Asetek A/S

Interim Report

Three Months Ended September 30, 2018

Published October 24, 2018

Company Registration (CVR) Number 34880522

Highlights

- **Record Q3 desktop revenue of $16.1 million, reflecting higher ASP for DIY products**
- **Year-to-date revenue increased 26% to $50.8 million, record level for first nine months**
- **Desktop partner Corsair launched new coolers powered by Asetek Generation 6 technology**
- **Q3 data center revenue reflected fewer OEM shipments**
- **Full-year 2018 desktop revenue growth expectation maintained at 15% to 25%**

Key figures

			Nine months ended		
Figures in USD (000's)	**Q3 2018**	**Q3 2017**	**30-Sep-18**	**30-Sep-17**	**2017**
Total Company:	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*	
Revenue	17,405	17,652	50,809	40,270	58,194
Gross profit	7,273	6,589	19,219	14,908	20,969
Gross margin	*41.8%*	*37.3%*	*37.8%*	*37.0%*	*36.0%*
Operating profit	1,953	1,723	3,235	1,972	2,757
Reconciliation from IFRS to EBITDA adjusted:					
Operating profit	1,953	1,723	3,235	1,972	2,757
Add: Depreciation and amortization	779	712	2,620	1,731	2,430
Add: Share based compensation	280	553	940	1,116	1,597
EBITDA adjusted (unaudited)	3,012	2,988	6,795	4,819	6,784
By Segment (Unaudited):					
Desktop:					
Desktop revenue	*16,104*	*15,614*	*47,600*	*36,815*	*53,227*
Desktop gross margin	*41.5%*	*38.2%*	*38.3%*	*38.0%*	*37.1%*
Desktop EBITDA adjusted	*5,390*	*5,081*	*15,305*	*11,259*	*15,991*
Datacenter:					
Datacenter revenue	*1,301*	*2,038*	*3,209*	*3,455*	*4,967*
Datacenter gross margin	*45.3%*	*30.5%*	*30.5%*	*26.8%*	*24.2%*
Datacenter EBITDA adjusted	*(1,387)*	*(1,571)*	*(5,734)*	*(5,009)*	*(7,273)*
Headquarters:					
*Headquarters costs**	*(991)*	*(522)*	*(2,776)*	*(1,431)*	*(1,934)*

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

Highlights

Financial results	• Asetek reported revenue of $17.4 million in the third quarter of 2018, compared with $17.7 million, which was a Q3 record level in 2017. The change from prior year reflects lower data center revenue partly offset by growth in desktop revenue driven by higher ASP in the do-it-yourself (DIY) market. Revenue in the first nine months amounted to a record $50.8 million, representing growth of 26% compared with the same period of 2017 and reflects increased desktop DIY shipments in 2018. • Gross margin grew to 41.8% in the third quarter of 2018 principally due to higher average selling prices on desktop products, compared with 37.3% gross margin in the third quarter 2017. Gross margin for the first nine months of 2018 was 37.8% compared with 37.0% in the same period of 2017. • Group income before tax totaled $2.1 million and EBITDA was $2.7 million in the third quarter of 2018, compared with income before tax of $1.4 million and EBITDA of $2.4 million in the third quarter of 2017. Income before tax for the first nine months 2018 was $3.6 million and EBITDA was $5.9 million, compared with prior year income before tax of $0.9 million and EBITDA of $3.7 million. • Organizational growth and currency exchange fluctuation resulted in higher operating costs in the first nine months of 2018. While the U.S. dollar (USD) strengthened against the Danish krone (DKK) during the third quarter, the average exchange rate of USD to DKK in the first nine months 2018 was 6% lower than the average rate in the prior year period, and therefore contributed to the increased operating expense relative to 2017.
Operations	• Asetek announced that its major desktop partner, Corsair, launched the new Hydro Series H100i PRO liquid cooler, joining the H150i PRO and H115i PRO coolers previously launched at CES2018. The PRO family of liquid coolers are powered by Asetek's new Generation 6 technology, providing even quieter, higher performance cooling than the prior generation. • The Company announced a new order from its data center partner Fujitsu, to provide Rack CDU™ liquid cooling for a global industrial customer in Asia. The installation will include 22 racks populated by compute nodes using Asetek's Direct-to-Chip™ heat capture technology.
Financial results by segment	• Desktop revenue was $16.1 million, a third-quarter record level and an increase of 3% from the same period of 2017. Nine-month revenue was $47.6 million, an increase of 29% from the first nine months of 2017. Operating profit from the desktop segment was $5.4 million for the third quarter and $15.3 million for the first nine months, both reflecting improvement over the respective periods of 2017, due to growth in DIY sales. • Data center revenue was $1.3 million in the third quarter, compared with $2.0 million in the same period of 2017. Revenue in the first nine months of 2018 totaled $3.2 million, compared with $3.5 million in the same period of 2017. Operating loss from the data center segment was $1.4 million for the third quarter and $5.7 million for the first nine months of 2018. This compares with losses of $1.6 million and $5.0 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 maintained its desktop revenue growth expectation of between 15% and 25% over 2017. Revenue outlook for the data center business was revised to now expecting a slight decline, from previously being level with 2017, due to customer delay of a large order that was expected in the fourth quarter. Profitability of the Group is expected to increase slightly from 2017 due to the anticipated incremental growth in desktop revenue.

