

Comet Group Consolidated Financial Statements

Contents

35	Consolidated balance sheet
36	Consolidated statement of income
36	Consolidated statement of comprehensive income
37	Consolidated statement of cash flows
38	Consolidated statement of changes in equity
39	Notes to the consolidated financial statements
87	Report of the statutory auditor

Consolidated balance sheet

In thousands of CHF	Note	Dec. 31, 2018	%	Dec. 31, 2017 restated ¹	%	Jan. 1, 2017 restated ¹
Assets						
Cash and cash equivalents		43,007		60,420		74,832
Trade and other receivables	5	63,943		64,574		47,872
Other financial assets	6	26		277		152
Tax receivables		2,893		2,660		–
Inventories	7	91,090		102,825		92,372
Prepaid expenses	8	5,109		4,555		3,784
Total current assets		206,068	56.0%	235,311	60.4%	219,012
Property, plant and equipment	9	113,591		95,056		66,902
Intangible assets	10	40,827		51,647		49,703
Financial assets	6	209		239		234
Deferred tax assets	12	7,063		7,536		8,320
Total non-current assets		161,691	44.0%	154,478	39.6%	125,159
Total assets		367,759	100.0%	389,789	100.0%	344,171
Liabilities and shareholders' equity						
Current debt	13	5,000		2,132		2,666
Trade and other payables	14	34,919		42,545		30,516
Contract liabilities	3	19,992		29,171		33,063
Other financial liabilities	6	379		2		184
Tax payables		870		3,131		5,408
Accrued expenses	15	20,316		25,758		18,048
Current provisions	16	12,080		10,140		7,842
Total current liabilities		93,555	25.4%	112,879	29.0%	97,727
Non-current debt	13	62,812		65,733		67,760
Non-current provisions	16	47		54		57
Employee benefit plan liabilities	17	11,307		8,438		5,546
Deferred tax liabilities	12	–		1,137		1,142
Total non-current liabilities		74,166	20.2%	75,362	19.3%	74,505
Total liabilities		167,721	45.6%	188,241	48.3%	172,232
Capital stock	28	7,760		7,754		7,745
Additional paid-in capital		18,496		29,303		37,576
Retained earnings		197,758		186,748		151,556
Foreign currency translation differences		(23,976)		(22,257)		(24,938)
Total equity attributable to shareholders of Comet Holding AG		200,038	54.4%	201,548	51.7%	171,939
Total liabilities and shareholders' equity		367,759	100.0%	389,789	100.0%	344,171

¹ Restated for IFRS 15 (see note 2.1).

Consolidated statement of income

In thousands of CHF	Note	2018	%	2017 restated ¹	%
Net sales	3/4	436,356		443,370	
Cost of sales		(265,914)		(262,495)	
Gross profit		170,442	39.1%	180,875	40.8%
Other operating income	18	4,201	1.0%	4,093	0.9%
Development expenses	20	(53,882)	-12.3%	(47,102)	-10.6%
Marketing and selling expenses		(63,251)	-14.5%	(57,006)	-12.9%
General and administrative expenses		(32,953)	-7.6%	(30,123)	-6.8%
Loss on disposal of businesses	21	(6,595)	-1.5%	-	0.0%
Operating income		17,962	4.1%	50,737	11.4%
Financing expenses	23	(9,387)	-2.2%	(6,971)	-1.6%
Financing income	23	6,562	1.5%	6,086	1.4%
Income before tax		15,137	3.5%	49,852	11.2%
Income tax	12	(2,858)	-0.7%	(14,516)	-3.3%
Net income		12,279	2.8%	35,336	8.0%
Earnings per share in CHF, diluted and basic	24	1.58		4.56	
Operating income		17,962	4.1%	50,737	11.4%
Amortization	11/22	10,655	2.4%	4,392	1.0%
EBITA		28,617	6.6%	55,129	12.4%
Depreciation	11/22	9,176	2.1%	8,074	1.8%
EBITDA		37,793	8.7%	63,203	14.3%

¹ Restated for IFRS 15 (see note 2.1).

