Asetek A/S

Half Year Report

Second Quarter and Six Months Ended June 30, 2018

Published August 15, 2018

Company Registration (CVR) Number 34880522

Highlights

- **Record quarterly and first-half revenue driven by high-end gaming cooling demand**
- **Q2 revenue growth of 75% reflecting increased DIY sales**
- **Q2 data center revenue fueled by OEM shipments**
- **ASUS selects Asetek's newest generation design for its first liquid coolers**
- **2018 desktop revenue growth expectation of between 15% to 25%**

Key figures

Figures in USD (000's)	Q2 2018	Q2 2017	1H 2018	1H 2017	2017
Total Company:	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	
Revenue	19,536	11,147	33,404	22,618	58,194
Gross profit	6,991	3,904	11,946	8,319	20,969
Gross margin	*35.8%*	*35.0%*	*35.8%*	*36.8%*	*36.0%*
Operating profit	1,664	(30)	1,282	249	2,757
Reconciliation from IFRS to EBITDA adjusted:					
Operating profit	1,664	(30)	1,282	249	2,757
Add: Depreciation and amortization	993	631	1,841	1,019	2,430
Add: Share based compensation	247	491	660	563	1,597
EBITDA adjusted (unaudited)	2,904	1,092	3,783	1,831	6,784
By Segment (Unaudited):					
Desktop:					
Desktop revenue	*18,288*	*10,147*	*31,496*	*21,201*	*53,227*
Desktop gross margin	*36.6%*	*37.0%*	*36.7%*	*37.8%*	*37.1%*
Desktop EBITDA adjusted	*5,889*	*2,794*	*9,915*	*6,178*	*15,991*
Datacenter:					
Datacenter revenue	*1,248*	*1,000*	*1,908*	*1,417*	*4,967*
Datacenter gross margin	*23.2%*	*15.0%*	*20.5%*	*21.4%*	*24.2%*
Datacenter EBITDA adjusted	*(2,061)*	*(1,638)*	*(4,347)*	*(3,438)*	*(7,273)*
Headquarters:					
*Headquarters costs**	*(924)*	*(64)*	*(1,785)*	*(909)*	*(1,934)*

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

Highlights

Financial results	• Asetek reported record revenue of $19.5 million in the second quarter of 2018, a 75% increase from the second quarter of 2017. First-half 2018 revenue amounted to $33.4 million, representing growth of 48% compared with the first half of 2017. The change from prior year reflects an increase in desktop revenue driven by shipments in the do-it-yourself (DIY) market. • Gross margins were 36% in both the second quarter and first half of 2018 (35% and 37% in the comparable periods of 2017). • Group income before tax totaled $2.5 million and EBITDA grew to $2.7 million in the second quarter of 2018, compared with loss before tax of ($0.6) million and EBITDA of $0.6 million in the second quarter of 2017. First-half 2018 income before tax was $1.5 million and EBITDA was $3.1 million, compared with first-half 2017 loss before tax of ($0.4) million and EBITDA of $1.3 million. • Organizational growth and currency exchange fluctuation resulted in higher operating costs during the quarter. While the U.S. dollar (USD) strengthened against the Danish krone (DKK) during the second quarter, the average exchange rate of USD to DKK in the first half 2018 was 10% lower than the average rate in the prior year period, and therefore increased operating expense in the quarter relative to 2017.
Operations	• The Company announced that ASUS, a premium brand for gaming systems, is expanding its Republic of Gamers (ROG) ecosystem utilizing Asetek solutions. The new ASUS ROG all-in-one coolers, Ryujin and Ryuo, are based on Asetek's latest Generation 6 liquid cooling solution and include custom lighting and other features. • Asetek announced it will provide data center liquid cooling to a new OEM, Quanta Computer, for an HPC cluster at the National Center for High-Performance Computing in Hsinchu, Taiwan. The new HPC installation will focus on artificial intelligence, and will be the largest supercomputer in Taiwan at the time of commission. • During the quarter Asetek received orders for RackCDU™ liquid cooling solutions from two established data center OEMs: Penguin submitted a follow-on order for further build-out of an undisclosed U.S. Department of Energy HPC installation, and Fujitsu will utilize 1,300 Asetek Direct-to-Chip (D2C) coolers for a new HPC system installation in Japan.
Financial results by segment	• Desktop revenue was $18.3 million in the second quarter, an increase of 80% from the same period of 2017. First half revenue was $31.5 million, an increase of 49% from the first half of 2017. Operating profit from the desktop segment was $5.9 million for the second quarter and $9.9 million for the first half, both reflecting improvement over the respective periods of 2017, due to growth in DIY sales. • Data center revenue was $1.2 million in the second quarter, an increase of 25% from the same period of 2017. Revenue in the first half of 2018 totaled $1.9 million, an increase of 35% from the same period of 2017. Operating loss from the data center segment was $2.1 million for the second quarter and $4.3 million for the first half of 2018. This compares with losses of $1.6 million and $3.4 million in 2017, respectively. Continued variability of data center operating results is expected while the Company secures new OEM partners and growth of end-user adoption through existing OEM partners.
Outlook	• Asetek's full year 2018 desktop revenue expectation is between 15% and 25% growth over 2017. The outlook for the data center business is unchanged, with revenue expected to be level compared with 2017. Profitability of the Group is expected to rise slightly due to the anticipated incremental growth in desktop revenue.

