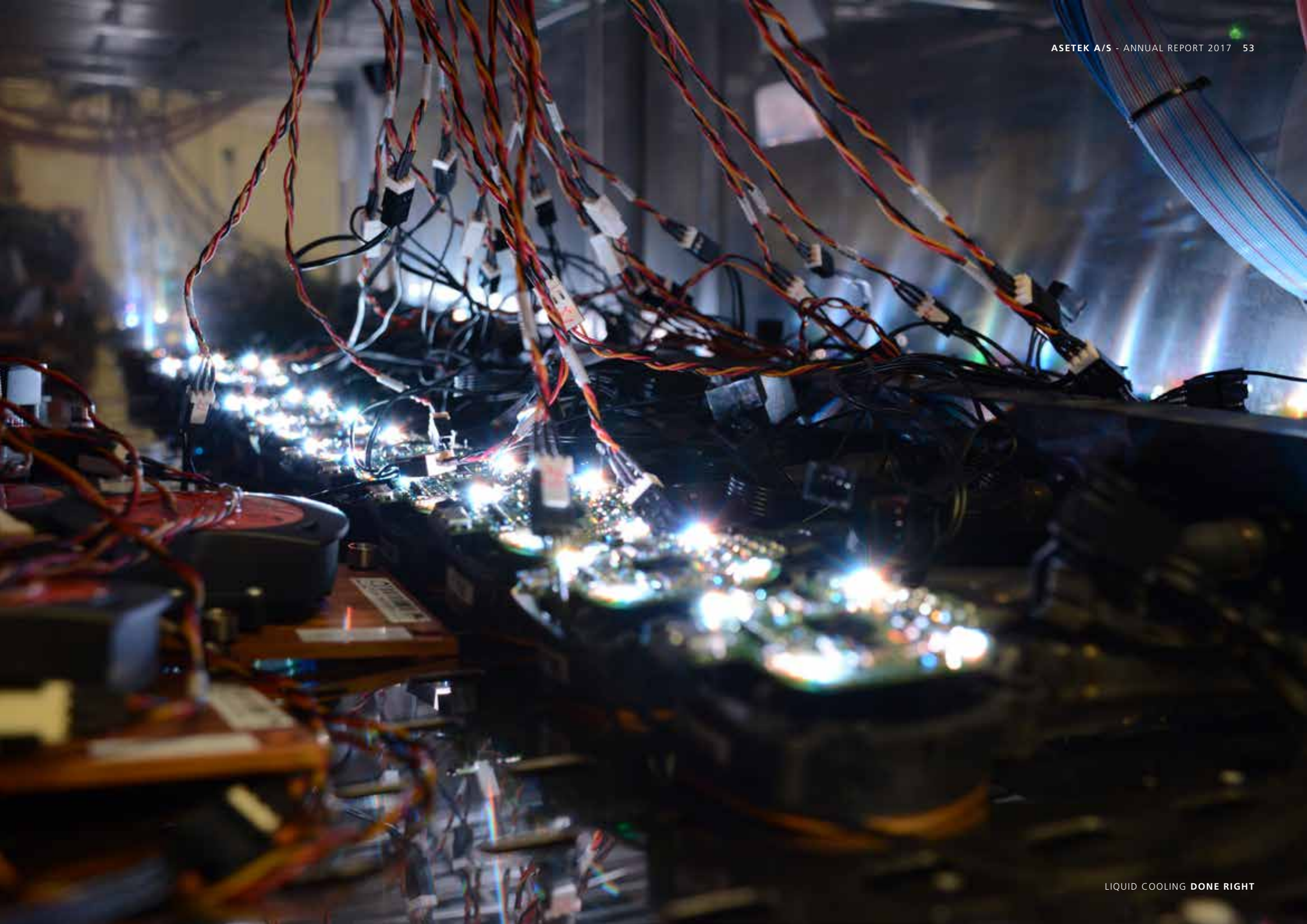


Asetek A/S

CVR-number: 3488 0522

# ANNUAL REPORT 2017, PARENT COMPANY

For year ended December 31, 2017



**COMPREHENSIVE INCOME STATEMENT, PARENT COMPANY**

For the years ended December 31, 2017 and 2016

| (USD 000's)   | Note    | 2017           | 2016           |
|---|---------|----------------|----------------|
| Service fees  | 11      | 1,233          | 774            |
| <b>TOTAL REVENUE</b>  |         | <b>1,233</b>   | <b>774</b>     |
| Research and development  | 3, 4, 5 | (328)          | (74)           |
| Selling, general and administrative   | 3, 4, 5 | (2,926)        | (1,473)        |
| <b>TOTAL OPERATING EXPENSES</b>   |         | <b>(3,254)</b> | <b>(1,548)</b> |
| <b>OPERATING LOSS</b>   |         | <b>(2,021)</b> | <b>(773)</b>   |
| Foreign exchange (loss)/gain  | 6       | (22)           | (15)           |
| Finance income  | 6       | 125            | 121            |
| Finance costs   | 6       | (69)           | (21)           |
| <b>TOTAL FINANCIAL INCOME</b>   |         | <b>34</b>      | <b>85</b>      |
| <b>INCOME (LOSS) BEFORE TAX</b>   |         | <b>(1,987)</b> | <b>(689)</b>   |
| Income tax  | 7       | 206            | (2)            |
| <b>LOSS FOR THE YEAR</b>  |         | <b>(1,781)</b> | <b>(691)</b>   |
| <i>Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:</i> |         |                |                |
| Foreign currency translation adjustments  |         | -              | -              |
| <b>TOTAL COMPREHENSIVE LOSS</b>   |         | <b>(1,781)</b> | <b>(691)</b>   |