Financial review

The figures below relate to the consolidated accounts for the third quarter and first nine months 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 $17.4 million in the third quarter of 2018, reflecting a slight decline from the third quarter record level in 2017 ($17.7 million). The change in the third quarter reflects lower data center revenue partly offset by growth in desktop revenue driven by higher average selling price (ASP) in the do-it-yourself (DIY) market. Total revenue in the first nine months of 2018 was $50.8 million, an increase of 26% over the same period of 2017 ($40.3 million). The change in the first nine months compared with the same period of 2017 reflects principally growth in shipments of desktop DIY products.

Desktop sales unit volumes for the third quarter of 2018 were 276,000, a 5% decrease from the third quarter record level last year (289,000). Unit shipments for the first nine months of 2018, represented a 17% increase compared with the same period of 2017. The growth in unit shipments in the first nine months was a function of strong demand in the DIY market. ASP per unit in the third quarter and first nine months of 2018 increased from the respective periods of 2017 reflecting the Company's proactive raising of sales prices and a change in the mix of products sold.

Gross margin was 41.8% for the third quarter of 2018, an increase from 37.3% in the same period last year. Gross margin for the first nine months of 2018 was 37.8% compared with 37.0% in the first nine months of 2017. The increased gross margin reflects higher average selling prices on desktop products for both periods. The change in gross margin for the nine-month period was partly offset by the weakening of the U.S. dollar relative to 2017 and higher manufacturing costs.

Total operating expense increased in the third quarter and first nine months when compared with the same periods of 2017. The increases in 2018 were due to several factors. Compared with the first nine months of 2017, the U.S. dollar weakened by 6% against the Danish krone (DKK). Approximately 67% of the Company's operating expense in 2018 is denominated in DKK. The first nine months of 2017 operating expense included an offset of $1.0 million for settlements awarded to Asetek in patent infringement lawsuits. In recent periods, the Company has added personnel resulting in higher compensation costs in the first nine months of 2018, when compared with the same period of 2017.

Legal costs incurred associated with defense of existing intellectual property (IP) and securing new IP was $0.6 million and $1.3 million in the third quarter and first nine months of 2018 ($0.6 million and $1.6 million in the same periods of 2017), respectively. Share based compensation costs associated with warrants issued to employees was $0.3 million and $0.9 million in the third quarter and first nine months of 2018 ($0.6 million and $1.1 million in the same periods of 2017), respectively.

Finance expenses included net foreign exchange gain of $0.2 million and $0.3 million in the third quarter and first nine months of 2018 (net losses of $0.3 million and $1.0 million in the respective periods of 2017). The effect was offset by a negative currency translation adjustment of $0.2 million and $0.4 million included in equity for the third quarter and first nine months 2018, respectively.

Asetek reported income before tax of $2.1 million and $3.6 million in the third quarter and first nine months of 2018, compared with income before tax of $1.4 million and $0.9 million in the respective periods of 2017.

Income tax expense was $0.5 million and $0.8 million in the third quarter and first nine months 2018, compared with $6,000 in the third quarter 2017 and $45,000 in the first nine months 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 September 30, 2018 amounted to $49.5 million, a $0.3 million increase from December 31, 2017. The growth in assets is principally due to profits generated in the first nine months of 2018.