Consolidated statement of comprehensive income

In thousands of CHF	Note	2018	2017 restated ¹
Net income		12,279	35,336
Other comprehensive income			
Foreign currency translation differences		(1,719)	2,679
Total items that will be reclassified to the income statement on realization		(1,719)	2,679
Actuarial losses on defined benefit plans	17	(913)	(17)
Income tax	12	132	(2)
Total items that will not subsequently be reclassified to the income statement		(781)	(19)
Total other comprehensive income		(2,500)	2,660
Total comprehensive income		9,779	37,996

¹ Restated for IFRS 15 (see note 2.1).

Consolidated statement of cash flows

In thousands of CHF	Note	2018	2017 restated ¹
Net income		12,279	35,336
Income tax	12	2,858	14,516
Depreciation, amortization and impairment	9/10/11	19,831	12,465
Net interest expense	23	860	1,310
Share-based payments	29	340	916
Losses on disposal of property, plant and equipment		172	59
Losses on disposal of intangible assets		10	–
Loss on disposal of businesses	21	6,595	–
Other non-cash expense/(income)		3,125	2,537
Change in provisions	16	2,262	2,211
Change in other working capital		(20,025)	(12,188)
Interest received		30	14
Taxes paid		(5,845)	(18,823)
Net cash provided by operating activities		22,493	38,353
Outflow from disposal of businesses		(293)	–
Purchases of property, plant and equipment	9	(26,020)	(37,554)
Purchases of intangible assets	10	(1,933)	(3,953)
Disposals of property, plant and equipment	9	242	1,285
Disposals of intangible assets	10	1,039	–
Disposals of other financial assets		35	–
Net cash used in investing activities		(26,930)	(40,221)
Repayment of borrowings	13	(136)	(2,656)
Interest paid		(806)	(1,247)
Distribution to shareholders of Comet Holding AG		(11,630)	(9,295)
Net cash used in financing activities		(12,572)	(13,197)
Net (decrease) in cash and cash equivalents		(17,008)	(15,065)
Foreign currency translation differences on cash and cash equivalents		(404)	652
Cash and cash equivalents at January 1		60,420	74,832
Net cash and cash equivalents at December 31		43,007	60,420

¹ Restated for IFRS 15 (see note 2.1).

Consolidated statement of changes in equity

In thousands of CHF	Equity attributable to shareholders of Comet Holding AG				
	Capital stock	Additional paid-in capital	Retained earnings	Foreign currency translation differences	Total shareholders' equity
December 31, 2016	7,745	37,576	156,033	(25,009)	176,345
Restatement ¹			(4,477)	71	(4,406)
January 1, 2017 restated¹	7,745	37,576	151,556	(24,938)	171,939
Net income ¹			35,336		35,336
Other comprehensive income ¹			(19)	2,679	2,660
Total comprehensive income¹			35,317	2,679	37,996
Distribution to shareholders of Comet Holding AG		(9,295)			(9,295)
Increase in capital (for stock compensation)	8	1,022	(1,005)		26
Share-based payments			880		880
December 31, 2017 restated¹	7,754	29,303	186,748	(22,257)	201,548
Net income			12,279		12,279
Other comprehensive income			(781)	(1,719)	(2,500)
Total comprehensive income			11,498	(1,719)	9,779
Distribution to shareholders of Comet Holding AG		(11,630)			(11,630)
Increase in capital (for stock compensation)	6	823	(909)		(80)
Share-based payments			421		421
December 31, 2018	7,760	18,496	197,758	(23,976)	200,038

¹ Restated for IFRS 15 (see note 2.1).

