Asetek A/S

Interim Report

Three Months Ended March 31, 2019

Published April 30, 2019

Company Registration (CVR) Number 34880522

Highlights

- **Q1 revenue of $11.2 million, reflecting a softer PC market**
- **Gross margin grew to 43%, up from 36% in Q1 2018**
- **Q1 EBITDA adjusted of $0.3 million compared to $0.9 million in Q1 2018**
- **Group revenue growth expectation maintained at between 0% to 10% in 2019 from 2018**
- **Improvement in the Gaming and Enthusiast market seen in Q2 2019**

Key figures

Figures in USD (000's)	**Q1 2019**	**Q1 2018**	**2018**
Total Company:	*Unaudited*	*Unaudited*	
Revenue	11,179	13,868	67,314
Gross profit	4,769	4,955	26,172
Gross margin	*42.7%*	*35.7%*	*38.9%*
Operating profit	(1,026)	(382)	4,419
Reconciliation from IFRS to EBITDA adjusted:			
Operating profit	(1,026)	(382)	4,419
Add: Depreciation and amortization*	1,023	848	3,690
Add: Share based compensation	318	413	1,276
EBITDA adjusted (unaudited)	315	879	9,385
By Segment (Unaudited):			
Gaming and Enthusiast:			
Gaming and Enthusiast revenue	*10,472*	*13,208*	*63,030*
Gaming and Enthusiast gross margin	*43.2%*	*36.7%*	*39.5%*
Gaming and Enthusiast EBITDA adjusted	*2,839*	*4,026*	*20,737*
Datacenter:			
Datacenter revenue	*707*	*660*	*4,284*
Datacenter gross margin	*34.5%*	*15.5%*	*29.6%*
Datacenter EBITDA adjusted	*(1,318)*	*(2,286)*	*(7,338)*
Headquarters:			
*Headquarters costs***	*(1,206)*	*(861)*	*(4,014)*

**Depreciation in Q1 2019 includes $140,000 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 first quarter revenue of $11.2 million compared with $13.9 million in the same period of 2018. The change from 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 first quarter was 43%, an increase from 36% in the first quarter of 2018. The effect of higher average selling prices on new, high-performance products and a stronger U.S. Dollar favorably impacted gross margin in the first quarter 2019.
- Operating loss totaled $1.0 million and Adjusted EBITDA was $0.3 million in the first quarter of 2019, compared with operating loss of $0.4 million and Adjusted EBITDA of $0.9 million in the first quarter of 2018. Operating expense increased during the quarter mainly due to higher litigation costs associated with defending intellectual property.
- On January 1, 2019, the Company adopted IFRS 16 Leases, which requires the recognition of operating leases on the balance sheet. As a result, the Group's lease liabilities and corresponding leased assets increased by $3.2 million. In the first quarter 2019, the accounting change resulted in depreciation recorded of $140,000 that was previously considered other operating expense. Refer to Note 2 to the Financial Statements.

Operations

- The Company launched its highest performance all-in-one liquid cooler, designed in collaboration with Intel and approved for the Intel Xeon W-3175X processor. The Asetek 690LX-PN liquid cooler features extreme performance to enable overclocking up to 500 watts and provides stable operation for demanding workloads.
- At its Denmark headquarters, Asetek launched a new gaming/Esports academy outfitted with high-end machines, state-of-the-art gear and high-speed connectivity. The academy enables the Company to connect with its roots and provide ambitious gamers with the technology, tools and comfort to excel in their craft.
- In March, the Company executed a rebranding to strengthen its Gaming and Enthusiast market position as well as increase awareness of Asetek and its story of innovation in delivering the best in performance, quality and reliability. As part of this rebranding, the Company initiated launch of a redesigned corporate website.

