Asetek A/S
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Half Year Report

Second Quarter and Six Months Ended June 30, 2019

Published August 14, 2019

Company Registration (CVR) Number 34 88 05 22

Highlights

- **Q2 revenue of $17.1 million compared with record level of $19.5 million in Q2 2018**
- **Gross margins grew to 42% in Q2 and first half, up from 36% in the same periods of the prior year**
- **Q2 EBITDA adjusted of $3.3 million, improved from $2.9 million in Q2 2018**
- **First half revenue of $28.3 million and EBITDA adjusted of $3.6 million compared with $33.4 million and $3.8 million respectively in 2018**
- **Group revenue expectation for 2019 adjusted in July to a decrease of approximately 20% compared with 2018, due to macroeconomic and industry headwinds reducing customer forecasts in the second half**

Key figures

Figures in USD (000's)	Q2 2019	Q2 2018	1H 2019	1H 2018	2018
Total Company:	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	
Revenue	17,103	19,536	28,282	33,404	67,314
Gross profit	7,156	6,991	11,925	11,946	26,172
Gross margin	*41.8%*	*35.8%*	*42.2%*	*35.8%*	*38.9%*
Operating profit	2,118	1,664	1,092	1,282	4,419
Reconciliation from IFRS to EBITDA adjusted:					
Operating profit	2,118	1,664	1,092	1,282	4,419
Add: Depreciation and amortization*	923	993	1,946	1,841	3,690
Add: Share based compensation	221	247	539	660	1,276
EBITDA adjusted (unaudited)	3,262	2,904	3,577	3,783	9,385
By Segment (Unaudited):					
Gaming and Enthusiast:					
Gaming and Enthusiast revenue	*16,568*	*18,288*	*27,040*	*31,496*	*63,030*
Gaming and Enthusiast gross margin	*42.2%*	*36.6%*	*42.6%*	*36.7%*	*39.5%*
Gaming and Enthusiast EBITDA adjusted	*5,141*	*5,889*	*7,980*	*9,915*	*20,737*
Datacenter:					
Datacenter revenue	*535*	*1,248*	*1,242*	*1,908*	*4,284*
Datacenter gross margin	*30.7%*	*23.2%*	*32.9%*	*20.5%*	*29.6%*
Datacenter EBITDA adjusted	*(1,357)*	*(2,061)*	*(2,675)*	*(4,347)*	*(7,338)*
Headquarters:					
*Headquarters costs***	*(522)*	*(924)*	*(1,728)*	*(1,785)*	*(4,014)*

**Depreciation includes $140,000 and $284,000 in Q2 2019 and 1H 2019, respectively, related to a lease accounting change. Refer to Note 2 - Change in Accounting Policy*

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

Highlights

Financial results

- Asetek reported second quarter revenue of $17.1 million compared with a record $19.5 million in Q2 2018. First-half 2019 revenue amounted to $28.3 million compared with $33.4 million in the same period of 2018. The change from the prior year reflects fewer shipments in the Gaming and Enthusiast segment, as expected in a softer market for PC's and components.
- Gross margin for the second quarter and first half was 42%, up from 36% in both comparable periods of the prior year, which led to a 2% increase in gross profit in the second quarter compared with Q2 2018. The improved gross margin reflects higher ASPs on Gaming and Enthusiast products as well as a stronger U.S. dollar.
- Operating income totaled $2.1 million and adjusted EBITDA was $3.3 million in the second quarter of 2019, compared with operating income of $1.7 million and adjusted EBITDA of $2.9 million in the second quarter of 2018. Operating expenses in the second quarter of 2019 included a positive effect of $0.8 million related to a favorable patent litigation settlement. First-half 2019 operating income was $1.1 million and adjusted EBITDA was $3.6 million, compared with operating income of $1.3 million and adjusted EBITDA of $3.8 million in the same period of 2018. Adjusted EBITDA in the second quarter and first half of 2019 was favorably impacted by an accounting change to IFRS 16 Leases (see Note 2 to the Financial Statements).

Operations

- In April, the Company announced the 645LT liquid cooler, a new design for small form factor PC cases. The 645LT combines Asetek's latest generation of pump technology (Gen6) and unique tube design to enable space-saving and ease of installation.
- Asetek is powering EVGA's new GeForce RTX 2080 Ti K|NGP|N Hybrid GPU cooler. The ultimate solution for hardcore gamers and enthusiasts, Asetek's Gen6 liquid cooling technology enables extreme performance with minimal noise, providing targeted cooling of ultra high-end GPUs to ensure advanced overclocking capabilities.
- In efforts to establish EU standards that will reduce permitted energy consumption used for data center cooling, Asetek executives are proactively working with political leaders to create a wider understanding of the significant environmental benefits enabled by liquid cooling.

Financial results by segment

- Gaming and Enthusiast revenue was $16.6 million in the second quarter, compared with a record $18.3 million in the same period of 2018. First-half revenue was $27.0 million, compared with $31.5 million in the first half of 2018. Adjusted EBITDA was $5.1 million for the quarter and $8.0 million for the first half, compared with $5.9 million and $9.9 million in 2018, respectively, reflecting increased investment in the Gaming and Enthusiast segment in 2019.
- Data center revenue was $0.5 million in the second quarter, compared with $1.2 million in Q2 2018. First-half revenue was $1.2 million, compared with $1.9 million in the first half of the prior year. Adjusted EBITDA was ($1.4 million) in the second quarter and ($2.7 million) in the first half of 2019, both of which are an improvement from 2018 and reflect a reduction of segment operating expenses of approximately 35% in 2019.