Total liabilities decreased $3.9 million from December 31, 2017 due to payments of liabilities with operating cash flows. Working capital (current assets minus current liabilities) increased by $5.1 million during the first nine months to $24.1 million at September 30, 2018. Total cash and cash equivalents was $18.8 million at September 30, 2018.

Cash Flow (Consolidated)

Net cash provided by operating activities was $2.9 million for the first nine months of 2018, compared with $4.6 million provided by operating activities in the same period of 2017. The change from the first nine months 2017 was principally due to the payment of current liabilities with operating cash flow.

Cash used by investing activities was $2.7 million for the first nine months of 2018, mainly related to additions in manufacturing equipment and software, and capitalized development. This figure compares to $3.1 million used in the first nine months of 2017.

Cash provided by financing activities was $0.6 million in the first nine months of 2018, principally from the issuance of shares upon exercise of warrants, partly offset by payments on finance leases. This figure compared with $2.2 million used in the first nine months of 2017, which included a dividend payment of NOK1.00 per share.

Net change in cash and cash equivalents was an increase of $0.4 million in the first nine months of 2018, compared with an increase of $0.1 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 - Third Quarter

Figures in USD (000's)	Desktop		Data center	
	Q3 2018	Q3 2017	Q3 2018	Q3 2017
Revenues	16,104	15,614	1,301	2,038
Cost of sales	9,420	9,647	712	1,416
Gross Profit	6,684	5,967	589	622
Gross Margin	41.5%	38.2%	45.3%	30.5%
Total operating expenses	1,294	886	1,976	2,193
EBITDA adjusted	5,390	5,081	(1,387)	(1,571)
EBITDA margin	33.5%	32.5%	N/A	N/A

Operations - First Nine Months

Figures in USD (000's)	Desktop		Data center	
	YTD 2018	YTD 2017	YTD 2018	YTD 2017
Revenues	47,600	36,815	3,209	3,455
Cost of sales	29,361	22,832	2,229	2,530
Gross Profit	18,239	13,983	980	925
Gross Margin	38.3%	38.0%	30.5%	26.8%
Total operating expenses	2,934	2,724	6,714	5,934
EBITDA, adjusted	15,305	11,259	(5,734)	(5,009)
EBITDA margin	32.2%	30.6%	N/A	N/A

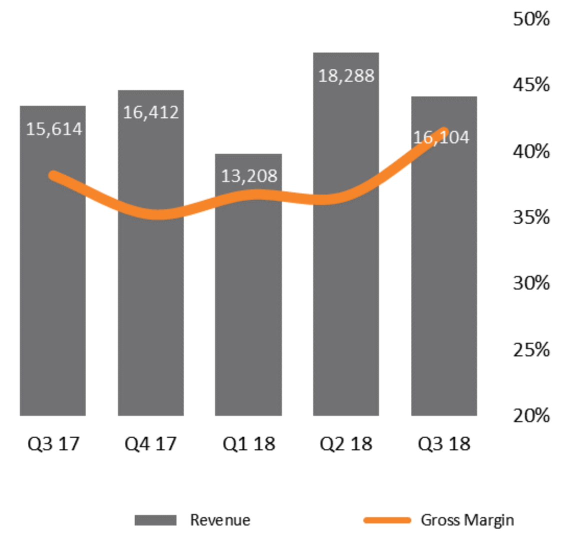
Headquarters Costs

			Nine months	
Figures in USD (000's)	Q3 2018	Q3 2017	YTD 2018	YTD 2017
Litigation costs	596	600	1,265	1,597
Litigation settlements	-	(346)	-	(997)
Other headquarters costs	395	268	1,511	831
Total headquarters costs	991	522	2,776	1,431