Notes to the consolidated financial statements

01	Nature of the business activities	<p>The Comet Group ("Comet", the "Group") is one of the world's leading vendors of x-ray, radio frequency (RF) power and ebeam technology. With high-quality components, systems and services, marketed under the "Comet", "Yxlon" and "ebeam" brands, the Group helps its customers optimize the quality, reliability and efficiency of their products and processes. Yxlon x-ray systems for non-destructive testing are supplied to end customers in the automotive, aerospace, electronics and energy sectors. Under the Comet brand, the Group builds components and modules such as x-ray sources, vacuum capacitors, RF generators and impedance matching networks, marketed to manufacturers in the automotive, aerospace, semiconductor and solar industries as well as for security applications at airports. Under the ebeam brand, the Group develops and markets compact ebeam sets for the treatment of surfaces in the food and printing industries.</p>
02	Accounting policies	<p>The consolidated financial statements (except with respect to certain financial instruments) have been drawn up under the historical cost convention. The fiscal year-end for the financial statements of all Group companies is December 31. These consolidated financial statements have been prepared in compliance with Swiss stock corporation law and International Financial Reporting Standards (IFRS). All IFRS in force at the balance sheet date and all interpretations (IFRIC) of the International Accounting Standards Board (IASB) were applied. Comet did not early-adopt new standards and interpretations except as specifically stated below. The significant accounting policies applied are unchanged from the prior year except as set out below.</p>
02.1	Changes in accounting policies	<p>Revised and new accounting rules</p> <p>With effect from January 1, 2018, Comet has applied the following new or revised IFRS/IAS for the first time:</p> <ul style="list-style-type: none"> ■ IFRS 2 – Amendment – Classification and Measurement of Share-based Payment Transactions ■ IFRS 9 – Financial Instruments ■ IFRS 15 – Revenue from Contracts with Customers ■ IFRIC 22 – Foreign Currency Transactions and Advance Consideration ■ Annual Improvements to IFRS Standards, 2014–2016 Cycle <p>Except as described below, the first-time application of the above new or amended standards and interpretations had no effect on Comet's financial position, results of operations and cash flows.</p> <p>IFRS 15 – Revenue from Contracts with Customers</p> <p>IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, and the associated interpretations, and provides accounting guidance for all sales revenue from contracts with customers. It excludes contracts that are within the scope of other IFRS standards. The new standard establishes a five-step model for the recognition of revenue from contracts with customers. Companies must exercise judgment in considering the contract terms and all relevant facts and circumstances (including implied contract terms). Comet has elected to use the full retrospective approach for the implementation of IFRS 15.</p>

The application of IFRS 15 has the following impact on items of the consolidated balance sheet:

In thousands of CHF		January 1, 2017			December 31, 2017		
	Note	Reported	Adjustment	Restated	Reported	Adjustment	Restated
Assets							
Trade and other receivables	a	60,893	(13,021)	47,872	76,677	(12,103)	64,574
Inventories	a	81,473	10,899	92,372	93,910	8,915	102,825
Prepaid expenses		2,651	1,133	3,784	3,410	1,145	4,555
<i>Of which contract costs</i>	c	–	1,133	1,133	–	1,145	1,145
Deferred tax assets		8,068	252	8,320	7,218	318	7,536
Other assets, not affected by IFRS 15		191 823	–	191 823	210 299	–	210 299
Total assets		344,908	(737)	344,171	391,515	(1,726)	389,789
Liabilities							
Trade and other payables		58,153	(27,637)	30,516	66,667	(24,122)	42,545
<i>Of which prepayments by customers</i>	b	28,770	(28,770)	–	25,267	(25,267)	–
<i>Of which sales commissions</i>	c	3,099	1,133	4,232	3,529	1,145	4,674
Contract liabilities	a, b	–	33,063	33,063	–	29,171	29,171
Deferred tax liabilities		2,899	(1,757)	1,142	3,030	(1,893)	1,137
Other liabilities, not affected by IFRS 15		107 511	–	107 511	115 388	–	115 388
Total liabilities		168,563	3,669	172,232	185,085	3,156	188,241
Equity							
Retained earnings		156,033	(4,477)	151,556	191,350	(4,602)	186,748
Foreign currency translation differences		(25,009)	71	(24,938)	(21,977)	(280)	(22,257)
Other equity, not affected by IFRS 15		45 321	–	45 321	37 057	–	37 057
Total equity		176,345	(4,406)	171,939	206,430	(4,882)	201,548

