Asetek A/S

CVR No. 34880522

Quarterly Report

Quarter ended March 31, 2018

Published April 25, 2018

Highlights

- **Q1 revenue growth of 21% driven by high-end gaming cooling demand**
- **Q1 EBITDA adjusted of USD 0.9 million**
- **Surpassed total of 5 million sealed loop coolers shipped since inception**
- **Collaboration with Intel announced on data center liquid cooling products for high performance Intel processors**
- **Increasing expectations for 2018 desktop revenue growth over 2017 to 10% to 20%; adjusting data center revenue expectations to flat development year-over-year**

Key figures

Figures in USD (000's)	**Q1 2018**	**Q1 2017**	**2017**
Total Company:	*Unaudited*	*Unaudited*	
Revenue	13,868	11,471	58,194
Gross profit	4,955	4,415	20,969
Gross margin	*35.7%*	*38.5%*	*36.0%*
Operating profit	(382)	279	2,757
Reconciliation from IFRS to EBITDA adjusted:			
Operating profit	(382)	279	2,757
Add: Depreciation and amortization	848	388	2,430
Add: Share based compensation	413	72	1,597
EBITDA adjusted (unaudited)	879	739	6,784
By Segment (Unaudited):			
Desktop:			
Desktop revenue	*13,208*	*11,054*	*53,227*
Desktop gross margin	*36.7%*	*38.6%*	*37.1%*
Desktop EBITDA adjusted	*4,026*	*3,384*	*15,991*
Datacenter:			
Datacenter revenue	*660*	*417*	*4,967*
Datacenter gross margin	*15.5%*	*36.7%*	*24.2%*
Datacenter EBITDA adjusted	*(2,286)*	*(1,800)*	*(7,273)*
Headquarters:			
*Headquarters costs**	*(861)*	*(845)*	*(1,934)*

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

Highlights

Financial results

- Asetek reported first quarter revenue of $13.9 million, a 21% increase from the same period of 2017 and record level for the Company in a first quarter. The growth from prior year reflects an increase in desktop revenue driven by shipments in the Do-It-Yourself (DIY) and Gaming/Performance Desktop PC markets.
- Gross margin for the first quarter was 36%, compared with 38% in the first quarter of 2017 and 34% in the fourth quarter 2017.
- EBITDA adjusted was $0.9 million in the first quarter 2018, an increase from $0.7 million in the first quarter 2017. Loss before tax totaled $1.0 million in the first quarter 2018 compared with income before tax of $0.2 million in the prior year period. First quarter 2018 results reflect increased costs associated with the continued weakening of the U.S. dollar, investments in capital assets, and share based compensation.

Operations

- Asetek shipped 245,000 desktop units in the first quarter. Total shipments of sealed loop coolers since the Company's inception surpassed five million in the quarter.
- The Company announced an ongoing collaboration with Intel Corporation's Product Collaboration and Systems Division (PCSD) to provide liquid cooling of density-optimized Intel® Compute Modules supporting high-performance Intel® Xeon® Scalable processors. Asetek expects this collaboration to result in new product offerings in 2018 and deliver future data center revenue.

Financial results by segment

- Desktop revenue was $13.2 million in the first quarter, an increase of 19% from the same period of 2017. Operating profit from the desktop segment was $4.0 million, up from $3.4 million in the same period last year, on higher DIY product sales.
- Data center revenue was $0.7 million compared with $0.4 million in the prior year. Variability in operating results is expected while the Company secures new OEM partners and growth of end-user adoption through existing OEM partners.
- Operating loss from the data center segment was $2.3 million for the first quarter of 2018 compared with loss of $1.8 million in the same period last year. The results reflect continued implementation of Asetek's data center strategy with investments in technology development, product marketing and sales activities.

Outlook

- Asetek changes its annual outlook for the full year 2018: Expectations for desktop revenue growth over 2017 is increased to 10% to 20%, from previously 5% to 15%. Data center revenue expectations are revised to a flat development in 2018 over 2017, from previously growth of 50% to 75%. Overall, the Company expects minimal growth in spending and continued investments in the data center business.