Outlook

- On July 23, the Group revenue expectation for the full year 2019 was adjusted to a decrease of approximately 20% compared with 2018. Initial customer forecasts for the second half of 2019 reflect reduced demand in the DIY market segment as a result of macroeconomic and industry headwinds. Based on current revenue and cost outlook, Asetek expects to report a pre-tax profit for 2019.

Financial review

The figures below relate to the consolidated accounts for the second quarter and first half of 2019, which comprise activities within the two segments Gaming and Enthusiast (previously named Desktop segment), and Data Center. The figures are unaudited.

Income Statement (Consolidated)

Asetek reported total revenue of $17.1 million in the second quarter of 2019, a decrease from $19.5 million in the second quarter of 2018. Total revenue in the first half of 2019 was $28.3 million compared with $33.4 million in the same period of 2018. Both periods reflect reduced unit shipments in the Gaming and Enthusiast segment.

Gaming and Enthusiast sales unit volumes for the second quarter of 2019 were 284,000, a decline of 11% from the same period of 2018 (319,000). Unit shipments for the first half were 466,000, a decrease of 18% from 2018. The decrease in unit shipments reflects a softer Gaming and Enthusiast market in 2019. Average selling price (ASP) per unit in both the second quarter and first half of 2019 increased from the prior year due to higher prices on high-performance products and a change in the mix of products sold.

Gross margin improved to 41.8% for the second quarter of 2019, from 35.8% in the same period of 2018. Gross margin for the first half of 2019 was 42.2% compared with 35.8% in the first half of 2018. The increase reflects higher ASPs on Gaming and Enthusiast products as well as a stronger U.S. dollar in the first half of 2019.

Total operating expense decreased to $5.0 million in the second quarter of 2019 from $5.3 million in the same period of 2018. In the first half 2019, operating expense increased slightly to $10.8 million ($10.7 million).

Operating expense included costs incurred for defense of existing intellectual property (IP) and securing new IP which increased to $0.7 million and $1.4 million in the second quarter and first half of 2019 ($0.3 million and $0.7 million in the respective periods of 2018). Additionally, operating expense in the second quarter of 2019 was reduced by a favorable patent litigation settlement of $0.8 million, reported separately as other income on the income statement.

In recent periods, the Company has added personnel resulting in higher compensation costs in 2019, when compared with 2018.

Currency effects from a 7% stronger U.S. Dollar, on average, against the Danish krone (DKK) had a favorable impact on operating expense during the first half of 2019 compared with the first half of 2018.

Share based compensation cost associated with warrants and options issued to employees was $0.2 million and $0.5 million in the second quarter and first half of 2019 ($0.2 million and $0.7 million in the respective periods of 2018).

On January 1, 2019, the Company adopted IFRS 16 Leases, which requires the recognition of operating leases on the balance sheet. The accounting change resulted in depreciation recorded of $140,000 and $284,000 in the second quarter and first half of 2019, respectively, that was previously considered other operating expense. Refer to Note 2 to the Financial Statements

Finance expenses included net foreign exchange loss of $0.1 million in the second quarter and $38,000 gain in the first half of 2019. This compared with gains of $0.8 million and $0.2 million for the respective periods of 2018.

Asetek reported income before tax of $2.0 million and $1.2 million in the second quarter and first half of 2019, compared with income before tax of $2.5 million and $1.5 million for the respective periods of 2018.

Currency translation adjustment of positive $0.2 million and negative $0.1 million is included in other comprehensive income for the second quarter and first half of 2019 (negative translation adjustments of $1.1 million and $0.2 million in the second quarter and first half of 2018).

Balance Sheet (Consolidated)

Asetek's total assets at June 30, 2019 amounted to $57.1 million, an increase of $5.7 million from December 31, 2018. Cash increased by $7.1 million and an accounting policy change resulted in $3.2 million of additional capitalized leased assets at the beginning of 2019 (see Note 2 to the Financial Statements). These increases were offset by lower trade receivables, inventory and other assets.

Total liabilities increased by $4.2 million in the first half of 2019, resulting from an accounting change increase of $3.2 million in capitalized lease liabilities (see Note 2 to the Financial Statements) and an increase in vendor payables, offset by payment of accrued liabilities.

Working capital (current assets minus current liabilities) increased by $1.5 million during the first half to $26.9 million at June 30, 2019. Total cash and cash equivalents was $25.8 million at June 30, 2019.

Cash Flow (Consolidated)

Net cash provided by operating activities was $8.6 million for the first half of 2019, compared with $0.2 million in the same period of 2018. The change from 2018 was principally due to reductions in trade receivables and inventory in the first half of 2019 compared with the same period of 2018.

Cash used by investing activities was $1.2 million for the first half of 2019, mainly related to additions of capital equipment and capitalized development. This figure compares to $2.0 million used in 2018.