The application of IFRS 15 has the following impact on items of the consolidated statement of income:

In thousands of CHF		Year to December 31, 2017		
	Note	Reported	Adjustment	Restated
Net sales	a)	438,355	5,015	443,370
Cost of sales	a)	(257,943)	(4,552)	(262,495)
Gross profit		180,412	463	180,875
Other operating income	a)	6,580	(2,487)	4,093
Development expenses	a)	(48,967)	1,865	(47,102)
Marketing and selling expenses		(57,006)	–	(57,006)
General and administrative expenses		(30,123)	–	(30,123)
Operating income		50,896	(159)	50,737
Financing expenses		(6,971)	–	(6,971)
Financing income		6,086	–	6,086
Income before tax		50,011	(159)	49,852
Income tax		(14,551)	35	(14,516)
Net income		35,460	(124)	35,336

The changes resulting from IFRS 15 had no material impact on other comprehensive income. The impacts on the consolidated statement of cash flows were related only to the changes in net income and corresponding deferred taxes and the change in working capital. The cash flows from investing and financing activities were not affected.

The impacts on the consolidated balance sheet and statement of income are described below:

a) Revenue from contracts with customers

Sale of products

Revenue from the sale of products (including spare parts) is as a rule recognized on the basis of a single performance obligation, which is satisfied at a specific point in time. The performance obligation is satisfied, and the revenue recognized, when the customer acquires control of the product. Generally, the customer acquires control at delivery of the product or spare part. This applies to the PCT and IXT divisions and the engineering business of the EBT division. Here the adoption of IFRS 15 thus had no impact on the amount and timing of revenue recognition.

Sale of systems

In the systems business, customers are supplied with comprehensive and sometimes complex systems. Besides this equipment itself, the segment also provides services such as installation and complete integration into customers' processes. Under the new accounting standard these services are no longer regarded as separable, as they form an integral part of the delivery. Revenue from the sale of systems is thus as a rule recognized on the basis of a single performance obligation, which is satisfied at a specific point in time. The performance obligation is satisfied when the customer has taken delivery of and accepted the system. This applies to the IXS division and the systems business of the EBT division. In the case of systems already delivered (with the risks and rewards thus having passed to the customer) for which there was not yet a certificate of acceptance, revenue and the related sales have been retrospectively restated.

Sale of services

Comet provides services related to products and systems. Warranty obligations that provide an additional service to the customer (service-type warranties), such as an extension of the warranty period, are separate performance obligations and the revenue associated with them is recognized over time. For general maintenance services and defect correction intended to ensure that the delivered good is, or performs, as specified in the contract (assurance-type warranties), the estimated cost of the liability is recognized as a provision in accordance with IAS 37. The treatment of warranty obligations did not result in a change in the amount or timing of revenue recognition. Revenue from other services such as repair or training continues to be recognized at a specific point in time as before.

Sale of prototypes

Income from customers for research and development services is evaluated differently under IFRS 15 than before. After the delivery of the first prototype, further income received for research and development services is now classified as derived from the sale of prototypes and is reported as revenue.

b) Advance payments by customers and contract liabilities

Prepayments by customers were reclassified to contract liabilities.

c) Contract costs and sales commissions

Under IFRS 15, the sales commissions owed for agent activities are recognized at contract inception. As these represent incremental costs directly attributable to obtaining a contract, they are capitalized and a liability of equal amount is recognized for sales commissions. Their recognition as an expense occurs as soon as Comet has transferred control of the products or systems to the customer.