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

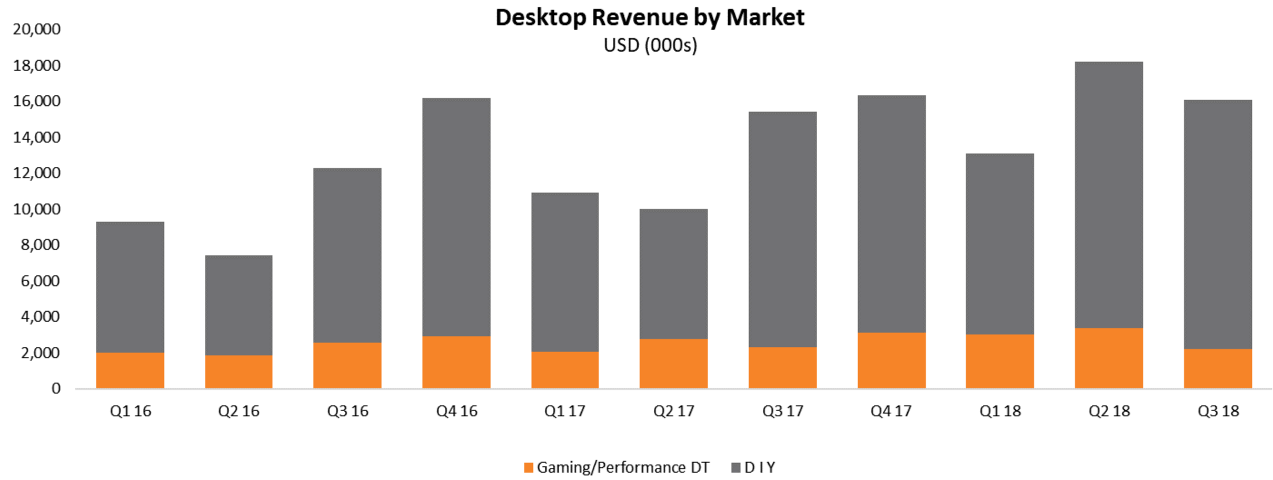
Desktop financials

Desktop revenue and margin development
USD (000's)



Asetek desktop revenue in the first nine months of 2018 has grown 29% compared with the same period of 2017. As expected, the growth has resulted from significant demand in the do-it-yourself (DIY) market. In the third quarter of 2018, revenue from the DIY and Gaming/Performance Desktop PC markets comprised 86% and 14% of total desktop revenue, respectively.

In recent quarters, Asetek has proactively raised sales prices to compensate for manufacturing cost pressure and in 2018 the U.S. dollar has strengthened. As a result, desktop gross margin increased in the third quarter 2018.



Desktop market update and outlook

During the third quarter, six new desktop products began shipping, three in the DIY market and three in the Gaming/Performance Desktop PC market. The new products included ASUS Republic of Gamers (ROG) solutions which ramped quickly in the quarter.

In July, Asetek announced that its major desktop partner, Corsair, launched the new Hydro Series H100i PRO liquid cooler, joining the H150i PRO and H115i PRO coolers previously launched at CES2018. The PRO family of liquid coolers are powered by Asetek's new Generation 6 technology, providing even quieter, higher performance cooling than the prior generation.

The U.S. is imposing new tariffs on imports of goods manufactured in China, which include Asetek products. The impact from these tariffs is unclear, as the industry is proceeding in efforts to mitigate their effects. The Company is currently working to minimize the impact of the new tariffs on Asetek and its customers.

Asetek expects fourth-quarter 2018 desktop DIY revenue to decline from the level achieved in the fourth quarter of 2017. Fourth-quarter revenue in the Gaming/Performance Desktop PC market is expected to increase from the levels achieved in the fourth quarter of 2017.

Total desktop revenue in 2018 is expected to grow in the range of 15% to 25% over 2017. The new import tariffs and a soft market created by the supply situation for certain key components has led to increased market uncertainty. Revenue variability by quarter is expected to continue.

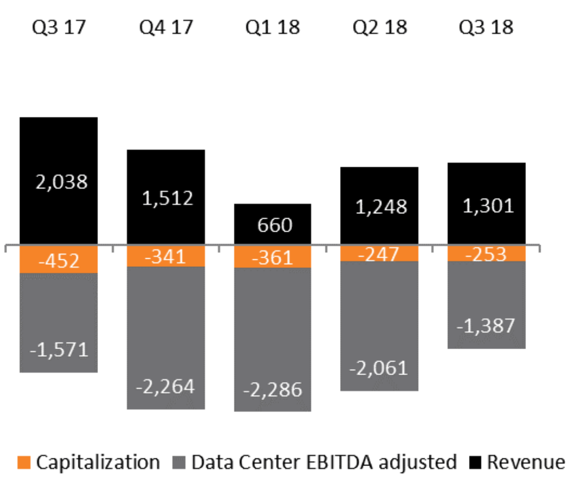
The Company expects gross margin in the fourth quarter of 2018 to approximate the gross margin in the third quarter of 2018.