Financial review

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

Income Statement (Consolidated)

Asetek reported revenue of $13.9 million in the first quarter of 2018, a 21% increase from the same period last year ($11.5 million). The growth was driven principally by shipments in the Gaming/Performance Desktop PC market.

Sales unit volumes for the first quarter were 245,000, a 10% increase from the same period of 2017 (224,000). Average selling price (ASP) per unit for the quarter grew compared with the first quarter of 2017, reflecting the Company's proactive raising of sales prices as well as a change in the mix of products sold.

Gross margin was 35.7% for the first quarter of 2018, compared with 38.5% for the first quarter of 2017. The change in gross margin reflects the weakening of the U.S. dollar and increased manufacturing costs, partly offset by Asetek's higher sales prices.

Operating expense increased in the first quarter of 2018 due to several factors. Compared with the first quarter 2017, the U.S. dollar weakened by 12% against the Danish krone (DKK). Approximately three-quarters of the Company's operating expense is denominated in DKK. Asetek has added capital assets in recent quarters to support the Company's growth. As a result, depreciation and amortization grew to $0.8 million in the quarter, compared with $0.4 million in the same period of 2017. Share based compensation costs associated with the issuance of warrants increased to $0.4 million in the first quarter of 2018 compared with $0.1 million in the same period of last year.

Finance expenses during the first quarter includes net foreign exchange loss of $0.6 million, compared with net foreign exchange loss of $0.1 million in the same period of 2017. The loss was mainly a function of the weakening of the U.S. dollar against the DKK in the quarter. The effect was offset by a positive currency translation adjustment of $0.9 million included in equity at March 31, 2018.

Asetek had loss before tax of $1.0 million in the first quarter of 2018, compared with income before tax of $0.2 million in the same period of 2017.

Balance Sheet (Consolidated)

Asetek's total assets at March 31, 2018 amounted to $46.2 million, a $3.0 million decrease from December 31, 2017. The change in assets resulted principally from the use of cash flows to pay down short-term liabilities, including payables to suppliers, during the quarter.

Total liabilities decreased $3.7 million from December 31, 2017. Working capital (current assets minus current liabilities) was $18.7 million at March 31, 2018, compared with $19.0 million at December 31, 2017. Total cash and cash equivalents was $17.7 million at March 31, 2018.

Cash Flow (Consolidated)

Net cash used by operating activities was $0.3 million for the first quarter of 2018, compared with $0.8 million used by operating activities in the same period of 2017.

Cash used by investing activities was $1.2 million, related principally to additions in property and equipment and capitalized development assets. This figure compares to $0.6 million used in the first quarter of 2017.

Cash provided by financing activities was $0.3 million in the first quarter of 2018, representing principally cash received from the exercise of warrants and options by employees, partly offset by payments on finance leases. This compared with $61,000 provided in the first quarter of 2017.

Net change in cash and cash equivalents was negative $0.7 million in the first quarter, compared with negative $1.4 million in the same period of 2017.

Segment breakdown

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

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

Unaudited breakdown of the income statement

Operations - First Quarter

Figures in USD (000's)	Desktop		Data center	
	Q1 2018	Q1 2017	Q1 2018	Q1 2017
Revenues	13,208	11,054	660	417
Cost of sales	8,355	6,792	558	264
Gross Profit	4,853	4,262	102	153
Gross Margin	36.7%	38.6%	15.5%	36.7%
Total operating expenses	827	878	2,388	1,953
EBITDA adjusted	4,026	3,384	(2,286)	(1,800)
EBITDA margin	30.5%	30.6%	N/A	N/A