IFRS 9 – Financial Instruments

IFRS 9 introduced new guidance for the classification and measurement of financial assets and liabilities, the recognition of impairment losses, and hedge accounting. Comet applies IFRS 9 prospectively, with the comparative information continuing to be reported in accordance with IAS 39. At January 1, 2018 there were no available-for-sale financial assets, held-to-maturity investments, or financial instruments at fair value through other comprehensive income. The financial assets and liabilities previously classified as at fair value through profit or loss continue to meet the criteria of this category. The other financial instruments are measured at amortized cost as before. Consequently, the classification of financial instruments to the appropriate categories under IFRS 9 had no effect on the accounting treatment of assets and liabilities.

Under IFRS 9 the impairment of financial assets – including, specifically, trade receivables measured at amortized cost – is now assessed using an expected credit loss model. This change did not have any material impacts on Comet's financial assets.

02.2 New accounting rules becoming effective in subsequent periods

Standard	Expected impact	Effective date	Planned adoption by Comet
Annual Improvements to IFRS Standards, 2015–2017 Cycle	(1)	Jan. 1, 2019	Fiscal year 2019
IAS 19 – Amendment – Plan Amendment, Curtailment or Settlement	(1)	Jan. 1, 2019	Fiscal year 2019
IFRS 16 – Leases	(2)	Jan. 1, 2019	Fiscal year 2019
IFRIC 23 – Uncertainty over Income Tax Treatments	(1)	Jan. 1, 2019	Fiscal year 2019

- (1) Expected to have no, or no significant, impact on the financial position, results of operations and cash flows.
- (2) From January 1, 2019, Comet will apply IFRS 16, Leases, for the first time. The full retrospective method was chosen for the implementation of this standard. Under the new guidance, lessees will be required to recognize most leases on their balance sheet and employ a right-of-use model to do so. Under this new model, at the inception of the lease, the lessee recognizes a right-of-use asset for the usage right, and a liability for the payment obligation to the lessor. The right-of-use asset is depreciated over the shorter of the term of the lease or the expected useful life. The lease payments are incurred for the right to use the leased asset over the term of the lease. Comet is affected by the new accounting guidance especially in its existing rental agreements for the use of buildings and in its vehicle leases. The following impacts arise for Comet:
- Total assets and liabilities at January 1, 2018 are increased due to the capitalization of the right-of-use assets within a range of about CHF 15 million to CHF 19 million and the recognition of the corresponding lease liabilities in a range of CHF 17 million to CHF 21 million, with a corresponding reduction in the equity ratio by between 2.0 and 3.0 percentage points.
 - EBITDA for 2018 will improve by the amount of the eliminated operating lease expenses, i.e., the EBITDA margin will increase by between 1.0 and 1.5 percentage points. The EBIT margin and net income are expected to improve immaterially.

The contractual lease liabilities which did not previously require recognition in the balance sheet are already disclosed now, in note 25.2.

02.3 Estimates

Comet's consolidated financial statements contain assumptions and estimates that affect the reported financial position, results of operations and cash flows. These assumptions and estimates were made on the basis of management's best knowledge at the time of preparation of the accounts. Actual results may differ from the values presented. The following estimates have the greatest effects on the consolidated financial statements:

- Intangible assets (see note 10 and 11): For acquisitions, the fair value of the acquired net assets (including acquired intangible assets) is estimated. Any amount paid in excess of this estimate represents goodwill. Intangible assets with a finite life are written off over the expected period of use; those with an indefinite life (primarily goodwill and rights to trademarks and names) are not amortized but are tested annually for impairment. Especially in the determination of the value in use of goodwill and rights to trademarks and names, differences between assumed and actual outcomes could lead to changes in the results of impairment testing. The assumptions concerning the achievable margins and the growth rates have a significant impact on impairment test outcomes. The valuation of goodwill and other intangibles, as well as the estimation of useful life, have an effect on the consolidated financial statements.
- Provisions (see note 16) are, by definition, liabilities of uncertain amount. Future events can thus lead to adjustments that affect income.
- Deferred tax assets (see note 12) are recognized only if it is likely that taxable profits will be earned in the future. The tax planning is based on estimates and assumptions as to the future profit trajectories of the Group companies that may later prove incorrect. This can lead to changes with an effect on income.
- Employee benefit plans (see note 17): The Group operates employee benefit plans for its staff that are classified as defined benefit plans under IFRS. These defined benefit plans are valued annually, which requires the use of various assumptions. Differences between the actual outcomes and the assumptions, particularly as to the discount rate for future obligations and as to life expectancy, may have effects on the valuation of plan assets and thus on the financial position of the Group. The effect of the most important parameters on the net present value of the obligation is presented in note 17.