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 $1.3 million in the third quarter of 2018, compared with $2.0 million in the same period of 2017. The decline in the third quarter reflects fewer shipments to OEMs. 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 improved in the third quarter and first nine months of 2018 compared with the respective periods of 2017 due to high component costs that reduced the margin 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.

[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. During the third quarter, Asetek announced a new order from its data center partner Fujitsu, to provide Rack CDU™ liquid cooling for a global industrial customer in Asia. The installation will include 22 racks populated by compute nodes using Asetek's Direct-to-Chip™ heat capture technology.

During the quarter, the Company received its first orders resulting from its partnership with Intel Product Collaboration and Systems Division (PCSD). The initial orders included InRackCDU and RackCDU D2C™ for a U.S. defense contractor.

Progress on Asetek's contract with the U.S. Department of Defense (DoD) continued in the third 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.

Full year data center segment revenue for 2018 is anticipated to decline slightly from 2017, compared to a previous expectation of being level year-over-year. The change is due to the delay of one large anticipated OEM order from the fourth quarter of 2018 to 2019. 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.

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 disputes the allegations and has filed counterclaim motions. In 2018, Coolergiant filed a nullify action in German Federal Patent Court. A decision in the infringement proceedings will be made in November 2018. A hearing for validity proceedings has not yet been scheduled.

Corporate Matters

On October 23, 2018, the Company announced that its chairman, Mr. Samuel Szteinbaum, has notified the board of directors of his decision to retire and leave the board to pursue other endeavors. The decision is effective immediately, and the vice chairman, Mr. Chris Christopher will assume the role of chairman until the next ordinary general meeting in April 2019. The Company has initiated efforts to identify an addition to the board and expects to be able make an announcement on this shortly.

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 nine months of 2018, one customer in the DIY segment 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. 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. is imposing new tariffs on imports of goods manufactured in China, which include Asetek products. The impact from these tariffs is unclear, as the industry is proceeding in efforts to mitigate their effects. The Company is currently working to minimize the impact of the new tariffs on Asetek and its 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 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 September 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)	Q3 2018	Q3 2017	Nine months ended 30-Sep-18	Nine months ended 30-Sep-17	2017
	Unaudited	*Unaudited*	*Unaudited*	*Unaudited*	
Revenue	$ 17,405	$ 17,652	$ 50,809	$ 40,270	$ 58,194
Cost of sales	10,132	11,063	31,590	25,362	37,225
Gross profit	7,273	6,589	19,219	14,908	20,969
Research and development	1,225	1,099	3,784	2,989	4,220
Selling, general and administrative	4,095	4,113	12,200	10,944	14,905
Other expense (income)	-	(346)	-	(997)	(913)
Total operating expenses	5,320	4,866	15,984	12,936	18,212
Operating income	1,953	1,723	3,235	1,972	2,757
Foreign exchange (loss) gain	150	(319)	344	(991)	(1,239)
Finance income (costs)	20	(22)	63	(34)	(19)
Total financial income (expenses)	170	(341)	407	(1,025)	(1,258)
Income before tax	2,123	1,382	3,642	947	1,499
Income tax (expense) benefit	(499)	(6)	(837)	(45)	2,976
Income for the period	1,624	1,376	2,805	902	4,475
Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:					
Foreign currency translation adjustments	(182)	490	(353)	1,217	1,253
Total comprehensive income	$ 1,442	$ 1,866	$ 2,452	$ 2,119	$ 5,728
Income per share (in USD):					
Basic	$ 0.06	$ 0.05	$ 0.11	$ 0.04	$ 0.18
Diluted	$ 0.06	$ 0.05	$ 0.11	$ 0.03	$ 0.17