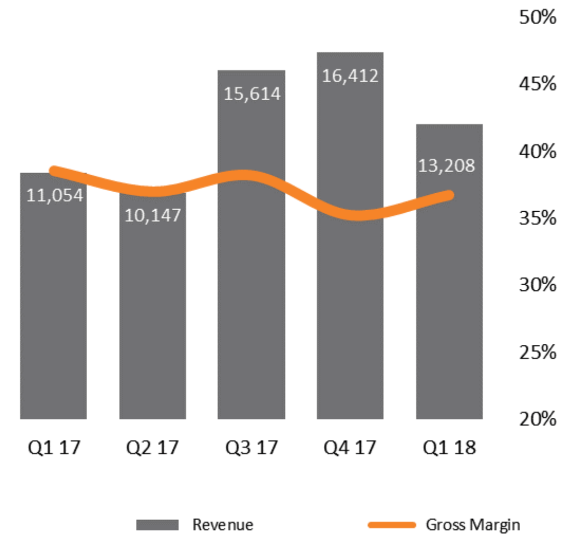
Headquarters Costs

Figures in USD (000's)	Q1 2018	Q1 2017
Litigation costs	325	549
Other headquarters costs	536	296
Total headquarters costs	861	845

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

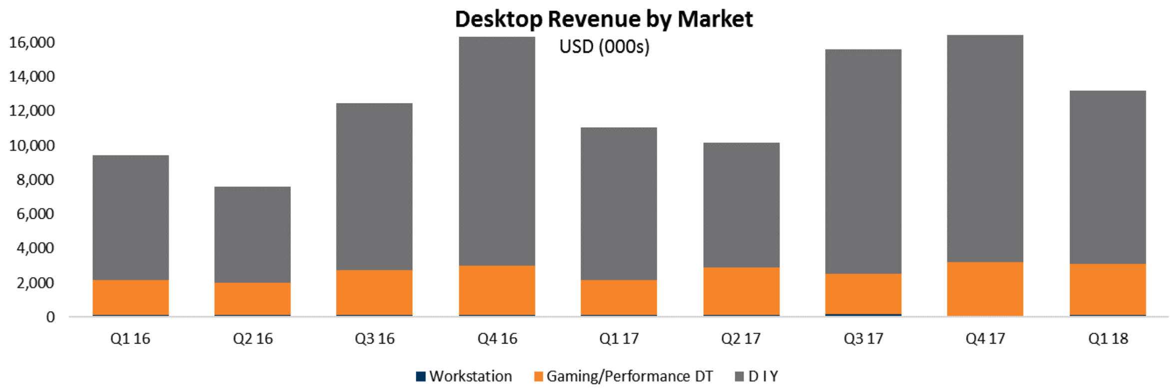
Desktop financials

Desktop revenue and margin development
USD (000's)



Asetek desktop revenue was $13.2 million in the first quarter of 2018, an increase of 19% from the first quarter of 2017. The increase resulted from growth in demand from the Gaming/Performance Desktop PC market, and continued growth in the Do-it-yourself (DIY) market. In the first quarter of 2018, revenue from the DIY, Gaming/Performance Desktop PC and Workstation markets comprised 76%, 23% and 1%, respectively of total desktop revenue.

In recent quarters, Asetek has proactively raised sales prices to compensate for manufacturing cost pressure and the weakening of the U.S. dollar. As a result, desktop gross margin improved in the first quarter 2018 compared with the fourth quarter of 2017.



Desktop market update and outlook

During the first quarter, two new desktop products began shipping – one in the DIY market and one in the Gaming/Performance Desktop PC market.

Asetek expects second quarter 2018 revenue in the DIY market to increase significantly from the level achieved in the second quarter of 2017. Second quarter revenue in the Gaming/Performance Desktop PC market is expected to increase moderately compared with the same period of 2017. In total, the second quarter revenue growth is expected to exceed 50% over the same period in 2017.

Quarterly revenue variability is expected to continue. The Company's expectations for the full year 2018 are increased to revenue growth in the range of 10% to 20%, from previously 5% to 15%, within its desktop segment when compared with 2017.

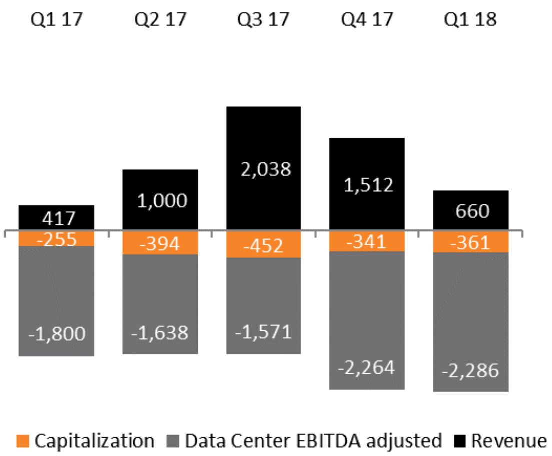
Gross margin in the second quarter of 2018 is expected to be comparable to gross margin in the first quarter of 2018.