Cash used by financing activities was $0.3 million in the first half of 2019, mainly for payments on capitalized leases. Principal payments on capitalized leases increased as a result of a change in accounting policy (see Note 2 to the Financial Statements) and due to equipment acquired under leases. In the first half of 2018, Cash provided by financing activities was $0.5 million, mainly reflecting proceeds from the issuance of shares following the exercise of warrants.

Net change in cash and cash equivalents was an increase of $7.1 million in the first half of 2019, compared with a decrease of $1.5 million in the first half of 2018.

Segment breakdown

*The company is reporting on two distinct segments; the **Gaming and Enthusiast** segment (previously named 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)	Gaming and Enthusiast		Data center	
	Q2 2019	Q2 2018	Q2 2019	Q2 2018
Revenues	16,568	18,288	535	1,248
Cost of sales	9,576	11,586	371	959
Gross Profit	6,992	6,702	164	289
Gross Margin	42.2%	36.6%	30.7%	23.2%
Total operating expenses	1,851	813	1,521	2,350
EBITDA adjusted	5,141	5,889	(1,357)	(2,061)
EBITDA margin	31.0%	32.2%	N/A	N/A

Operations - First Half

Figures in USD (000's)	Gaming and Enthusiast		Data center	
	1H 2019	1H 2018	1H 2019	1H 2018
Revenues	27,040	31,496	1,242	1,908
Cost of sales	15,523	19,941	834	1,517
Gross Profit	11,517	11,555	408	391
Gross Margin	42.6%	36.7%	32.9%	20.5%
Total operating expenses	3,537	1,640	3,083	4,738
EBITDA, adjusted	7,980	9,915	(2,675)	(4,347)
EBITDA margin	29.5%	31.5%	N/A	N/A

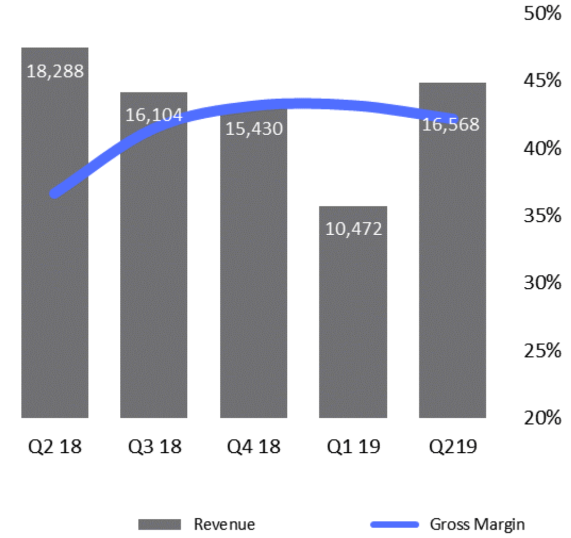
Headquarters Costs

Figures in USD (000's)	Q2 2019	Q2 2018	1H 2019	1H 2018
Litigation costs	669	344	1,366	669
Litigation settlements	(753)	-	(753)	-
Other headquarters costs	606	580	1,115	1,116
Total headquarters costs	522	924	1,728	1,785

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

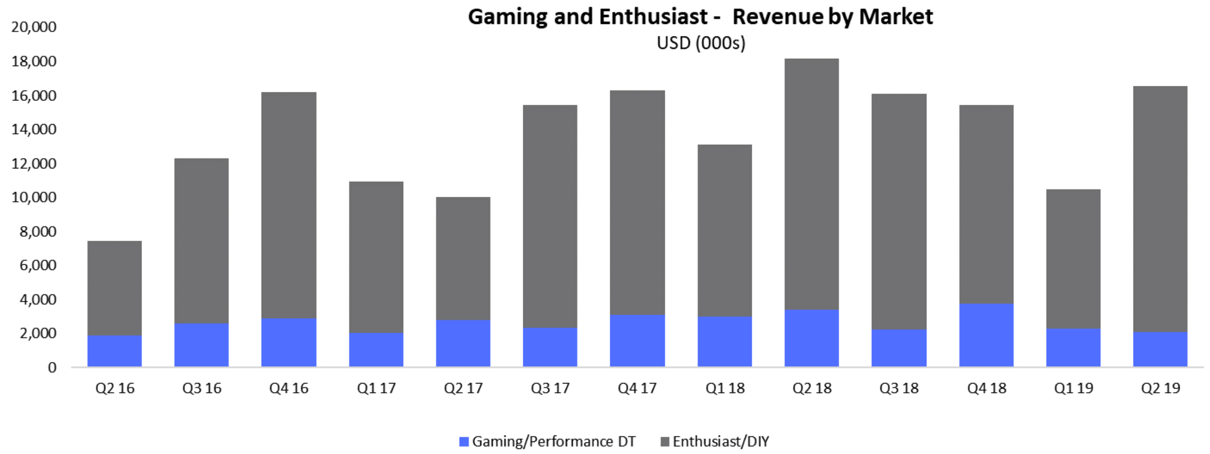
Gaming and Enthusiast financials

Gaming and Enthusiast revenue and margin development
USD (000's)



Asetek's Gaming and Enthusiast revenue was $16.6 million in the second quarter of 2019, the second-highest level for a quarter in Asetek's history. Revenue from the Enthusiast/DIY and Gaming/Performance PC markets comprised 87% and 13% of total Gaming and Enthusiast revenue, respectively.