Financial review

The figures below relate to the consolidated accounts for the second quarter and first half of 2018, which comprise activities within the two segments Desktop and Data Center. The figures are unaudited.

Income Statement (Consolidated)

Asetek reported total revenue of $19.5 million in the second quarter of 2018, reflecting growth of 75% over the same period of 2017 ($11.1 million). Total revenue in the first half of 2018 was $33.4 million, an increase of 48% over the same period of 2017 ($22.6 million). The increase in the second quarter and first half compared with prior year, reflect principally growth in shipment of desktop DIY products.

Desktop sales unit volumes for the second quarter of 2018 were 319,000, a 58% increase from the same period of last year (202,000). Unit shipments for the first half of 2018, represented a 32% increase compared with the same period of 2017. The growth in unit shipments in the first half was a function of strong demand in the DIY market. Average selling prices (ASPs) per unit in the second quarter and first half of 2018 increased from the respective periods of 2017 reflecting the Company's proactive raising of sales prices as well as a change in the mix of products sold.

Gross margin was 35.8% for the second quarter of 2017, an increase from 35.0% in the same period last year. Gross margin for the first half of 2018 was 35.8% compared with 36.8% in the first half of 2017. The change in gross margin in both periods reflects offsetting factors, including the weakening of the U.S. dollar relative to 2017 and higher manufacturing costs, as well as positive effects from Asetek's higher sales prices.

Total operating expense increased in the second quarter and first half when compared with the same periods of 2017. The increases in 2018 are due to several factors. Compared with the first half of 2017, the U.S. dollar weakened by 10% against the Danish krone (DKK). Approximately 65% of the Company's operating expense in 2018 is denominated in DKK. Second-quarter 2017 operating expense included an offset of $0.7 million for a settlement awarded to Asetek in a patent infringement lawsuit with CMI USA, Inc. In recent periods the Company has added personnel resulting in an increase in compensation costs in the second quarter and first half of 2018, when compared with the same periods of the prior year.

Legal costs incurred associated with defense of existing intellectual property (IP) and securing new IP was $0.3 million and $0.7 million in the second quarter and first half of 2018 ($0.4 million and $1.0 million in the same periods of 2017), respectively. Share based compensation costs associated with warrants issued to employees was $0.2 million and $0.7 million in the second quarter and first half of 2018 ($0.5 million and $0.6 million in the same periods of 2017), respectively.

Finance expenses included net foreign exchange gain of $0.8 million and $0.2 million in the second quarter and first half of 2018 (net losses of $0.6 million and $0.7 million in the respective periods of 2017). The gains in the second quarter of 2018 are mainly a function of the strengthening of the U.S. dollar against the Danish kroner during the period. The effect was offset by a negative currency translation adjustment of $1.1 million and $0.2 million included in equity for the second quarter and first half 2018, respectively.

Asetek reported income before tax of $2.5 million and $1.5 million in the second quarter and first half of 2018, compared with a loss before tax of $0.6 million and $0.4 million in the respective periods of 2017.

Income tax expense was $0.3 million in both the second quarter and first half 2018, compared with $30,000 in the second quarter 2017 and $39,000 in the first half 2017. The increase in income tax expense in both periods was due to the growth in income before tax.

Balance Sheet (Consolidated)

Asetek's total assets at June 30, 2018 amounted to $49.7 million, a $0.5 million increase from December 31, 2017. The growth in assets is principally due to higher operating volumes.

Total liabilities decreased $1.9 million from December 31, 2017 due to payments of liabilities with operating cash flows. Working capital (current assets minus current liabilities) increased by $2.8 million during the first half to $21.8 million at June 30, 2018. Total cash and cash equivalents was $16.9 million at June 30, 2018.

Cash Flow (Consolidated)

Net cash provided by operating activities was $0.2 million for the first half of 2018, compared with $2.1 million provided by operating activities in the same period of 2017. The change from first half 2017 was principally due to an increase in trade receivables in the second quarter of 2018 resulting from revenue growth.

Cash used by investing activities was $2.0 million for the first half of 2018, mainly related to additions in manufacturing equipment and software, and capitalized development. This figure compares to $1.9 million used in the first half of 2017.

Cash provided by financing activities was $0.5 million in the first half of 2018, principally from the issuance of shares upon exercise of warrants, partly offset by payments on finance leases. This figure compared with $1.9 million used in the first half of 2017, which principally reflects the payment of a dividend of NOK1.00 per share in 2017.

Net change in cash and cash equivalents was a decline of $1.5 million in the first half of 2018, compared with negative $1.4 million in the same period of 2017.