Financial results by segment

- Gaming and Enthusiast revenue was $10.5 million, compared with $13.2 million in the same period of 2018. Operating profit from the Gaming and Enthusiast segment was $2.8 million for the quarter, reflecting decline from the first quarter of 2018 due to fewer shipments in 2019.
- Data center revenue was $0.7 million, level with the first quarter of 2018. Operating loss from the data center segment was $1.3 million for the first quarter of 2019. This compares with loss of $2.3 million in the same period of 2018. 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 reiterates its expectation for Group revenue growth of 0% to 10% for 2019 compared to 2018. The revenue expectation reflects macro-economic uncertainties that temper the Gaming and Enthusiast growth outlook compared to recent prior years and a protracted data center market adoption of liquid cooling solutions. While first-quarter results reflect the above-mentioned uncertainties, Asetek is seeing an improvement in the Gaming and Enthusiast market in the second quarter of 2019. The Company has decided to discontinue segment revenue guidance until the data center business more clearly develops into a meaningful and predictable business.

Financial review

The figures below relate to the consolidated accounts for the first quarter 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 $11.2 million in the first quarter of 2019, a decrease from the first quarter of 2018 ($13.9 million) due to reduced unit shipments in the Enthusiast/DIY market.

Gaming and Enthusiast sales unit volumes for the first quarter of 2019 were 182,000, a decrease of 27% from the same period of 2018 (248,000), reflecting a softer Enthusiast/DIY market in early 2019. Average selling price (ASP) per unit in the first quarter 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 42.7% for the first quarter of 2019, from 35.7% in the same period of 2018. The increase reflects higher ASPs on Gaming and Enthusiast products as well as a stronger U.S. dollar in the first quarter of 2019.

Total operating expense of $5.8 million increased in the first quarter of 2019 when compared with the same period of 2018 ($5.3 million), mainly due to higher legal costs associated with defense of existing intellectual property (IP) and securing new IP. These costs totaled $0.7 million in the first quarter of 2019 ($0.3 million in the same period of 2018). In recent periods, the Company has added personnel resulting in slightly higher compensation costs for the first quarter of 2019, when compared with 2018. These increases were partly offset by favorable currency effects of a 6% stronger U.S. Dollar, on average, against the Danish krone (DKK) during the first quarter of 2019 compared with the prior year quarter.

Share based compensation cost associated with warrants and options issued to employees was $0.3 million in the first quarter of 2019 ($0.4 million in the same period of 2018).

Finance expenses included net foreign exchange gain of $0.2 million in the first quarter (loss of $0.6 million in the same period of 2018). Currency translation adjustment of negative $0.3 million is included in equity for the first quarter 2019 ($0.9 million positive translation adjustment in first quarter of 2018).

Asetek reported loss before tax of $0.8 million in the first quarter of 2019, compared with loss before tax of $1.0 million for the first quarter of 2018.

Balance Sheet (Consolidated)

Asetek's total assets at March 31, 2019 amounted to $51.4 million, level with December 31, 2018. Cash increased by $2.7 million and an accounting policy change resulted in $3.2 million of additional capitalized leased assets (see Note 2 to the Financial Statements) during the first quarter. These increases were offset by lower trade receivables.

Total liabilities increased by $0.8 million in the first quarter, resulting from an accounting change increase of $3.2 million in capitalized lease liabilities (see Note 2 to the Financial Statements), offset by the payment of accrued liabilities and trade payables.

Working capital (current assets minus current liabilities) decreased by $1.0 million during the first quarter to $24.3 million at March 31, 2019. Approximately half of the decrease in working capital is due to the increase in current lease liabilities associated with the aforementioned change in accounting policy. Total cash and cash equivalents was $21.3 million at March 31, 2019.

Cash Flow (Consolidated)

Net cash provided by operating activities was $3.6 million in the first quarter, compared with $0.3 million used by operating activities in the same period of 2018. The change from 2018 was principally due to a higher value of short-term assets converted to cash and lower value of current liabilities paid during the first quarter 2019 compared with the same period of 2018.

Cash used by investing activities was $0.8 million in the first quarter, mainly related to additions of capital equipment and capitalized development. This figure compares to $1.2 million used in 2018.

Cash used by financing activities was $0.1 million in the first quarter, 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 quarter of 2018, Cash provided by financing activities was $0.3 million, reflecting principally proceeds from the issuance of shares upon exercise of warrants.