*All operations are continuing.*

**BALANCE SHEET, PARENT COMPANY**

As of December 31, 2017 and 2016

| (USD 000's)                         | Note | 2017          | 2016          |
|-------------------------------------|------|---------------|---------------|
| <b>ASSETS</b>                       |      |               |               |
| <i>Non-current assets</i>           |      |               |               |
| Investments in subsidiaries         | 8    | 20,100        | 20,100        |
| Receivables from subsidiaries       | 9    | 551           | 117           |
| Deferred income tax assets          |      | 118           | -             |
| <b>TOTAL NON-CURRENT ASSETS</b>     |      | <b>20,770</b> | <b>20,217</b> |
| <i>Current assets</i>               |      |               |               |
| Other assets                        |      | 100           | 10            |
| Cash and cash equivalents           |      | 10,583        | 13,719        |
| <b>TOTAL CURRENT ASSETS</b>         |      | <b>10,684</b> | <b>13,729</b> |
| <b>TOTAL ASSETS</b>                 |      | <b>31,454</b> | <b>33,945</b> |
| <b>EQUITY AND LIABILITIES</b>       |      |               |               |
| <i>Equity</i>                       |      |               |               |
| Share capital                       | 10   | 419           | 417           |
| Retained earnings                   |      | 30,665        | 33,075        |
| Translation and other reserves      |      | (6)           | (9)           |
| <b>TOTAL EQUITY</b>                 |      | <b>31,078</b> | <b>33,483</b> |
| <i>Current liabilities</i>          |      |               |               |
| Accrued liabilities                 |      | 375           | 462           |
| <b>TOTAL CURRENT LIABILITIES</b>    |      | <b>375</b>    | <b>462</b>    |
| <b>TOTAL LIABILITIES</b>            |      | <b>375</b>    | <b>462</b>    |
| <b>TOTAL EQUITY AND LIABILITIES</b> |      | <b>31,453</b> | <b>33,945</b> |

**STATEMENT OF CASH FLOWS, PARENT COMPANY**

For the years ended December 31, 2017 and 2016

| (USD 000's)  | Note | 2017           | 2016          |
|--|------|----------------|---------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                  |      |                |               |
| Loss for the year  |      | (1,781)        | (691)         |
| Share based payments expense                                 | 4    | 1,597          | 328           |
| Income tax expense (income)                                  |      | (206)          | -             |
| Changes in other current assets                              |      | (3)            | 33            |
| Changes in trade payables and accrued liabilities            |      | (85)           | (1)           |
| <b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>   |      | <b>(478)</b>   | <b>(331)</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                  |      |                |               |
| Cash flows from investing activities                         |      |                |               |
| Net receipts from (payments to) subsidiaries                 | 9    | (435)          | 3,343         |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                 |      | <b>(435)</b>   | <b>3,343</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                  |      |                |               |
| Proceeds from issuance of share capital                      | 10   | 686            | 134           |
| Dividends  | 10   | (2,910)        | -             |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>             |      | <b>(2,224)</b> | <b>134</b>    |
| Effect of exchange rate changes on cash and cash equivalents |      | -              | -             |
| <b>NET CHANGES IN CASH AND CASH EQUIVALENTS</b>              |      | <b>(3,136)</b> | <b>3,146</b>  |
| Cash and cash equivalents at beginning of period             |      | 13,719         | 10,570        |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>            |      | <b>10,583</b>  | <b>13,719</b> |