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

Consolidated Balance Sheet

Figures in USD (000's)		30 Sept 2018		31 Dec 2017
ASSETS		*Unaudited*		
Non-current assets				
Intangible assets	$	2,420	$	2,754
Property and equipment		4,239		3,856
Deferred income tax assets		7,209		7,778
Other assets		312		794
Total non-current assets		14,180		15,182
Current assets				
Inventory		2,719		2,316
Trade receivables and other		13,787		13,280
Cash and cash equivalents		18,798		18,398
Total current assets		35,304		33,994
Total assets	$	49,484	$	49,176
EQUITY AND LIABILITIES				
Equity				
Share capital	$	422	$	419
Retained earnings		36,501		31,976
Translation and other reserves		648		999
Total equity		37,571		33,394
Non-current liabilities				
Long-term debt		697		816
Total non-current liabilities		697		816
Current liabilities				
Short-term debt		1,032		1,051
Accrued liabilities		2,194		2,432
Accrued compensation & employee benefits		1,500		1,335
Trade payables		6,490		10,148
Total current liabilities		11,216		14,966
Total liabilities		11,913		15,782
Total equity and liabilities	$	49,484	$	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 - nine months ended Sept 30, 2018					
Income for the period	-	-	-	2,805	2,805
Foreign currency translation adjustments	-	(353)	-	-	(353)
Total comprehensive income - nine months ended Sept 30, 2018	-	(353)	-	2,805	2,452
Transactions with owners - nine months ended Sept 30, 2018					
Shares issued	3	-	2	780	785
Share based payment expense	-	-	-	940	940
Transactions with owners - nine months ended Sept 30, 2018	3	-	2	1,720	1,725
Equity at September 30, 2018	$ 422	$ 652	$ (4)	$ 36,501	$ 37,571

Equity at January 1, 2017	$ 417	$ (248)	$ (9)	$ 28,130	$ 28,290
Total comprehensive income - nine months ended Sept 30, 2017					
Income for the period	-	-	-	902	902
Foreign currency translation adjustments	-	1,217	-	-	1,217
Total comprehensive income - nine months ended Sept 30, 2017	-	1,217	-	902	2,119
Transactions with owners - nine months ended Sept 30, 2017					
Shares issued	1	-	3	521	525
Share based payment expense	-	-	-	1,116	1,116
Dividends	-	-	-	(2,907)	(2,907)
Transactions with owners - nine months ended Sept 30, 2017	1	-	3	(1,270)	(1,266)
Equity at September 30, 2017	$ 418	$ 969	$ (6)	$ 27,762	$ 29,143

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

Consolidated Cash Flow Statement

	Nine months ended		
Figures in USD (000's)	**30-Sep-18**	**30-Sep-17**	**2017**
	Unaudited	*Unaudited*	
Cash flows from operating activities			
Income for the period	$ 2,805	$ 902	$ 4,475
Depreciation and amortization	2,620	1,731	2,430
Finance costs (income)	(63)	34	19
Income tax expense (benefit)	837	44	(2,976)
Impairment of intangible assets	-	-	5
Cash receipt (payment) for income tax	(14)	(38)	(43)
Share based payments expense	940	1,115	1,597
Changes in trade receivables, inventories, other assets	(663)	1,571	693
Changes in trade payables and accrued liabilities	(3,557)	(806)	(75)
Net cash provided by (used in) operating activities	2,905	4,553	6,125
Cash flows from investing activities			
Additions to intangible assets	(1,124)	(1,813)	(2,426)
Purchase of property and equipment	(1,565)	(1,272)	(1,872)
Net cash used in investing activities	(2,689)	(3,085)	(4,298)
Cash flows from financing activities			
Funds drawn (paid) against line of credit	20	(20)	295
Proceeds from issuance of share capital	784	529	686
Payment of dividends	-	(2,491)	(2,910)
Principal and interest payments on finance leases	(220)	(175)	(199)
Net cash provided by (used in) financing activities	584	(2,157)	(2,128)
Effect of exchange rate changes on cash and cash equivalents	(400)	818	1,089
Net changes in cash and cash equivalents	400	129	788
Cash and cash equivalents at beginning of period	18,398	17,610	17,610
Cash and cash equivalents at end of period	$ 18,798	$ 17,739	$ 18,398
Supplemental disclosures -			
Property and equipment acquired under finance leases	$ 133	$ 813	$ 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 September 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 September 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 $0.9 million and $1.1 million in the nine months ended September 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 nine months of 2018, the Company capitalized approximately $1.1 million of development costs and recorded amortization of approximately $1.4 million (capitalized costs of $1.8 million and amortization of $1.1 million in first nine months 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.