Net change in cash and cash equivalents was an increase of $2.7 million in the first quarter of 2019, compared with a decrease of $0.7 million in the first quarter 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 - First Quarter

Figures in USD (000's)	Gaming and Enthusiast		Data center	
	Q1 2019	Q1 2018	Q1 2019	Q1 2018
Revenues	10,472	13,208	707	660
Cost of sales	5,947	8,355	463	558
Gross Profit	4,525	4,853	244	102
Gross Margin	43.2%	36.7%	34.5%	15.5%
Total operating expenses	1,686	827	1,562	2,388
EBITDA adjusted	2,839	4,026	(1,318)	(2,286)
EBITDA margin	27.1%	30.5%	N/A	N/A

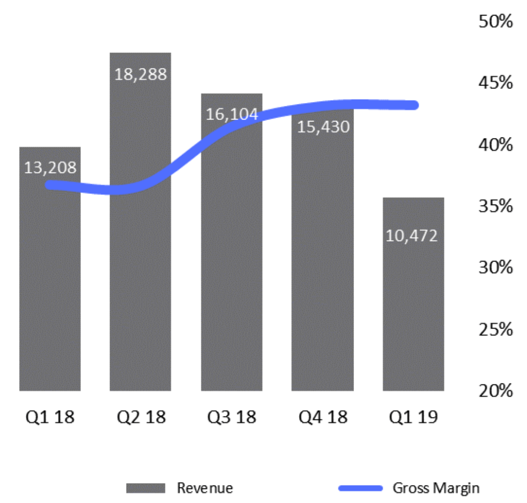
Headquarters Costs

Figures in USD (000's)	Q1 2019	Q1 2018
Litigation costs	697	325
Other headquarters costs	509	536
Total headquarters costs	1,206	861

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

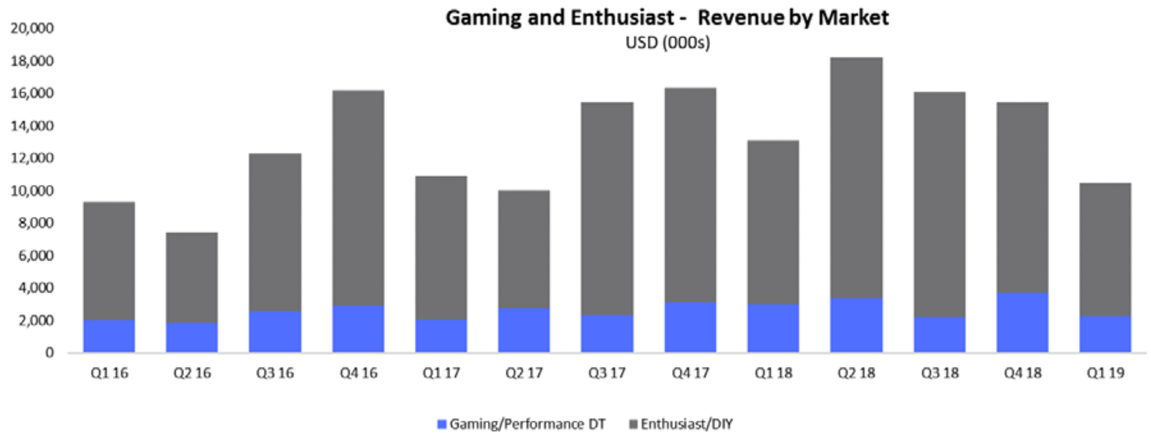
Gaming and Enthusiast financials

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



Asetek's Gaming and Enthusiast revenue was $10.5 million in the first quarter of 2019. Revenue from the Enthusiast/DIY and Gaming/Performance PC markets comprised 78% and 22% 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 has increased over six percentage points since the second quarter of 2018.



Gaming and Enthusiast market update

During the first quarter, seven new Gaming and Enthusiast products began shipping, one in the Enthusiast/DIY market and six in the Gaming/Performance PC market.

In the first quarter of 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, the Company initiated launch of a redesigned corporate website.