Gaming and Enthusiast profitability in recent quarters has benefitted from higher average selling prices on new, high-performance products and a stronger US dollar. As a result, Gaming and Enthusiast gross margin increased over five percentage points in the second quarter of 2019 compared with the same period of 2018 and has remained at 41% or higher over the past four quarters.



Gaming and Enthusiast market update

During the second quarter, seven new Gaming and Enthusiast products began shipping. Six of the products were in the Enthusiast/DIY market, including one to a new customer. One new product in the Gaming/ Performance PC market resulted from adaptation of a successful DIY design for first shipment to a U.S. regional OEM customer.

In April 2019, the Company announced the 645LT liquid cooler, its newest design for small form factor PC cases. The 645LT combines Asetek's latest generation of pump technology (Gen6) and unique tube design to enable space saving and ease of installation.

Asetek is powering EVGA's new GeForce RTX 2080 Ti K|NGP|N Hybrid GPU cooler. The ultimate solution for hardcore gamers and enthusiasts, Asetek's Gen6 liquid cooling technology enables extreme performance with minimal noise, providing targeted cooling of ultra high-end GPUs to ensure advanced overclocking capabilities.

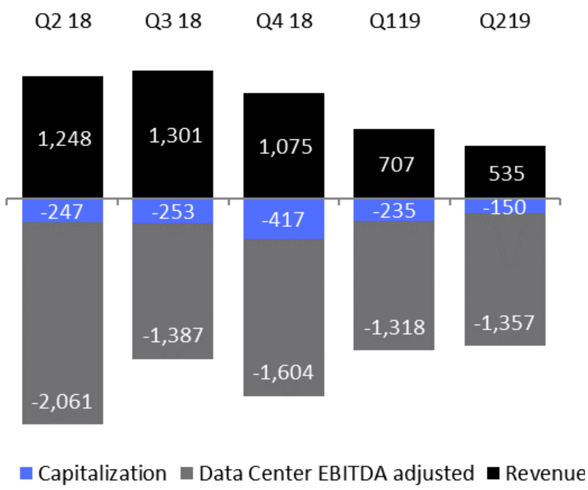
In 2019, Asetek executed a rebranding as part of its strategy to strengthen its position in the Gaming and Enthusiast market. Building on its market leadership in liquid cooling, the Company targets gamers and enthusiasts, engaging the community and implementing marketing initiatives to increase awareness of Asetek and its story of innovation in delivering the best in performance, quality and reliability.

As part of this rebranding, Asetek is working with key customers on several brand-behind-the-brand initiatives to feature the Asetek logo on box packaging, websites, forums, and packaging inserts. Initiatives also include written features about Asetek on partners' websites, participation in live events and live streams to communicate the commitment to quality and reliability that the "Cooled by Asetek" quality mark represents. In partnership with the gaming and enthusiast community, the Company launched a new gaming/eSports academy outfitted with high-end machines and gear to provide ambitious gamers the tools required to excel. Asetek also initiated a redesign of its corporate website, which will include co-marketing activities with some of the biggest brands in gaming. In August 2019, the Company launched a separate website for the gaming community, coolnation.com.

The growing popularity of PC gaming and eSports has partly fueled revenue growth in recent years. 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 Gaming and Enthusiast 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.

Data center financials

Financial development
USD (000's)



Asetek's Data center revenue was $0.5 million in the second quarter of 2019, compared with $1.2 million in the same period of 2018. Revenue in the second quarter, when compared with recent quarters, reflects fewer shipments to OEMs. Revenue variability is expected to continue while the Company generates growth of end-user adoption through its OEM partners.

Data center gross margin improved in the second quarter of 2019 compared with the same period of 2018 due to recognition of previously deferred revenue on higher margin government contract deliverables. In 2019, Asetek has scaled back its investment in the data center business and reduced related operating expense. Gross margin and operating results are expected to continue to fluctuate until the Company grows and maintains meaningful unit volumes of revenue and production.

Data center market update

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 historical strategy in this market has been to focus on growing the business through OEM customers. However, growth in this segment has not met Company expectations. As such, until legislative changes are made requiring the re-use of waste heat in data centers, the Company's strategy is to continue to sell to its existing OEM partners as well as proactively work with political leaders to create a wider understanding of the significant environmental benefits enabled by liquid cooling.

Today, Asetek has major liquid cooling installations at multiple HPC sites in North America, Asia and Europe and is liquid cooling thirteen of the world's most powerful and efficient supercomputers listed in the November 2018 Top500 and Green500, including three systems in the Top20.

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. 7 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. 14 in the Top500 and one of the most powerful supercomputers in Japan.

Group and segment outlook

On July 23, 2019, Asetek adjusted its Group revenue expectation for 2019 to a decline of approximately 20% compared with 2018. Initial customer volume forecasts received for the second half of 2019 reflect reduced demand in the DIY segment as a result of macroeconomic and industry headwinds. Based on current revenue and cost outlook, Asetek expects to report a pre-tax profit for 2019.