Segment breakdown

*The company is reporting on two distinct segments; the **Desktop** segment and the **Data Center** segment.*

The two segments are identified by their specific sets of products and specific sets of customers. The splitting of operating expenses between segments is based on the company's best judgment, and done by using the company's employee/project time tracking system and project codes from the accounting system. Operating expenses that are not divisible by nature (rent, telecommunication expenses, etc.) have been split according to actual time spent on the two businesses, and the company's best estimate for attribution. Costs incurred for intellectual property defense, financing, foreign exchange and headquarters administration have been classified separately as headquarters costs and excluded from segment operating expenses as indicated.

Unaudited breakdown of the income statement

Operations - Second Quarter

Figures in USD (000's)	Desktop		Data center	
	Q2 2018	Q2 2017	Q2 2018	Q2 2017
Revenues	18,288	10,147	1,248	1,000
Cost of sales	11,586	6,393	959	850
Gross Profit	6,702	3,754	289	150
Gross Margin	36.6%	37.0%	23.2%	15.0%
Total operating expenses	813	960	2,350	1,788
EBITDA adjusted	5,889	2,794	(2,061)	(1,638)
EBITDA margin	32.2%	27.5%	N/A	N/A

Operations - First Half

Figures in USD (000's)	Desktop		Data center	
	1H 2018	1H 2017	1H 2018	1H 2017
Revenues	31,496	21,201	1,908	1,417
Cost of sales	19,941	13,185	1,517	1,114
Gross Profit	11,555	8,016	391	303
Gross Margin	36.7%	37.8%	20.5%	21.4%
Total operating expenses	1,640	1,838	4,738	3,741
EBITDA, adjusted	9,915	6,178	(4,347)	(3,438)
EBITDA margin	31.5%	29.1%	N/A	N/A

Headquarters Costs

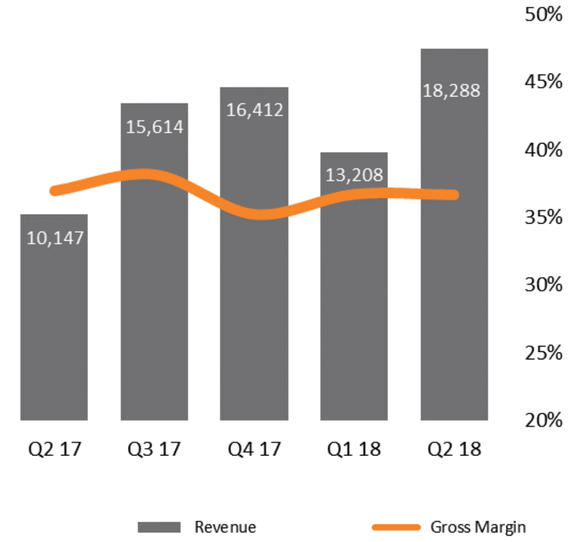
Figures in USD (000's)	Q2 2018	Q2 2017	1H 2018	1H 2017
Litigation costs	344	448	669	997
Litigation settlements	-	(651)	-	(651)
Other headquarters costs	580	267	1,116	563
Total headquarters costs	924	64	1,785	909

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

Desktop financials

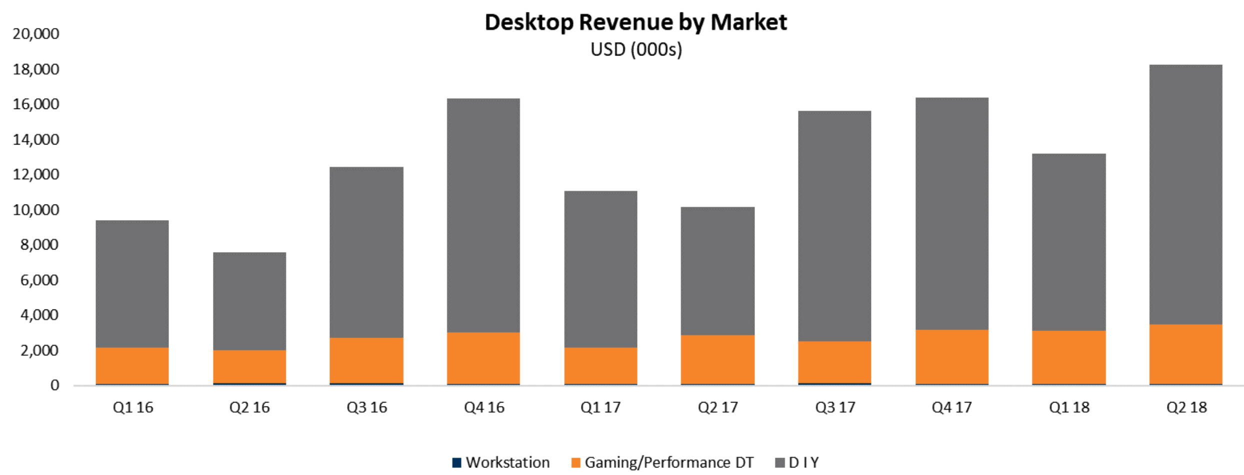
Desktop revenue and margin development

USD (000's)



Asetek desktop revenue was $18.3 million in the second quarter of 2018, an increase of 80% from the second quarter of 2017. As expected, the growth resulted from significant demand in the do-it-yourself (DIY) market. In the second quarter of 2018, revenue from the DIY and Gaming/Performance Desktop PC markets comprised 81% and 19% of total desktop revenue, respectively.