02.4 Consolidation

02.4.1 Basis of consolidation

There were no changes in the basis of consolidation from the prior year. The consolidated financial statements comprise the accounts of the companies listed below.

Company	Registered office	Equity interest in %	
		2018	2017
Comet Holding AG	Flamatt, Switzerland	100%	100%
Comet AG	Flamatt, Switzerland	100%	100%
Comet Electronics (Shanghai) Co. Ltd.	Shanghai, China	100%	100%
Comet Mechanical Equipment (Shanghai) Co. Ltd.	Shanghai, China	100%	100%
Comet Technologies USA, Inc.	Shelton, CT, USA	100%	100%
Comet Technologies Korea Co. Ltd.	Suwon, Korea	100%	100%
Yxlon International GmbH	Hamburg, Germany	100%	100%
Yxlon International A/S	Taastrup, Denmark	100%	100%
Yxlon International KK	Yokohama, Japan	100%	100%
Yxlon (Beijing) X-Ray Equipment Trading Co. Ltd.	Beijing, China	100%	100%

02.4.2 Method of consolidation

The consolidated financial statements represent the aggregation of the annual accounts of the individual Group companies, which are prepared using uniform accounting principles. Those companies controlled by Comet Holding AG are fully consolidated. This means that these companies' assets, liabilities, equity, expenses and income are entirely included in the consolidated financial statements. All intragroup balances and transactions, unrealized gains and losses resulting from intragroup transactions, and dividends are eliminated in full.

Acquisitions and goodwill

Companies are consolidated from the date on which effective control passes to the Group. Consolidation ends only when effective control ceases. On acquisition, the identifiable assets, liabilities and contingent liabilities are measured at fair value and included in the accounts using the acquisition method. For acquisitions, intangible assets that arise from a contractual or legal right or are separable from the business entity, and whose fair value can be measured reliably, are reported separately. Goodwill, being the excess of the aggregate consideration transferred over the fair value of the net assets of the acquired subsidiary, is initially measured at cost. If the aggregate consideration transferred is lower than the fair value of the acquired net assets, the difference is recognized as negative goodwill in other operating income at the acquisition date. Goodwill and other intangible assets are allocated on acquisition to those companies expected to benefit from the acquisition or to generate future cash flows as a result of it. When Group companies are sold, the difference between their sale price and their net assets, plus accumulated currency translation differences, is recognized as operating income in the consolidated statement of income.

Foreign currency translation

The functional currency of the Group companies is the respective national currency. Transactions in a currency other than the functional currency are translated at the exchange rate prevailing at the transaction date. Financial assets and liabilities are translated at the balance sheet date at the exchange rate as of that date; the resulting currency translation differences are reported in the income statement. The consolidated financial statements are presented in Swiss francs. The financial statements of the Group companies are translated at the average exchange rates for the year (the "average rate" in the table below) for the income statement and at year-end rates (the "closing rate") for the balance sheet. The resulting currency translation differences are recognized in other comprehensive income. Currency translation differences from intragroup loans for the long-term financing of Group companies are also recognized in other comprehensive income, to the extent that repayment is neither planned nor is likely to occur in the foreseeable future.