## STATEMENT OF CHANGES IN EQUITY, PARENT COMPANY

| (USD 000's)                                | Share capital | Share premium | Translation reserves | Other reserves | Retained earnings | Total          |
|--|---------------|---------------|----------------------|----------------|-------------------|----------------|
| <b>EQUITY AT DECEMBER 31, 2015</b>         | <b>416</b>    | <b>33,753</b> | -                    | <b>(9)</b>     | <b>(448)</b>      | <b>33,712</b>  |
| Total comprehensive income for 2016        |               |               |                      |                |                   |                |
| Loss for the year                          | -             | -             | -                    | -              | (691)             | (691)          |
| <b>TOTAL COMPREHENSIVE LOSS FOR 2016</b>   | -             | -             | -                    | -              | <b>(691)</b>      | <b>(691)</b>   |
| 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            |
| <b>EQUITY AT DECEMBER 31, 2016</b>         | <b>417</b>    | -             | -                    | <b>(9)</b>     | <b>33,075</b>     | <b>33,483</b>  |
| Total comprehensive income for 2017        |               |               |                      |                |                   |                |
| Loss for the year                          | -             | -             | -                    | -              | (1,781)           | (1,781)        |
| <b>TOTAL COMPREHENSIVE INCOME FOR 2017</b> | -             | -             | -                    | -              | <b>(1,781)</b>    | <b>(1,781)</b> |
| Transactions with owners in 2017           |               |               |                      |                |                   |                |
| Shares issued                              | 2             | -             | -                    | 3              | 684               | 689            |
| Dividends                                  | -             | -             | -                    | -              | (2,910)           | (2,910)        |
| Share based payment expense                | -             | -             | -                    | -              | 1,597             | 1,597          |
| Transactions with owners in 2017           | 2             | -             | -                    | 3              | (629)             | (624)          |
| <b>EQUITY AT DECEMBER 31, 2017</b>         | <b>419</b>    | -             | -                    | <b>(6)</b>     | <b>30,665</b>     | <b>31,078</b>  |

## NOTES

### 1. GENERAL INFORMATION

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 2017 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)                    | 2017         | 2016         |
|--------------------------------|--------------|--------------|
| Personnel expenses             | 2,626        | 1,170        |
| Legal, consultants and auditor | 425          | 238          |
| Other expenses                 | 203          | 139          |
| <b>TOTAL EXPENSES</b>          | <b>3,254</b> | <b>1,548</b> |

### 4. PERSONNEL EXPENSES

Total personnel costs for the year ended December 31,

| (USD 000's)                     | 2017         | 2016         |
|---------------------------------|--------------|--------------|
| Salaries, pension and other     | 1,029        | 842          |
| Share based payment             | 1,597        | 328          |
| <b>TOTAL PERSONNEL EXPENSES</b> | <b>2,626</b> | <b>1,170</b> |

Total personnel costs are specified as follows:

| (USD 000's)                         | 2017         | 2016         |
|-------------------------------------|--------------|--------------|
| Research and development            | 328          | 74           |
| Selling, general and administrative | 2,299        | 1,096        |
| <b>TOTAL PERSONNEL EXPENSES</b>     | <b>2,626</b> | <b>1,170</b> |

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

Tax services provided by the Company's principal auditors in 2017 included advisory regarding deferred taxes, transfer pricing and dividend payment.

| (USD 000's)              | 2017       | 2016      |
|--------------------------|------------|-----------|
| Statutory audit          | 20         | 18        |
| Other assurance services | 7          | 25        |
| Tax services             | 105        | 33        |
| <b>TOTAL</b>             | <b>132</b> | <b>76</b> |

### 6. FINANCIAL INCOME AND COST

| (USD 000's)                                  | 2017        | 2016        |
|--|-------------|-------------|
| <b>FOREIGN CURRENCY EXCHANGE (LOSS) GAIN</b> | <b>(22)</b> | <b>(15)</b> |
| Interest income on loans to subsidiaries     | 57          | 83          |
| Interest from bank accounts                  | 68          | 38          |
| <b>TOTAL FINANCE INCOME</b>                  | <b>125</b>  | <b>121</b>  |
| Interest cost on loans from subsidiaries     | (65)        | (20)        |
| Other finance expense                        | (4)         | (1)         |
| <b>TOTAL FINANCE COST</b>                    | <b>(69)</b> | <b>(21)</b> |

### 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, 2015         | 20,100                              |
| Additions                            | -                                   |
| Balance at December 31, 2016         | 20,100                              |
| Additions                            | -                                   |
| Balance at December 31, 2017         | 20,100                              |
| Carrying amount at December 31, 2015 | 20,100                              |
| Carrying amount at December 31, 2016 | 20,100                              |
| Carrying amount at December 31, 2017 | 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)                              | 2017         | 2016         |
|--|--------------|--------------|
| Asetek Danmark A/S                       | 349          | 931          |
| Asetek USA, Inc.                         | (1)          | (945)        |
| Asetek Xiamen                            | 124          | 56           |
| Asetek Holdings, Inc.                    | 79           | 75           |
| <b>Net receivables from subsidiaries</b> | <b>551</b>   | <b>117</b>   |
| <b>Average effective interest rate</b>   | <b>6.06%</b> | <b>5.31%</b> |

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

## 10. EQUITY

A dividend with respect to the year ended December 31, 2016 of NOK1.00 per share, for a total payout of \$2.9 million, was paid in 2017. Reference is made to Note 18 to the Consolidated Financial Statements.

## 11. TRANSACTIONS WITH RELATED PARTIES

Asetek A/S charges its subsidiaries a management service fee. Reference Notes 8 & 9 regarding transactions with subsidiaries. With regard to transactions with related parties that are not subsidiaries, 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.



Asetek A/S

Assensvej 2

DK-9220 Aalborg East

Denmark

Phone: +45 9645 0047

Fax: +45 9645 0048

Web: [www.asetek.com](http://www.asetek.com)

Mail: [info@asetek.com](mailto:info@asetek.com)