Gaming and Enthusiast. The overall PC industry outlook has been negatively affected by uncertainties related to trade relations between U.S. and China, a 25% tariff on U.S. imports from China, the impact from the Brexit process, and the economic development across other markets. Factoring in macroeconomic, market segment and Asetek-specific factors, the Company expects Gaming and Enthusiast revenue in 2019 to decline from the prior year. The resource consumption, as expressed in overhead expenses, is expected to increase in 2019 compared with 2018.

Third-quarter 2019 Enthusiast/DIY and Gaming/Performance PC revenue is expected to decline from the respective levels achieved in the third quarter of 2018. Revenue variability by quarter is expected to continue.

The Company expects Gaming and Enthusiast gross margin in the third quarter of 2019 to approximate the gross margin percentage achieved in the second quarter of 2019.

Data center. Through partnerships with data center OEMs, Asetek anticipates continued growth in end-user adoption with deliveries to new HPC installations and shipments of less complex products. Orders received in July and August from existing OEM partners for RackCDU™ liquid cooling installations reflect the continued success of our partners' HPC deployments of Asetek liquid cooling.

However, data center market adoption of liquid cooling solutions takes time and is lagging Company expectations despite its strong value proposition. The Company decided to discontinue segment revenue guidance until the Data center business more clearly develops into a meaningful business. Though the Company anticipates long-term revenue growth in this segment, Asetek's historical investment in Data center is considered sufficient at this time and spending in 2019 will be scaled down from the prior year level.

There is an apparent need for public standards to trigger wider data center adoption of liquid cooling. The Company is participating in targeted campaigns to influence politicians and support wider understanding of the significant environmental and circular economy benefits enabled by liquid cooling. Direct-to-chip liquid cooling enables power savings and CO_2 emission reductions from the reuse of data center waste heat and is one of, if not the most impactful and significant technologies available in the world.

Segment revenue and operating results are expected to fluctuate.

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 2015, CoolIT Systems, Inc. ("CoolIT") paid Asetek $1.8 million to settle Asetek's suit against CoolIT for infringement of Asetek's '362 and '764 patents (filed in the Northern District of California). On January 23, 2019, Asetek filed a new patent infringement lawsuit against CoolIT in the same court accusing more recent CoolIT products that were not at issue in the earlier litigation. Asetek's complaint seeks judgment that CoolIT infringes Asetek's '362 and '764 patents as well as Asetek's U.S. Patent Nos. 9,733,681; 10,078,354; and 10,078,355. CoolIT has filed counterclaims asserting infringement of three CoolIT patents, which Asetek denies. The litigation is at its initial stages and no trial date has been set.

Asetek and Asia Vital Components Co., Ltd. (AVC) settled their patent disputes in April 2019. AVC agreed to stop selling its infringing products in the U.S., terminate any other patent challenges to Asetek, refrain from accusing any Asetek all-in-one coolers of infringing AVC patents, and pay Asetek a confidential settlement amount.

In September 2016, Asetek filed two patent infringement lawsuits against CoolerMaster Shanghai and its distributor Shenzhen Xinhua in Shenzhen City accusing various CoolerMaster products of infringing Asetek's Chinese Patent 201210266143.8. In October 2018, the court ruled in Asetek's favor on both cases, entering an injunction against CoolerMaster and awarding RMB1 Million in damages. CoolerMaster appealed the judgment to a higher court and initiated an action to invalidate Asetek's patent in the Beijing IP Court. Oral arguments were heard in the appeal in March 2019. On June 26, 2019, CoolerMaster filed an invalidation request on the same Asetek Chinese patent with the China National Intellectual Property Administration. These cases are in their early stages.

In April 2016, Asetek initiated patent infringement proceedings against CoolerMaster and Coolergiant before the District Court The Hague, pertaining to commerce in The Netherlands. In the case against CoolerMaster, the Court dismissed Asetek's claim. Asetek appealed the decision and will subsequently submit its grounds for appeal. The case against Coolergiant has been stayed, pending final judgment in the CoolerMaster case.

In 2017, Coolergiant GmbH filed suit against Asetek Danmark A/S in Mannheim District Court requesting declaration of non-infringement in Germany of an Asetek patent. The Company disputed the allegations and filed counterclaim motions. In November 2018, the Court ruled that the named Coolergiant products infringe on Asetek's patent and granted Asetek claims for injunctive relief, rendering of accounts, recall and destruction. Coolergiant has appealed the decision and initiated an action to nullify Asetek's patent. The appeal and nullify actions are pending. In June 2019, Asetek initiated a contempt of court proceeding for Coolergiant's failure to meet its obligations associated with the Court ruling.

Corporate Matters

On January 14, 2019, an Extraordinary General Meeting elected Mrs. Maria Hjorth to the Board of Directors.

The Company's annual general meeting was held on April 10, 2019, where the following matters occurred or were reported:

- The Annual Report 2018, as proposed by the Board of Directors, was approved as published
- The existing members of the Board of Directors made themselves available for re-election, except for Jim McDonnell. The proposed candidates for the Board were all elected, and the Board of Directors is hereinafter composed of Chris Christopher, Jørgen Smidt, Maria Hjorth, Erik Damsgaard and Jukka Pertola
- The Nomination Committee comprises of Ib Sønderby, Claus Berner Møller and Jørgen Smidt
- The Board of Directors was authorized to acquire the Company's own shares.
- PricewaterhouseCoopers, State Authorized Public Accountants, were re-elected as auditors

Following the general meeting, the Board of Directors constituted itself with Jukka Pertola as chairman and Chris Christopher as vice chairman.