In recent quarters, Asetek has proactively raised sales prices to compensate for manufacturing cost pressure and the weakening of the U.S. dollar. As a result, desktop gross margin has been stable in the first half of 2018.



Desktop market update and outlook

During the second quarter, two new desktop products began shipping in the DIY market, and these new offerings were significant components of the desktop revenue growth.

Asetek announced that ASUS, a premium brand of gaming systems, is expanding its Republic of Gamers (ROG) ecosystem utilizing Asetek solutions. The new ASUS ROG all-in-one coolers, Ryujin and Ryuo, are based on Asetek's latest Generation 6 liquid cooling solution, and include custom lighting and other features.

The Company expects third-quarter 2018 revenue in the DIY market to approximate the level achieved in the third quarter of 2017. Third-quarter revenue in the Gaming/Performance Desktop PC market is expected to increase from the levels achieved in the third quarter of 2017.

Due to continued positive development within the desktop segment, during the second quarter Asetek raised its full year 2018 desktop revenue expectation to a range of 15% to 25% growth over 2017 (previous expectation was for growth of 10% to 20%). Revenue variability by quarter is expected to continue, partly due to when new key hardware components such as GPUs and CPUs are made available to the market. As one such major product launch has experienced delays, Asetek's full-year revenue growth may shift towards the lower-end of the guided range.

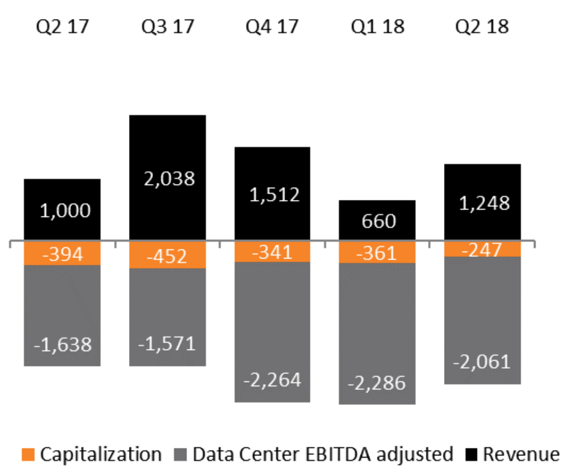
Due to expected cost reductions and the recent strengthening of the U.S. dollar, the Company expects gross margin in the third quarter of 2018 to improve slightly from the second quarter of 2018.

The growing popularity of PC gaming and eSports has fueled the growth in Asetek's DIY and Gaming/Performance Desktop PC segments. To meet the demands of competitive gamers, the powerful machines in use today require advanced cooling for both CPUs and graphics processing units (GPUs). Asetek's desktop liquid cooling products are well positioned to fulfill the needs of both technologies, as evidenced by the recent launch of the Alienware Area-51 R5 SKU, that includes liquid cooling for the two GPUs as well as the CPU.

The worldwide high-end gaming population is expected to reach nearly 27 million users in 2020, representing a high-end gaming PC equipment market of $17 billion[1], reflecting annual growth of more than 6% from 2016. A growing market and potential for increased market penetration for liquid cooling support Asetek's expectations of continued growth from its desktop segment in the future.

Data center financials

Financial development
USD (000's)



Asetek's data center revenue was $1.2 million in the second quarter of 2018, compared with $1.0 million in the same period of 2017. The increase in the second quarter reflects growth in shipments to OEMs, partly offset by a decline in shipments under government contracts. Revenue variability is expected to continue while the Company secures new OEM partners and growth of end-user adoption through existing OEM partners.

Data center gross margin increased in the second quarter of 2018 compared with the same period of 2017 due to growth in shipments to OEMs and a prior component failure that negatively impacted margins in 2017. Gross margin has also fluctuated in part due to variability in the mix of deliverables on government contracts relative to the volume of product shipments to OEMs. This variability is expected to continue in 2018.

[1] Source: Jon Peddie Research

Data center market update and outlook

Asetek's liquid cooling technology offers a strong value proposition to high-performance computing (HPC) data centers with increased performance, higher density and lower cooling costs. Asetek's strategy in this 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 and government entities.

Through partnerships with data center OEMs, the Company is growing its end-user adoption with technology deployed to new HPC installations. In the second quarter, Asetek announced it will provide liquid cooling to a new OEM, Quanta Computer, for an HPC cluster to be commissioned at the National Center for High-Performance Computing (NCHC) in Hsinchu, Taiwan. The new HPC installation will focus on artificial intelligence and will include the use of liquid cooling on a mix of NVIDIA V100 GPUs and Intel® Xeon® Scalable processors in a high-density configuration. The NCHC installation will be the largest supercomputer in Taiwan when commissioned.