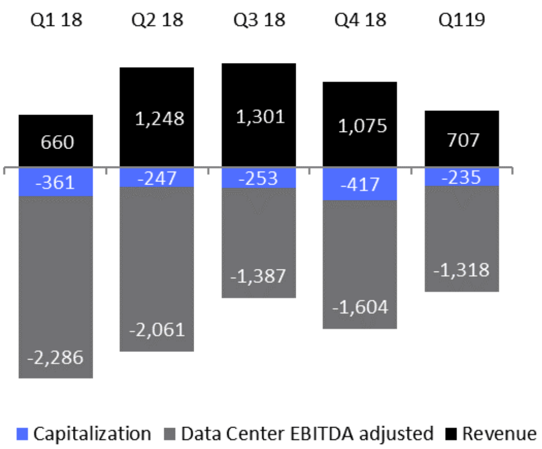
At its Denmark headquarters, Asetek launched a new gaming/Esports academy outfitted with high-end machines, state-of-the-art gear and high-speed connectivity. The academy enables the Company to connect with its roots and provide ambitious gamers with the technology, tools and comfort to excel in their craft. The academy will function as a marketing and branding tool for Asetek, where several eSport tournaments will be held over the coming years.

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.

The worldwide high-end gaming population is expected to exceed 29 million users by 2020[1], representing annual growth of more than 5%. A growing market and potential for increased market penetration for liquid cooling support Asetek's expectations of continued growth from its Gaming and Enthusiast segment in the future.

Data center financials

Financial development
USD (000's)



Asetek's data center revenue was $0.7 million in the first quarter of 2019, level with the same period of 2018. Revenue in the first quarter, when compared with recent quarters, reflects fewer shipments to OEMs and reduced activity on government contracts. Revenue variability is expected to continue while the Company secures new OEM partners and growth of end-user adoption through existing OEM partners.

Data center gross margin improved in the first quarter of 2019 compared with first quarter 2018 due to previously high component costs that reduced the margin in 2018. Historically, 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.

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 strategy in this market is to increase end-user adoption with 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.

During the first quarter, Asetek continued shipments of its latest generation of direct-to-chip (D2C) liquid cooling, incorporated in new Intel® Compute Modules, for an OEM's HPC cluster at a U.S. Defense contractor. The deployment utilizes Asetek InRackCDU to capture and remove heat from the system nodes.

[1] Source: John Peddie Research

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.

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, and four of them are in the Top500.

Group and segment outlook

Asetek expects Group revenue growth of 0% to 10% for 2019 compared with 2018. The revenue expectation reflects macro-economic and industry related uncertainties that temper the Gaming and Enthusiast growth outlook and a protracted data center market adoption of liquid cooling solutions.

Gaming and Enthusiast. The current visibility into the overall PC industry outlook is reduced by uncertainties related to trade relations between U.S. and 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 growth in 2019 to be tempered compared with recent years' strong growth. The resource consumption, as expressed in overhead expenses, is expected to increase in 2019 compared to 2018.

While first-quarter results reflect the above-mentioned factors, Asetek is seeing an improvement in the Gaming and Enthusiast market in the second quarter of 2019.

Second-quarter 2019 Enthusiast/DIY and Gaming/Performance PC revenue is expected to decline from the respective record levels achieved in the second quarter of 2018 but improve from the level achieved in the first quarter of 2019. Revenue variability by quarter is expected to continue.

The Company expects Gaming and Enthusiast gross margin in the second quarter of 2019 to decline modestly from the gross margin in the first quarter of 2019.

Data center. Through partnerships with data center OEMs, Asetek anticipates continued growth of end-user adoption with deliveries to new HPC installations and shipments of less complex products.

However, Data center market adoption of liquid cooling solutions takes time and is lagging Company expectations despite its strong value proposition. The Company has 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 therefore 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 CO2 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. On October 22, 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 on November 2, 2018 to a higher court and initiated an action to invalidate Asetek's patent in the Beijing IP Court on February 1, 2019. Oral arguments were heard in the appeal on March 18, 2019. This case is in its 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, by decision on September 20, 2017, the Court dismissed Asetek's claim. Asetek appealed the decision, the parties exchanged their arguments, and the case is due for judgment. The case against Coolergiant has been stayed, pending final judgment in the Cooler Master 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. The appeal is pending, and the next hearing date has not yet been set.

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.
- Except for Jim McDonnell, the existing members of the Board of Directors made themselves available for re-election. 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 members are Ib Sønderby, Claus Berner Møller, 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.