Share buyback program

Given the Company's strong cash position, sound balance sheet with limited debt and profitability over time, work has been ongoing to develop a path to pay funds back to the shareholders. Despite these initiatives, a solution to avoid double tax withholding from payments to shareholders has not yet been found.

Asetek moved from USA to Denmark in 2013. However, USA – in a unilateral tax treaty override – still considers Asetek A/S a U.S. tax subject, effectively creating a double taxation situation.

To date, this has not had a material impact on Asetek, but for the shareholders it has the implication that Asetek must withhold dividend taxes on certain payments.

Both dividend payments and payments resulting from share buyback programs require tax withholdings to the U.S. authorities. In the case of share buyback programs, U.S. tax citizens and shareholders selling more than a certain percentage of their holdings may be exempt.

Scandinavian banks have not been able to offer a solution for the transaction allowing for identification of the selling shareholders. U.S. banks have not been able to offer a solution for Asetek, a Danish entity.

Asetek has approached both countries' tax authorities with the aim of resolving the double tax situation as per the double taxation treaty. However, a determination may take several years, and the authorities are not obligated to resolve the problem.

Asetek will continue to seek to solve the matter and establish a path for repayment of funds to investors should the Company wish to do so, but does not expect at this stage to find a solution short term.

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 Gaming and Enthusiast 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 2019, two customers in the Enthusiast/DIY segment accounted for 36% and 26% 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. In order to mitigate such a decline, the Company would work with its other DIY customers to grow their respective market shares and order volumes.

The U.S. has imposed a 25% tariff on imports of goods manufactured in China, which include Asetek products. The existence of the tariff, and the possibility that the tariff may increase, has contributed to the uncertainties in the Gaming & Enthusiast market and the decline in Asetek's projected revenue for 2019. The Company continues to work to minimize the impact of the tariff on Asetek and its customers.

Asetek relies upon suppliers and partners to supply products and services at competitive prices. Asetek's Gaming and Enthusiast products have been historically assembled in China by a single contract manufacturer which may be difficult to substitute in the short term if the need should arise.

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, 2019, 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 2018, available from the Company's website: www.asetek.com

Condensed Interim Financial Statements

Consolidated Statement of Comprehensive Income

Figures in USD (000's)	Q2 2019	Q2 2018	1H 2019	1H 2018	2018
	Unaudited	*Unaudited*	*Unaudited*	*Unaudited*	
Revenue	$ 17,103	$ 19,536	$ 28,282	$ 33,404	$ 67,314
Cost of sales	9,947	12,545	16,357	21,458	41,142
Gross profit	7,156	6,991	11,925	11,946	26,172
Research and development	1,200	1,437	2,455	2,559	4,764
Selling, general and administrative	4,591	3,890	9,131	8,105	16,989
Other expense (income)	(753)	-	(753)	-	-
Total operating expenses	5,038	5,327	10,833	10,664	21,753
Operating income	2,118	1,664	1,092	1,282	4,419
Foreign exchange (loss) gain	(126)	764	38	194	342
Finance income (costs)	56	53	104	43	109
Total financial income (expenses)	(70)	817	142	237	451
Income before tax	2,048	2,481	1,234	1,519	4,870
Income tax (expense) benefit	(301)	(338)	(308)	(338)	(1,198)
Income for the period	1,747	2,143	926	1,181	3,672
Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:					
Foreign currency translation adjustments	236	(1,088)	(94)	(171)	(169)
Total comprehensive income	$ 1,983	$ 1,055	$ 832	$ 1,010	$ 3,503
Income per share (in USD):					
Basic	$ 0.07	$ 0.08	$ 0.04	$ 0.05	$ 0.14
Diluted	$ 0.07	$ 0.08	$ 0.04	$ 0.04	$ 0.14

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

Consolidated Balance Sheet

Figures in USD (000's)		30 June 2019		31 Dec 2018
ASSETS		*Unaudited*		
Non-current assets				
Intangible assets	$	2,228	$	2,414
Property and equipment		7,011		4,103
Deferred income tax assets		7,148		7,458
Other assets		307		309
Total non-current assets		16,694		14,284
Current assets				
Inventory		2,251		2,862
Trade receivables and other		12,370		15,625
Cash and cash equivalents		25,762		18,627
Total current assets		40,383		37,114
Total assets	$	57,077	$	51,398
EQUITY AND LIABILITIES				
Equity				
Share capital	$	422	$	422
Retained earnings		39,228		37,704
Translation and other reserves		739		832
Total equity		40,389		38,958
Non-current liabilities				
Long-term debt		3,159		641
Total non-current liabilities		3,159		641
Current liabilities				
Short-term debt		1,544		980
Accrued liabilities		1,393		2,185
Accrued compensation & employee benefits		1,305		1,512
Trade payables		9,287		7,122
Total current liabilities		13,529		11,799
Total liabilities		16,688		12,440
Total equity and liabilities	$	57,077	$	51,398