Asetek continued to develop its partnership with Intel Product Collaboration and Systems Division (PCSD) during the second quarter focused on D2C solutions for OEM and system integrator customers of Intel PCSD.

During the second quarter, Asetek received orders for RackCDU™ liquid cooling solutions from two established data center OEMs, as follows: Penguin submitted a follow-on order for further build-out of an undisclosed U.S. Department of Energy HPC installation. Fujitsu submitted an order for a new HPC installation in Japan which will require 1,300 of Asetek's Direct-to-Chip (D2C) coolers.

Progress on Asetek's contract with the U.S. Department of Defense (DoD) continued in the second quarter, principally from installation activities at an unnamed data center. This project is expected to be completed in 2018.

Today, Asetek has major liquid cooling installations at multiple HPC sites in North America, Asia and Europe and is liquid cooling eleven of the world's most powerful and efficient supercomputers listed in the June 2018 Top500 and Green500, including nine systems in the Top200.

Fujitsu is using Asetek's liquid cooling to remove heat from processors and other high-power components in its PRIMERGY servers to cost effectively deliver maximum performance and high cluster density. Recent projects have included the fastest supercomputer in Japan and No. 5 in the Top500, the AI Bridging Cloud Infrastructure system installed at the National Institute of Advanced Industrial Science and Technology (AIST). Another Fujitsu project is the Oakforest-PACS, which is No. 12 in the Top500 and one of the most powerful supercomputers in Japan.

Penguin Computing incorporates RackCDU D2C™ liquid cooling into its Tundra™ Extreme Scale (ES) HPC and Relion 2900 servers. Penguin's end customers include the U.S. National Nuclear Security Administration's CTS-1 systems deployment at three national laboratories. Ten of these CTS-1 systems incorporate Asetek's liquid cooling.

Revenue in the data center segment in 2018 is anticipated to be level with revenue achieved in 2017. Future revenue and operating results are expected to fluctuate as partnerships with OEMs are developed.

Intellectual Property

Asetek holds a portfolio of intellectual property (IP) rights including patents providing competitive advantages and high barriers to entry for competitors. Currently Asetek has pending patent and utility model applications worldwide, with additional applications under preparation.

As part of efforts to build and maintain its market share, the Company continues to closely review and assess all competitive offerings for infringement of its patents. The Company has strengthened its intellectual property platform and competitiveness via several positive lawsuit outcomes in prior years.

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

In April 2016, Asetek initiated patent infringement proceedings against Cooler Master and Coolergiant before the District Court The Hague, pertaining to commerce in The Netherlands. In the case against Cooler Master, by decision on September 20, 2017, the Court dismissed Asetek’s claim. Asetek appealed the decision, which is currently pending. The case against Coolergiant has been stayed, pending final judgment in the Cooler Master case.

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. A jury trial is scheduled to begin in May 2019.

Corporate Matters

The Company's annual general meeting was held on April 25, 2018, where the following matters occurred or were reported:

- The Annual Report 2017, as proposed by the Board of Directors, was approved as published.
- With the one exception of Knut Øversjøen, all existing members of the Board of Directors made themselves available for re-election. The remaining Board of Directors, consisting of Samuel Szteinbaum, Chris Christopher, Jim McDonnell and Jørgen Smidt, were re-elected.
- All Nomination Committee members were re-elected.
- The Board of Directors was authorized to acquire the Company's own shares.
- PricewaterhouseCoopers, State Authorized Public Accountants, were re-elected as auditors.

Risk Factors

The Company has historically incurred operating losses and is in the development stages of its data center business.

The Company's revenue growth is dependent on the market acceptance of its data center offerings and the release of new products from server OEM customers to facilitate its trial system deployments. Revenue in the desktop segment is subject to fluctuations and is dependent, in part, on the popularity and new releases of end user products by Asetek's customers.

In the first half of 2018, one customer accounted for 46% of total revenue. In the event of a decline or loss of this significant customer, replacement of this revenue stream would be difficult for Asetek to achieve in the short term. Asetek is actively pursuing strategies to broaden its customer base in efforts to mitigate this risk and has generated increasing rates of revenue growth in the first half 2018 from other large customers.

Asetek relies upon suppliers and partners to supply products and services at competitive prices. Asetek's desktop products have been historically assembled by a single contract manufacturer which may be difficult to substitute in the short term if the need should arise. Asetek mitigates the supplier risk with Company-owned supplemental manufacturing lines which can be utilized if necessary.

Asetek has filed and defended lawsuits against competitors for patent infringement. While some of the recent cases have been settled or dismissed, some may continue, and new cases may be initiated. Such cases may proceed for an extended period and could potentially lead to an unfavorable outcome to Asetek. Asetek has incurred significant legal costs associated with litigation and may continue to do so in the future to the extent management believes it is necessary to protect intellectual property.

Asetek operates internationally in Denmark, USA, China, and Taiwan and is subject to foreign exchange risk. As of June 30, 2018, its principal cash holdings are maintained in deposit accounts in U.S. dollars and Danish krone.