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 quarter of 2019, two customers in the Enthusiast/DIY segment accounted for 30% and 24% 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 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 Gaming and Enthusiast 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 March 31, 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)	Q1 2019	Q1 2018	2018
	Unaudited	*Unaudited*	
Revenue	$ 11,179	$ 13,868	$ 67,314
Cost of sales	6,410	8,913	41,142
Gross profit	4,769	4,955	26,172
Research and development	1,255	1,122	4,764
Selling, general and administrative	4,540	4,215	16,989
Total operating expenses	5,795	5,337	21,753
Operating income	(1,026)	(382)	4,419
Foreign exchange (loss) gain	164	(570)	342
Finance income (costs)	48	(10)	109
Total financial income (expenses)	212	(580)	451
Income before tax	(814)	(962)	4,870
Income tax (expense) benefit	(7)	-	(1,198)
Income for the period	(821)	(962)	3,672
Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:			
Foreign currency translation adjustments	(330)	917	(169)
Total comprehensive income	$ (1,151)	$ (45)	$ 3,503
Income per share (in USD):			
Basic	$ (0.03)	$ (0.04)	$ 0.14
Diluted	$ (0.03)	$ (0.04)	$ 0.14

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

Consolidated Balance Sheet

Figures in USD (000's)	31 March 2019	31 Dec 2018
ASSETS	*Unaudited*	
Non-current assets		
Intangible assets	$ 2,258	$ 2,414
Property and equipment	7,238	4,103
Deferred income tax assets	7,346	7,458
Other assets	303	309
Total non-current assets	17,145	14,284
Current assets		
Inventory	2,518	2,862
Trade receivables and other	10,473	15,625
Cash and cash equivalents	21,279	18,627
Total current assets	34,270	37,114
Total assets	$ 51,415	$ 51,398
EQUITY AND LIABILITIES		
Equity		
Share capital	$ 422	$ 422
Retained earnings	37,227	37,704
Translation and other reserves	502	832
Total equity	38,151	38,958
Non-current liabilities		
Long-term debt	3,276	641
Total non-current liabilities	3,276	641
Current liabilities		
Short-term debt	1,493	980
Accrued liabilities	2,025	2,185
Accrued compensation & employee benefits	1,055	1,512
Trade payables	5,415	7,122
Total current liabilities	9,988	11,799
Total liabilities	13,264	12,440
Total equity and liabilities	$ 51,415	$ 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 - quarter ended March 31, 2019					
Income for the period	-	-	-	(821)	(821)
Foreign currency translation adjustments	-	(330)	-	-	(330)
Total comprehensive income - quarter ended March 31, 2019	-	(330)	-	(821)	(1,151)
Transactions with owners - quarter ended March 31, 2019					
Shares issued	-	-	-	26	26
Share based payment expense	-	-	-	318	318
Transactions with owners - quarter ended March 31, 2019	-	-	-	344	344
Equity at March 31, 2019	$ 422	$ 506	$ (4)	$ 37,227	$ 38,151

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 - quarter ended March 31, 2018					
Income for the period	-	-	-	(962)	(962)
Foreign currency translation adjustments	-	917	-	-	917
Total comprehensive income - quarter ended March 31, 2018	-	917	-	(962)	(45)
Transactions with owners - quarter ended March 31, 2018					
Shares issued	2	-	1	407	410
Share based payment expense	-	-	-	413	413
Transactions with owners - quarter ended March 31, 2018	2	-	1	820	823
Equity at March 31, 2018	$ 421	$ 1,922	$ (5)	$ 31,834	$ 34,172