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, 2019	$ 422	$ 836	$ (4)	$ 37,704	$ 38,958
Total comprehensive income - six months ended June 30, 2019					
Income for the period	-	-	-	926	926
Foreign currency translation adjustments	-	(94)	-	-	(94)
Total comprehensive income - six months ended June 30, 2019	-	(94)	-	926	832
Transactions with owners - six months ended June 30, 2019					
Shares issued	-	-	1	59	60
Share based payment expense	-	-	-	539	539
Transactions with owners - six months ended June 30, 2019	-	-	1	598	599
Equity at June 30, 2019	$ 422	$ 742	$ (3)	$ 39,228	$ 40,389

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

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

Consolidated Cash Flow Statement

Figures in USD (000's)	1H 2019	1H 2018	2018
	Unaudited	*Unaudited*	
Cash flows from operating activities			
Income for the period	$ 926	$ 1,181	$ 3,672
Depreciation and amortization	1,946	1,841	3,690
Finance income	(187)	(95)	(205)
Finance costs	83	52	96
Income tax expense (benefit)	308	338	1,198
Cash receipt (payment) for income tax	-	(14)	(118)
Share based payments expense	539	660	1,276
Changes in trade receivables, inventories, other assets	3,858	(2,108)	(3,502)
Changes in trade payables and accrued liabilities	1,171	(1,625)	(2,264)
Net cash provided by (used in) operating activities	8,644	230	3,843
Cash flows from investing activities			
Additions to intangible assets	(716)	(795)	(1,745)
Purchase of property and equipment	(499)	(1,213)	(1,914)
Net cash used in investing activities	(1,215)	(2,008)	(3,659)
Cash flows from financing activities			
Funds drawn (paid) against line of credit	23	9	(6)
Proceeds from issuance of share capital	58	699	782
Principal payments on capitalized leases	(409)	(163)	(321)
Net cash provided by (used in) financing activities	(328)	545	455
Effect of exchange rate changes on cash and cash equivalents	34	(277)	(410)
Net changes in cash and cash equivalents	7,135	(1,510)	229
Cash and cash equivalents at beginning of period	18,627	18,398	18,398
Cash and cash equivalents at end of period	$ 25,762	$ 16,888	$ 18,627
Supplemental disclosures -			
Property and equipment acquired under leases	$ 271	$ -	$ 134

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 and six months ended June 30, 2019 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 2018 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, 2018, except for the implementation of the new standards IFRS 16 Leases and IFRIC 23 Uncertainty over Income Tax Treatments, as described in Note 2 and Note 7, respectively.

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

2. Change in accounting policy – Leases

On January 1, 2019, the Group adopted IFRS 16 Leases on a modified retrospective basis without restatement of the prior year, as permitted under the standard. Upon adoption of IFRS 16, Asetek recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to lease liabilities was 3.0%. The associated right-of-use assets for the leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as of December 31, 2018. For leases previously classified as finance leases, the Group recognized the carrying amount of the lease asset and lease liability at the date of initial application. The Company has elected not to apply IFRS 16 recognition on short-term and low value leases, as permitted under the standard. Asetek has elected not to reassess whether a contract is a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease.*

Through 2018, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease. From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of: fixed lease payments, amounts expected to be payable under residual value guarantees, any purchase options that are reasonably expected to be exercised, and any penalties for termination reflected in the lease term. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to reflect a constant periodic rate of interest on the remaining balance of the liability for each period.

Asetek leases equipment, its principal office facilities and some motor vehicles. Contracts are typically for fixed periods of five years or more for office facilities, five years for equipment, and two years or less for motor vehicles. The leased asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

As a result of this change in accounting policy, the Group's lease liabilities and corresponding leased assets recorded on the balance sheet increased by $3.2 million as of January 1, 2019, when compared with the balance at December 31, 2018. In the first half of 2019, the accounting change resulted in recognition of depreciation expense of $284,000 and finance cost of $46,000. These increases are substantially offset by a reduction in associated facilities and automobile expense for the same period. Cash flow from operating activities increased by $253,000 and cash flow from financing activities decreased by $253,000 in the first half of 2019 as a result of this change in accounting policy.

	(USD 000's)
Operating lease commitments disclosed at December 31, 2018	3,376
Discounted using the incremental borrowing rate at January 1, 2019	3,227
Add: finance lease liabilities recognized at December 31, 2018	879
Less: short-term leases recognized on a straight-line basis as expense	(4)
Lease liability recognized at January 1, 2019	4,102

Lease liabilities:	December 31, 2018	January 1, 2019
Current lease liabilities	239	751
Non-current lease liabilities	640	3,351
Total lease liabilities	879	4,102

Leased assets:	December 31, 2018	January 1, 2019
Properties	-	3,204
Machinery and equipment	1,538	1,538
Motor vehicles	-	19
Gross value, leased assets	1,538	4,761
Less: accumulated depreciation	(839)	(839)
Net value, leased assets	699	3,922

3. Equity

At June 30, 2019, there were 25.6 million common shares outstanding and 0.2 million shares in treasury. Treasury shares may be used to fulfill a portion of share options and warrants outstanding which total approximately 2.1 million. Share capital increased by approximately $60,000 in the first half 2019 ($0.7 million in the first half of 2018) as a result of funds received from employee exercises of warrants and options. Share based payment expense associated with total warrants and options outstanding was $0.5 million and $0.7 million in the six months ended June 30, 2019 and 2018, respectively.