A more thorough elaboration on risk factors can be found in the Company's Annual Report for 2017, available from the Company's website: www.asetek.com

Condensed Interim Financial Statements

Consolidated Statement of Comprehensive Income

Figures in USD (000's)	Q2 2018	Q2 2017	1H 2018	1H 2017	2017
	Unaudited	*Unaudited*	*Unaudited*	*Unaudited*	
Revenue	$ 19,536	$ 11,147	$ 33,404	$ 22,618	$ 58,194
Cost of sales	12,545	7,243	21,458	14,299	37,225
Gross profit	6,991	3,904	11,946	8,319	20,969
Research and development	1,437	1,007	2,559	1,890	4,220
Selling, general and administrative	3,890	3,578	8,105	6,831	14,905
Other expense (income)	-	(651)	-	(651)	(913)
Total operating expenses	5,327	3,934	10,664	8,070	18,212
Operating income	1,664	(30)	1,282	249	2,757
Foreign exchange (loss) gain	764	(562)	194	(672)	(1,239)
Finance income (costs)	53	(3)	43	(12)	(19)
Total financial income (expenses)	817	(565)	237	(684)	(1,258)
Income before tax	2,481	(595)	1,519	(435)	1,499
Income tax (expense) benefit	(338)	(30)	(338)	(39)	2,976
Income for the period	2,143	(625)	1,181	(474)	4,475
Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:					
Foreign currency translation adjustments	(1,088)	733	(171)	727	1,253
Total comprehensive income	$ 1,055	$ 108	$ 1,010	$ 253	$ 5,728
Income per share (in USD):					
Basic	$ 0.08	$ (0.02)	$ 0.05	$ (0.02)	$ 0.18
Diluted	$ 0.08	$ (0.02)	$ 0.04	$ (0.02)	$ 0.17

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

Consolidated Balance Sheet

Figures in USD (000's)	30 June 2018	31 Dec 2017
ASSETS	*Unaudited*	
Non-current assets		
Intangible assets	$ 2,495	$ 2,754
Property and equipment	4,156	3,856
Deferred income tax assets	7,635	7,778
Other assets	314	794
Total non-current assets	14,600	15,182
Current assets		
Inventory	3,016	2,316
Trade receivables and other	15,150	13,280
Cash and cash equivalents	16,888	18,398
Total current assets	35,054	33,994
Total assets	$ 49,654	$ 49,176
EQUITY AND LIABILITIES		
Equity		
Share capital	$ 422	$ 419
Retained earnings	34,510	31,976
Translation and other reserves	830	999
Total equity	35,762	33,394
Non-current liabilities		
Long-term debt	644	816
Total non-current liabilities	644	816
Current liabilities		
Short-term debt	1,016	1,051
Accrued liabilities	1,745	2,432
Accrued compensation & employee benefits	1,304	1,335
Trade payables	9,183	10,148
Total current liabilities	13,248	14,966
Total liabilities	13,892	15,782
Total equity and liabilities	$ 49,654	$ 49,176

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

Consolidated Statement of Changes in Equity

Unaudited

Figures in USD (000's)	Share capital	Translation reserves	Other reserves	Retained earnings	Total
Equity at January 1, 2018	$ 419	$ 1,005	$ (6)	$ 31,976	$ 33,394
Total comprehensive income - six months ended June 30, 2018					
Income for the period	-	-	-	1,181	1,181
Foreign currency translation adjustments	-	(171)	-	-	(171)
Total comprehensive income - six months ended June 30, 2018	-	(171)	-	1,181	1,010
Transactions with owners - six months ended June 30, 2018					
Shares issued	3	-	2	693	698
Share based payment expense	-	-	-	660	660
Transactions with owners - six months ended June 30, 2018	3	-	2	1,353	1,358
Equity at June 30, 2018	$ 422	$ 834	$ (4)	$ 34,510	$ 35,762

Equity at January 1, 2017	$ 417	$ (248)	$ (9)	$ 28,130	$ 28,290
Total comprehensive income - six months ended June 30, 2017					
Income for the period	-	-	-	(474)	(474)
Foreign currency translation adjustments	-	727	-	-	727
Total comprehensive income - six months ended June 30, 2017	-	727	-	(474)	253
Transactions with owners - six months ended June 30, 2017					
Shares issued	1	-	3	440	444
Share based payment expense	-	-	-	563	563
Dividends	-	-	-	(2,907)	(2,907)
Transactions with owners - six months ended June 30, 2017	1	-	3	(1,904)	(1,900)
Equity at June 30, 2017	$ 418	$ 479	$ (6)	$ 25,752	$ 26,643