Overall, the DIY and Gaming/Performance Desktop PC markets continue to grow as a result of various factors, including the continuous influx of new, more powerful technologies, recurring releases of popular, high profile computer games, and the emergence of eSports. The growth is also driven by customers' desire for a more immersive gaming experience, which is increasing demand for new technologies such as 4K screen resolution and virtual reality capability. These new technologies require high performing graphics processors (GPUs), which also demand advanced cooling. Asetek expects continued growth from the desktop 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 2018, representing 58% growth when compared with the same period of 2017. The growth reflects increased shipments to OEMs, partly offset by a decrease in shipments on government contracts. Variability in revenue is expected while the Company adds new OEM partners and growth of end-user adoption through existing OEM partners. Data center revenue in the first quarter did not meet Company expectations.

Data center gross margin decreased in the first quarter of 2018 compared with the same period of 2017 due to increased component costs. Gross margin has also fluctuated in part due to variability in the mix of deliverables on government contracts relative to the volume of product shipments to OEMs. This variability is expected to continue in 2018.

While Asetek continues to implement its data center strategy, costs are driven by investments in technology development, product marketing, and sales development with data center partners and OEM customers.

Data center market update and outlook

In March 2018, the Company announced an ongoing collaboration with Intel Corporation's Product Collaboration and Systems Division (PCSD) to provide liquid cooling of density-optimized Intel® Compute Modules supporting high-performance Intel® Xeon® Scalable processors. Asetek expects this collaboration to result in new product offerings in 2018 and deliver future data center revenue.

Through partnerships with data center OEMs, the Company is growing its end-user adoption with technology deployed to new HPC installations. In the first quarter, Asetek completed shipment of an order from OEM partner Fujitsu for RackCDU Direct-to-Chip for the AI Bridging Cloud Infrastructure at National Institute of Advanced Industrial Science and Technology. This cluster is expected to become the fastest supercomputer in Japan. Also in the quarter, the Company announced a $0.4 million order from Fujitsu for the Institute of Fluid Science at Tohoku University in Japan. The supercomputing system will consist of multiple computational sub-systems using the latest liquid-cooled Fujitsu PRIMERGY x86 servers, and is planned to deliver a peak theoretical performance exceeding 2.7 petaflops.

Progress on Asetek's three-year contract with the U.S. Department of Defense (DoD) continued in the first quarter, principally from installation activities at an unnamed data center site. 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 eight of the world's most powerful and efficient supercomputers listed in the November 2017 Top500 and Green500.

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 Oakforest-PACS, one of the most powerful supercomputers in Japan, as well as QPACE3 owned by the University of Regensburg Germany. Both systems are ranked in the Top500 and Green500.

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.

Asetek's strategy in the data center market is to increase end-user adoption within existing OEM customers, and to add new OEM customers. The Company plans to achieve this by continuing to develop and defend its market-leading technology and leverage the successful performance achieved at its installed base of universities, enterprises and government entities.

The Company's expectations for the data center segment are revised to a flat development in 2018 over 2017, from previously expecting growth of 50% to 75%. The overhead expenses are expected to increase slightly compared to 2017. Future revenue and operating results are however 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 has appealed the decision. The case against Coolergiant has been stayed awaiting the final decision on validity of the invoked patent 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, where the case is proceeding. The Court has scheduled a settlement conference in June 2018.

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 quarter of 2018, one customer accounted for 40% of total revenue. In the event of a decline or loss of this significant customer, replacement of this revenue stream would be difficult for Asetek to achieve in the short term. Asetek is actively pursuing strategies to broaden its customer base in efforts to mitigate this risk, and has generated increasing rates of revenue growth from other customers.