Third Quarter

	Q3 2018	Q3 2017
Income attributable to equity holders of the Company (USD 000's)	$ 1,624	$ 1,376
Weighted average number of common shares outstanding (000's)	25,499	25,170
Basic income per share	$ 0.06	$ 0.05
Weighted average number of common shares oustanding (000's)	25,499	25,170
Instruments with potentially dilutive effect:		
Warrants and options	940	1,517
Weighted average number of common shares oustanding, diluted	26,439	26,687
Diluted income per share	$ 0.06	$ 0.05

First Nine Months

	Nine months ended	
	30-Sep-18	30-Sep-17
Income attributable to equity holders of the Company (USD 000's)	$ 2,805	$ 902
Weighted average number of common shares outstanding (000's)	25,402	25,083
Basic income per share	$ 0.11	$ 0.04
Weighted average number of common shares oustanding	25,402	25,083
Instruments with potentially dilutive effect:		
Warrants and options	1,055	1,384
Weighted average number of common shares oustanding, diluted	26,457	26,467
Diluted income per share	$ 0.11	$ 0.03

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 nine months ended September 30, 2018 and 2017, Asetek had sales of inventory to Corsair of $23.2 million and $15.5 million, respectively. As of September 30, 2018 and 2017, Asetek had outstanding trade receivables from Corsair of $5.1 million and $3.8 million, respectively.

The Company's CEO serves as Chairman of the Board for a vendor that supplies services to the Company. In the nine months ended September 30, 2018 and 2017, the Company purchased services totaling approximately $426,000 and $268,000 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 does not expect that IFRIC 23 will have a material impact 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 September 30, 2018, the Company has deferred tax assets of $7.2 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 $2.4 million on the Company's balance sheet at September 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)	Q3 2018	Q3 2017	Nine months YTD 2018	Nine months YTD 2017
Desktop segment:				
Do-it-yourself (DIY)	13,887	13,107	38,771	29,262
Gaming/Performance PCs	2,217	2,507	8,829	7,553
Data center segment:				
OEM	1,263	1,775	3,089	2,634
Government	38	263	120	821
Total revenue	17,405	17,652	50,809	40,270

Unaudited breakdown of the income statement

Operations - Third Quarter

Figures in USD (000's)	Desktop		Data center	
	Q3 2018	Q3 2017	Q3 2018	Q3 2017
Revenues	16,104	15,614	1,301	2,038
Cost of sales	9,420	9,647	712	1,416
Gross Profit	6,684	5,967	589	622
Gross Margin	41.5%	38.2%	45.3%	30.5%
Total operating expenses	1,294	886	1,976	2,193
EBITDA adjusted	5,390	5,081	(1,387)	(1,571)
EBITDA margin	33.5%	32.5%	N/A	N/A

Operations - First Nine Months

Figures in USD (000's)	Desktop		Data center	
	YTD 2018	YTD 2017	YTD 2018	YTD 2017
Revenues	47,600	36,815	3,209	3,455
Cost of sales	29,361	22,832	2,229	2,530
Gross Profit	18,239	13,983	980	925
Gross Margin	38.3%	38.0%	30.5%	26.8%
Total operating expenses	2,934	2,724	6,714	5,934
EBITDA, adjusted	15,305	11,259	(5,734)	(5,009)
EBITDA margin	32.2%	30.6%	N/A	N/A

Headquarters Costs

			Nine months	
Figures in USD (000's)	Q3 2018	Q3 2017	YTD 2018	YTD 2017
Litigation costs	596	600	1,265	1,597
Litigation settlements	-	(346)	-	(997)
Other headquarters costs	395	268	1,511	831
Total headquarters costs	991	522	2,776	1,431

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

Reconciliation to Operating Income

			Nine months	
Figures in USD (000's)	Q3 2018	Q3 2017	YTD 2018	YTD 2017
EBITDA, adjusted - Desktop	5,390	5,081	15,305	11,259
EBITDA, adjusted - Data center	(1,387)	(1,571)	(5,734)	(5,009)
Headquarters costs	(991)	(522)	(2,776)	(1,431)
Share based compensation	(280)	(553)	(940)	(1,116)
Depreciation and amortization	(779)	(712)	(2,620)	(1,731)
Operating income	1,953	1,723	3,235	1,972

Statement by the Board of Directors and Management

The Board of Directors and the Management have considered and adopted the Interim Report of Asetek A/S for the period 1 January – 30 September 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, 23 October 2018

Management:

André S. Eriksen CEO	Peter Dam Madsen CFO

Board of Directors:

Sam Szteinbaum Chairman	Jørgen Smidt Member
Chris J. Christopher Vice chairman	Jim McDonnell Member

Contact:

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