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

Consolidated Cash Flow Statement

Figures in USD (000's)	Q1 2019	Q1 2018	2018
	Unaudited	*Unaudited*	
Cash flows from operating activities			
Income for the period	$ (821)	$ (962)	$ 3,672
Depreciation and amortization	1,023	848	3,690
Finance income	(59)	(14)	(205)
Finance costs	11	24	96
Income tax expense (benefit)	7	-	1,198
Cash receipt (payment) for income tax	-	-	(118)
Share based payments expense	317	413	1,276
Changes in trade receivables, inventories, other assets	5,244	3,412	(3,502)
Changes in trade payables and accrued liabilities	(2,127)	(4,004)	(2,264)
Net cash provided by (used in) operating activities	3,595	(283)	3,843
Cash flows from investing activities			
Additions to intangible assets	(360)	(482)	(1,745)
Purchase of property and equipment	(420)	(749)	(1,914)
Net cash used in investing activities	(780)	(1,231)	(3,659)
Cash flows from financing activities			
Funds drawn (paid) against line of credit	33	12	(6)
Proceeds from issuance of share capital	25	410	782
Principal payments on capitalized leases	(165)	(103)	(321)
Net cash provided by (used in) financing activities	(107)	319	455
Effect of exchange rate changes on cash and cash equivalents	(56)	529	(410)
Net changes in cash and cash equivalents	2,652	(666)	229
Cash and cash equivalents at beginning of period	18,627	18,398	18,398
Cash and cash equivalents at end of period	$ 21,279	$ 17,732	$ 18,627
Supplemental disclosures -			
Property and equipment acquired under leases	$ 119	$ -	$ 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 ended March 31, 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. 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 quarter 2019, the accounting change resulted in recognition of depreciation expense of $140,000 and finance cost of $23,000. 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 $126,000 and cash flow from financing activities decreased by $126,000 in the first quarter 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 March 31, 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 2.2 million. Share based payment expense associated with total warrants and options outstanding was $0.3 million and $0.4 million in the three months ended March 31, 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 quarter of 2019, the Company capitalized approximately $0.4 million of development costs and recorded amortization of approximately $0.5 million (capitalized costs of $0.5 million and amortization of $0.5 million in the first quarter 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.

First Quarter

	Q1 2019	Q1 2018
Income attributable to equity holders of the Company (USD 000's)	$ (821)	$ (962)
Weighted average number of common shares outstanding (000's)	25,544	25,254
Basic income per share	$ (0.03)	$ (0.04)
Weighted average number of common shares oustanding (000's)	25,544	25,254
Instruments with potentially dilutive effect:		
Warrants and options	-	-
Weighted average number of common shares oustanding, diluted	25,544	25,254
Diluted income per share	$ (0.03)	$ (0.04)

Potentially dilutive instruments are not included in the calculation of diluted loss per share for the periods presented because the effect of including them would be anti-dilutive.

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 quarter of 2019, the Group purchased services totaling approximately $159,000 ($145,000 in first quarter of 2018) from this vendor. At March 31, 2019 and 2018, the Group had outstanding payables to this vendor of $40,000 and $67,000, 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 March 31, 2019, the Company has deferred tax assets of $7.3 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)	Q1 2019	Q1 2018
Gaming and Enthusiast segment:		
Enthusiast/DIY	8,177	10,080
Gaming/Performance PCs	2,295	3,128
Data center segment:		
OEM	707	621
Government	-	39
Total revenue	11,179	13,868

Unaudited breakdown of the income statement

Operations - First Quarter

Figures in USD (000's)	Gaming and Enthusiast		Data center	
	Q1 2019	Q1 2018	Q1 2019	Q1 2018
Revenues	10,472	13,208	707	660
Cost of sales	5,947	8,355	463	558
Gross Profit	4,525	4,853	244	102
Gross Margin	43.2%	36.7%	34.5%	15.5%
Total operating expenses	1,686	827	1,562	2,388
EBITDA adjusted	2,839	4,026	(1,318)	(2,286)
EBITDA margin	27.1%	30.5%	N/A	N/A

Headquarters Costs

Figures in USD (000's)	Q1 2019	Q1 2018
Litigation costs	697	325
Other headquarters costs	509	536
Total headquarters costs	1,206	861

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

Reconciliation to Operating Income

Figures in USD (000's)	Q1 2019	Q1 2018
EBITDA, adjusted - Gaming and Enthusiast	2,839	4,026
EBITDA, adjusted - Data center	(1,318)	(2,286)
Headquarters costs	(1,206)	(861)
Share based compensation	(318)	(413)
Depreciation and amortization	(1,023)	(848)
Operating income	(1,026)	(382)

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 – 31 March 2019. 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 2018, except as noted in Note 1.

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, 29 April 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
Member

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