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

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

Asetek operates internationally in Denmark, USA, China, and Taiwan and is subject to foreign exchange risk. As of March 31, 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

Interim Financial Statements

Consolidated Statement of Comprehensive Income

Figures in USD (000's)	Q1 2018	Q1 2017	2017
	Unaudited	*Unaudited*	
Revenue	$ 13,868	$ 11,471	$ 58,194
Cost of sales	8,913	7,056	37,225
Gross profit	4,955	4,415	20,969
Research and development	1,122	883	4,220
Selling, general and administrative	4,215	3,253	14,905
Other expense (income)	-	-	(913)
Total operating expenses	5,337	4,136	18,212
Operating income	(382)	279	2,757
Foreign exchange (loss) gain	(570)	(110)	(1,239)
Finance costs	(10)	(9)	(19)
Total financial income (expenses)	(580)	(119)	(1,258)
Income before tax	(962)	160	1,499
Income tax (expense) benefit	-	(9)	2,976
Income for the period	(962)	151	4,475
Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:			
Foreign currency translation adjustments	917	(6)	1,253
Total comprehensive income	$ (45)	$ 145	$ 5,728
Income per share (in USD):			
Basic	$ (0.04)	$ 0.01	$ 0.18
Diluted	$ (0.04)	$ 0.01	$ 0.17

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

Consolidated Balance Sheet

Figures in USD (000's)		31 Mar 2018		31 Dec 2017
ASSETS		*Unaudited*		
Non-current assets				
Intangible assets	$	2,771	$	2,754
Property and equipment		4,359		3,856
Deferred income tax assets		8,386		7,778
Other assets		736		794
Total non-current assets		16,252		15,182
Current assets				
Inventory		1,775		2,316
Trade receivables and other		10,460		13,280
Cash and cash equivalents		17,732		18,398
Total current assets		29,967		33,994
Total assets	$	46,219	$	49,176
EQUITY AND LIABILITIES				
Equity				
Share capital	$	421	$	419
Retained earnings		31,834		31,976
Translation and other reserves		1,917		999
Total equity		34,172		33,394
Non-current liabilities				
Long-term debt		733		816
Total non-current liabilities		733		816
Current liabilities				
Short-term debt		1,097		1,051
Accrued liabilities		2,245		2,432
Accrued compensation & employee benefits		1,219		1,335
Trade payables		6,753		10,148
Total current liabilities		11,314		14,966
Total liabilities		12,047		15,782
Total equity and liabilities	$	46,219	$	49,176

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

Consolidated Cash Flow Statement

Figures in USD (000's)	Q1 2018	Q1 2017	2017
	Unaudited	*Unaudited*	
Cash flows from operating activities			
Income for the period	$ (962)	$ 151	$ 4,475
Depreciation and amortization	848	388	2,430
Finance costs	10	8	19
Income tax expense (benefit)	-	9	(2,976)
Impairment of intangible assets	-	-	5
Cash receipt (payment) for income tax	-	(9)	(43)
Share based payments expense	413	72	1,597
Changes in trade receivables, inventories, other assets	3,412	4,353	693
Changes in trade payables and accrued liabilities	(4,004)	(5,769)	(75)
Net cash provided by (used in) operating activities	(283)	(797)	6,125
Cash flows from investing activities			
Additions to intangible assets	(482)	(391)	(2,426)
Purchase of property and equipment	(749)	(225)	(1,872)
Net cash used in investing activities	(1,231)	(616)	(4,298)
Cash flows from financing activities			
Funds drawn (paid) against line of credit	12	(168)	295
Proceeds from issuance of share capital	410	274	686
Payment of dividends	-	-	(2,910)
Principal and interest payments on finance leases	(103)	(45)	(199)
Net cash provided by (used in) financing activities	319	61	(2,128)
Effect of exchange rate changes on cash and cash equivalents	529	(74)	1,089
Net changes in cash and cash equivalents	(666)	(1,426)	788
Cash and cash equivalents at beginning of period	18,398	17,610	17,610
Cash and cash equivalents at end of period	$ 17,732	$ 16,184	$ 18,398
Supplemental disclosures -			
Property and equipment acquired under finance leases	$ -	$ 159	$ 868