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

Consolidated Cash Flow Statement

Figures in USD (000's)	1H 2018 *Unaudited*	1H 2017 *Unaudited*	2017
Cash flows from operating activities			
Income for the period	$ 1,181	$ (474)	$ 4,475
Depreciation and amortization	1,841	1,019	2,430
Finance costs	(43)	12	19
Income tax expense (benefit)	338	39	(2,976)
Impairment of intangible assets	-	-	5
Cash receipt (payment) for income tax	(14)	(33)	(43)
Share based payments expense	660	563	1,597
Changes in trade receivables, inventories, other assets	(2,108)	4,155	693
Changes in trade payables and accrued liabilities	(1,625)	(3,193)	(75)
Net cash provided by (used in) operating activities	230	2,088	6,125
Cash flows from investing activities			
Additions to intangible assets	(795)	(1,065)	(2,426)
Purchase of property and equipment	(1,213)	(862)	(1,872)
Net cash used in investing activities	(2,008)	(1,927)	(4,298)
Cash flows from financing activities			
Funds drawn (paid) against line of credit	9	147	295
Proceeds from issuance of share capital	699	444	686
Payment of dividends	-	(2,451)	(2,910)
Principal and interest payments on finance leases	(163)	(74)	(199)
Net cash provided by (used in) financing activities	545	(1,934)	(2,128)
Effect of exchange rate changes on cash and cash equivalents	(277)	417	1,089
Net changes in cash and cash equivalents	(1,510)	(1,356)	788
Cash and cash equivalents at beginning of period	18,398	17,610	17,610
Cash and cash equivalents at end of period	$ 16,888	$ 16,254	$ 18,398
Supplemental disclosures -			
Property and equipment acquired under finance leases	$ -	$ 159	$ 868

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

Notes to the quarterly financial statements

1. General information

Asetek A/S ('the Company'), and its subsidiaries (together, 'Asetek Group', 'the Group' or 'Asetek') designs, develops and markets thermal management solutions used in computers and data center servers. The Group's core products utilize liquid cooling technology to provide improved performance, acoustics and energy efficiency. The Company is based in Aalborg, Denmark with offices in USA, China and Taiwan. The Company's shares trade on the Oslo Stock Exchange under the symbol 'ASETEK'.

These condensed consolidated financial statements for the quarter ended June 30, 2018 have been prepared on a historical cost convention in accordance with International Accounting Standard 34 (IAS 34) 'Interim Financial Reporting' as adopted by the European Union (EU) and do not include all of the information and disclosure required in the annual consolidated financial statements. These statements should be read in conjunction with the Asetek A/S 2017 Annual Report.

The accounting policies adopted in preparation of these condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2017, except for the implementation of the new standards IFRS 15 'Revenue from Contracts with Customers' and IFRS 9, 'Financial Instruments'. The implementation of these new standards does not have a material impact on the Group's condensed consolidated interim financial statements.

The Group operates in an industry where seasonal or cyclical variations in total sales are not normally experienced during the financial year.

2. Equity

At June 30, 2018, there were 25.5 million common shares outstanding and 0.3 million shares in treasury. Treasury shares may be used to fulfill a portion of share options and warrants outstanding which total approximately 1.9 million. Share based payment expense associated with total warrants and options outstanding was $0.7 million and $0.6 million in the six months ended June 30, 2018 and 2017, respectively.

3. Intangible assets

The Group's business includes a significant element of research and development activity. Under IAS 38, there is a requirement to capitalize and amortize development spend to match costs to expected benefits from projects deemed to be commercially viable. Costs capitalized are recorded on the balance sheet as intangible assets, net of amortization. In the first half of 2018, the Company capitalized approximately $0.8 million of development costs and recorded amortization of approximately $1.1 million (capitalized costs of $1.1 million and amortization of $0.6 million in first half of 2017).

4. Earnings (losses) per share

IAS 33 requires disclosure of basic and diluted earnings per share for entities whose shares are publicly traded. Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the number of common shares outstanding used in the Basic calculation for the effect of dilutive equity instruments, which include options, warrants and debt or preferred shares that are convertible to common shares, to the extent their inclusion in the calculation would be dilutive.

Second Quarter

		Q2 2018		Q2 2017
Income attributable to equity holders of the Company (USD 000's)	$	2,143	$	(625)
Weighted average number of common shares outstanding (000's)		25,451		25,126
Basic income per share	$	0.08	$	(0.02)
Weighted average number of common shares oustanding (000's)		25,451		25,126
Instruments with potentially dilutive effect:				
Warrants and options		1,222		-
Weighted average number of common shares oustanding, diluted		26,673		25,126
Diluted income per share	$	0.08	$	(0.02)

First Half

		1H 2018		1H 2017
Income attributable to equity holders of the Company (USD 000's)	$	1,181	$	(474)
Weighted average number of common shares outstanding (000's)		25,353		25,039
Basic income per share	$	0.05	$	(0.02)
Weighted average number of common shares oustanding		25,353		25,039
Instruments with potentially dilutive effect:				
Warrants and options		1,248		-
Weighted average number of common shares oustanding, diluted		26,601		25,039
Diluted income per share	$	0.04	$	(0.02)

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

5. Transactions with related parties

The Company's chairman is a member of the board of directors of Corsair, a customer of the Company. During the six months ended June 30, 2018 and 2017, Asetek had sales of inventory to Corsair of $15.5 million and $9.8 million, respectively. As of June 30, 2018 and 2017, Asetek had outstanding trade receivables from Corsair of $7.2 million and $2.4 million, respectively.