4. 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 2019, the Company capitalized approximately $0.7 million of development costs and recorded amortization of approximately $0.9 million (capitalized costs of $0.8 million and amortization of $1.1 million in the first half of 2018).

5. 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 2019	Q2 2018
Income attributable to equity holders of the Company (USD 000's)	$ 1,747	$ 2,143
Weighted average number of common shares outstanding (000's)	25,581	25,451
Basic income per share	$ 0.07	$ 0.08
Weighted average number of common shares oustanding (000's)	25,581	25,451
Instruments with potentially dilutive effect:		
Warrants and options	426	1,222
Weighted average number of common shares oustanding, diluted	26,007	26,673
Diluted income per share	$ 0.07	$ 0.08

First half

	1H 2019	1H 2018
Income attributable to equity holders of the Company (USD 000's)	$ 926	$ 1,181
Weighted average number of common shares outstanding (000's)	25,562	25,353
Basic income per share	$ 0.04	$ 0.05
Weighted average number of common shares oustanding	25,562	25,353
Instruments with potentially dilutive effect:		
Warrants and options	505	1,248
Weighted average number of common shares oustanding, diluted	26,067	26,601
Diluted income per share	$ 0.04	$ 0.04

6. Transactions with related parties

The Company's CEO serves as Chairman of the Board for a vendor that supplies information technology services to the Company. In the first six months of 2019, the Group purchased services totaling approximately $291,000 ($261,000 in first six months of 2018) from this vendor. At June 30, 2019 and 2018, the Group had outstanding payables to this vendor of $56,000 and $44,000 respectively.

7. New accounting standard –Income tax

In June 2018, 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 adopted IFRIC 23 as of January 1, 2019, and its adoption does not have a material impact on the consolidated financial statements.

8. 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, 2019, the Company has deferred tax assets of $7.1 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 2018 Annual Report regarding critical accounting estimates and assumptions.

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 2019	Q2 2018	1H 2019	1H 2018
Gaming and Enthusiast segment:				
Enthusiast/DIY	14,475	14,804	22,652	24,884
Gaming/Performance PCs	2,093	3,484	4,388	6,612
Data center segment:				
OEM	221	1,205	928	1,826
Government	314	43	314	82
Total revenue	17,103	19,536	28,282	33,404

Unaudited breakdown of the income statement

Operations - Second Quarter

Figures in USD (000's)	Gaming and Enthusiast		Data center	
	Q2 2019	Q2 2018	Q2 2019	Q2 2018
Revenues	16,568	18,288	535	1,248
Cost of sales	9,576	11,586	371	959
Gross Profit	6,992	6,702	164	289
Gross Margin	42.2%	36.6%	30.7%	23.2%
Total operating expenses	1,851	813	1,521	2,350
EBITDA adjusted	5,141	5,889	(1,357)	(2,061)
EBITDA margin	31.0%	32.2%	N/A	N/A

Operations - First Half

Figures in USD (000's)	Gaming and Enthusiast		Data center	
	1H 2019	1H 2018	1H 2019	1H 2018
Revenues	27,040	31,496	1,242	1,908
Cost of sales	15,523	19,941	834	1,517
Gross Profit	11,517	11,555	408	391
Gross Margin	42.6%	36.7%	32.9%	20.5%
Total operating expenses	3,537	1,640	3,083	4,738
EBITDA, adjusted	7,980	9,915	(2,675)	(4,347)
EBITDA margin	29.5%	31.5%	N/A	N/A

Headquarters Costs

Figures in USD (000's)	Q2 2019	Q2 2018	1H 2019	1H 2018
Litigation costs	669	344	1,366	669
Litigation settlements	(753)	-	(753)	-
Other headquarters costs	606	580	1,115	1,116
Total headquarters costs	522	924	1,728	1,785

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

Reconciliation to Operating Income

Figures in USD (000's)	Q2 2019	Q2 2018	1H 2019	1H 2018
EBITDA, adjusted - Gaming and Enthusiast	5,282	5,889	8,121	9,915
EBITDA, adjusted - Data center	(1,498)	(2,061)	(2,816)	(4,347)
Headquarters costs	(522)	(924)	(1,728)	(1,785)
Share based compensation	(221)	(247)	(539)	(660)
Depreciation and amortization	(923)	(993)	(1,946)	(1,841)
Operating income	2,118	1,664	1,092	1,282

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 2019. The Half Year 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 Half Year Report are unchanged from those applied in the Group's Annual Report for 2018, except as noted in Note 1.

We consider the accounting policies appropriate, the accounting estimates reasonable and the overall presentation of the Half Year Report adequate. Accordingly, we believe that the Half Year 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 Half Year Report includes a true and fair account of the matters addressed and describes the most significant risks and elements of uncertainty facing Asetek. The Half Year Report has not been audited or reviewed by the auditors.

Asetek A/S
Aalborg, 13 August 2019

Management:

André S. Eriksen
CEO

Peter Dam Madsen
CFO

Board of Directors:

Jukka Pertola
Chairman

Chris J. Christopher
Vice chairman

Maria Hjorth
Member

Jørgen Smidt
Member

Erik Damsgaard
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