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

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 - 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

Equity at January 1, 2017	$ 417	$ (248)	$ (9)	$ 28,130	$ 28,290
Total comprehensive income - quarter ended March 31, 2017					
Income for the period	-	-	-	151	151
Foreign currency translation adjustments	-	(6)	-	-	(6)
Total comprehensive income - quarter ended March 31, 2017	-	(6)	-	151	145
Transactions with owners - quarter ended March 31, 2017					
Shares issued	-	-	3	274	277
Share based payment expense	-	-	-	72	72
Transactions with owners - quarter ended March 31, 2017	-	-	3	346	349
Equity at March 31, 2017	$ 417	$ (254)	$ (6)	$ 28,627	$ 28,784

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, 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.

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 March 31, 2018, there are 25.4 million common shares outstanding and 0.3 million shares in treasury. Treasury shares may be used to fulfill share options and warrants outstanding totaling approximately 2.1 million. Share based payment expense associated with total warrants and options outstanding was $413,000 and $72,000 in the quarters ended March 31, 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 quarter of 2018, the Company capitalized approximately $0.5 million of development costs and recorded amortization of approximately $0.5 million (capitalized costs of $0.4 million and amortization of $0.2 million in first quarter 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.

	Q1 2018	Q1 2017
Income attributable to equity holders of the Company (USD 000's)	$ (962)	$ 151
Weighted average number of common shares outstanding (000's)	25,254	24,950
Basic income per share	$ (0.04)	$ 0.01
Weighted average number of common shares oustanding (000's)	25,254	24,950
Instruments with potentially dilutive effect:		
Warrants and options	-	1,260
Weighted average number of common shares oustanding, diluted	25,254	26,210
Diluted income per share	$ (0.04)	$ 0.01

Potentially dilutive instruments are not included in the calculation of diluted loss per share for the first quarter of 2018 because the effect of including them would be anti-dilutive.

5. Transactions with related parties

The Company's chairman is a member of the board of directors of Corsair, a customer of the Company. During the first quarter of 2018 and 2017, Asetek had sales of inventory to Corsair of $5.6 million and $6.1 million, respectively. As of March 31, 2018 and 2017, Asetek had outstanding trade receivables from Corsair of $3.0 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 first quarter 2018, the Company purchased services totaling approximately $145,000 from this vendor ($83,000 in the first quarter of 2017).

6. New accounting standard for income taxes

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

7. 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 $2.77 million on the Company's balance sheet at

March 31, 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.

8. Segment reporting

Unaudited breakdown of the income statement

Operations - First Quarter

Figures in USD (000's)	Desktop		Data center	
	Q1 2018	Q1 2017	Q1 2018	Q1 2017
Revenues	13,208	11,054	660	417
Cost of sales	8,355	6,792	558	264
Gross Profit	4,853	4,262	102	153
Gross Margin	36.7%	38.6%	15.5%	36.7%
Total operating expenses	827	878	2,388	1,953
EBITDA adjusted	4,026	3,384	(2,286)	(1,800)
EBITDA margin	30.5%	30.6%	N/A	N/A

Headquarters Costs

Figures in USD (000's)	Q1 2018	Q1 2017
Litigation costs	325	549
Other headquarters costs	536	296
Total headquarters costs	861	845

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

Reconciliation to Operating Income

Figures in USD (000's)	Q1 2018	Q1 2017
EBITDA, adjusted - Desktop	4,026	3,384
EBITDA, adjusted - Data center	(2,286)	(1,800)
Headquarters costs	(861)	(845)
Share based compensation	(413)	(72)
Depreciation and amortization	(848)	(388)
Operating income	(382)	279

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 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 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, 24 April 2018

Management:

André S. Eriksen
CEO

Peter Dam Madsen
CFO

Board of Directors:

Sam Szteinbaum
Chairman

Joergen Smidt
Member

Chris J. Christopher
Member

Knut Øversjøen
Member

Jim McDonnell
Member

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