The Company's CEO serves as Chairman of the Board for a vendor that supplies services to the Company. In the six months ended June 30, 2018 and 2017, the Company purchased services totaling approximately $261,000 and $189,000 from this vendor, respectively.

6. New accounting standard for income taxes

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

7. Deferred income tax

The Company recognizes deferred income tax assets only to the extent that the realization of the tax benefit to offset future tax liabilities is considered to be probable. As of June 30, 2018, the Company has deferred tax assets of $7.6 million, representing the value of 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. Refer to the Asetek A/S 2017 Annual Report regarding critical accounting estimates and assumptions.

8. IFRS accounting compared with U.S. GAAP

Since 2011, the Company's annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Previously, the Company's consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP). The following represent the principal effects to Asetek's financial statements as a result of this change:

Intangible assets. Capitalization of costs associated with product development is required under IFRS but is not required under GAAP. Intangible assets of $2.5 million on the Company's balance sheet at June 30, 2018 represent the capitalization of product development costs, net of amortization. The associated amortization over the products' lifecycle is charged as an operating expense.

Share based compensation. IFRS requires that each installment of a share based payment award be treated as a separate grant and separately measured and attributed to expense over the vesting period. As a result, calculation of share based payment expense under IFRS generally results in recognition of a greater amount of expense earlier in the life of the option grant than the comparable calculation under GAAP.

9. Segment reporting

The Company disaggregates revenue based on business segments and the markets within each business segment, as follows:

Revenue Disaggregation:

Figures in USD (000's)	Q2 2018	Q2 2017	1H 2018	1H 2017
Desktop segment:				
Do-it-yourself (DIY)	14,804	7,264	24,884	16,155
Gaming/Performance PCs	3,391	2,766	6,408	4,811
Workstation	93	117	204	235
Data center segment:				
OEM	1,205	712	1,826	859
Government	43	288	82	558
Total revenue	19,536	11,147	33,404	22,618

Unaudited breakdown of the income statement

Operations - Second Quarter

Figures in USD (000's)	Desktop		Data center	
	Q2 2018	Q2 2017	Q2 2018	Q2 2017
Revenues	18,288	10,147	1,248	1,000
Cost of sales	11,586	6,393	959	850
Gross Profit	6,702	3,754	289	150
Gross Margin	36.6%	37.0%	23.2%	15.0%
Total operating expenses	813	960	2,350	1,788
EBITDA adjusted	5,889	2,794	(2,061)	(1,638)
EBITDA margin	32.2%	27.5%	N/A	N/A

Operations - First Half

Figures in USD (000's)	Desktop		Data center	
	1H 2018	1H 2017	1H 2018	1H 2017
Revenues	31,496	21,201	1,908	1,417
Cost of sales	19,941	13,185	1,517	1,114
Gross Profit	11,555	8,016	391	303
Gross Margin	36.7%	37.8%	20.5%	21.4%
Total operating expenses	1,640	1,838	4,738	3,741
EBITDA, adjusted	9,915	6,178	(4,347)	(3,438)
EBITDA margin	31.5%	29.1%	N/A	N/A

Headquarters Costs

Figures in USD (000's)	Q2 2018	Q2 2017	1H 2018	1H 2017
Litigation costs	344	448	669	997
Litigation settlements	-	(651)	-	(651)
Other headquarters costs	580	267	1,116	563
Total headquarters costs	924	64	1,785	909

Reconciliation to Operating Income

Figures in USD (000's)	Q2 2018	Q2 2017	1H 2018	1H 2017
EBITDA, adjusted - Desktop	5,889	2,794	9,915	6,178
EBITDA, adjusted - Data center	(2,061)	(1,638)	(4,347)	(3,438)
Headquarters costs	(924)	(64)	(1,785)	(909)
Share based compensation	(247)	(491)	(660)	(563)
Depreciation and amortization	(993)	(631)	(1,841)	(1,019)
Operating income	1,664	(30)	1,282	249

Statement by the Board of Directors and Management

The Board of Directors and the Management have considered and adopted the Half Year Report of Asetek A/S for the period 1 January – 30 June 2018. The Interim Report is presented in accordance with the International Accounting Standard IAS 34 on Interim Financial Reporting and additional Danish disclosure requirements. The accounting policies applied in the Interim Report are unchanged from those applied in the Group's Annual Report for 2017.

We consider the accounting policies appropriate, the accounting estimates reasonable and the overall presentation of the Interim Report adequate. Accordingly, we believe that the Interim Report gives a true and fair view of Asetek's consolidated financial position, results of operations and cash flows for the period.

In our opinion, the Interim Report includes a true and fair account of the matters addressed and describes the most significant risks and elements of uncertainty facing Asetek. The Interim Report has not been audited or reviewed by the auditors.

Asetek A/S
Aalborg, 14 August 2018

Management:

André S. Eriksen
CEO

Peter Dam Madsen
CFO

Board of Directors:

Sam Szteinbaum
Chairman

Jørgen Smidt
Member

Chris J. Christopher
Member

Jim McDonnell
Member

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