The exchange rates used to translate the most important currencies are listed below:

Country or region		Closing rate		Average rate	
		Dec. 31, 2018	Dec. 31, 2017	2018	2017
USA	USD	1	0.985	0.978	0.985
Eurozone	EUR	1	1.126	1.155	1.112
China	CNY	1	0.143	0.148	0.146
Japan	JPY	100	0.894	0.886	0.878
Denmark	DKK	1	0.151	0.155	0.149
Republic of Korea	KRW	1,000	0.885	0.889	0.871

02.5 Measurement and recognition policies

Financial assets and liabilities

Financial assets are initially measured at fair value (market value), including transaction costs, except in the case of financial assets categorized as at fair value through profit or loss, for which transaction costs are recorded directly in financing expenses. All purchases and sales of financial assets are recognized at the transaction date.

- Financial items at fair value through profit or loss: These include all derivatives, trading positions, and certain financial assets and liabilities designated as falling into this category. These assets are recognized at fair value in the balance sheet. Changes in value are reported as financing income or expense in the reporting period in which they occur.
- Financial items at amortized cost: These are measured at cost using the effective interest method.

Fair value is determined based on quoted or other market prices. In the fiscal year as in the prior year, no hedge accounting under IFRS 9 or IAS 39 was applied to any hedging transactions. Financial assets are recognized as soon as Comet acquires control of them, and derecognized when it ceases to have control, i.e., when it has sold the rights or they have lapsed. Financial liabilities are derecognized when the obligation specified in the contract is discharged or is canceled or expires.

Cash and cash equivalents

In addition to cash on hand and balances in checking accounts at banks, cash and cash equivalents can also include fixed-term deposits with original maturities of up to three months.

Trade and other receivables and contract assets

Trade receivables, other receivables and contract assets are reported at their face value less any necessary impairment charges. Comet provides for impairment using the simplified approach by recognizing an allowance in the amount of the losses expected over the remaining life of the instruments (known as the expected credit loss model). For specific doubtful arrears with objective indications of impairment, impairment charges are applied individually.

Whether a receivable or a contract asset is recognized is governed by whether the right to consideration is unconditional (leading to recognition of a receivable) or conditional (leading to recognition of a contract asset).

Inventories

Inventories are recorded at the lower of cost and net realizable value. Net realizable value represents the estimated normal sale price less the costs of completion, marketing, selling and distribution. Raw materials and purchased products are measured using the weighted-average method; internally produced goods are measured at target costs. Inventories include proportionate shares of production overheads.

Revenue recognition (sales and other income)

Net sales represent the revenue from the sale of products and services to third parties, net of rebates and other price reductions. Revenue is recognized at the time that control of the products and services has passed to the customer, in the amount of the consideration to which Comet is expected to be entitled in exchange for the products or services. Depending on the product and the agreed shipment terms, control is transferred to the customer at the time of shipment (Incoterms) or only at the time of acceptance by the customer. In the case of warranty obligations that provide an additional service to the customer (service-type warranties), the revenue associated with them is recognized over time, based on the passage of time. Revenue from other services such as repair or training is recognized at the time of satisfaction of the performance obligation.

Customer contributions to development projects, including payments for the delivery of the respective first prototype, are recorded in other operating income; subsequent deliveries of prototypes are reported as sales.

Variable price elements (variable consideration) exist both in retroactive rebates when the quantity of products purchased exceeds a certain threshold in the calendar year, and in individual discounts on products. The amount of the rebate is estimated using the most-likely-amount method and as a rule is allocated proportionately to all performance obligations under the contract.

No interest effect is recognized for contract liabilities and prepayments by customers, as the period between the time of transfer of a promised good or service to the customer and the time of payment is not more than one year.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Borrowing costs related to qualifying assets form part of the historical cost. Depreciation is provided on a straight-line basis over the estimated useful life of the assets. The expense for depreciation of property, plant and equipment is recognized in the income statement under that expense category which corresponds to the function of the particular asset in the Group. Land values are not depreciated. Impairment charges are recognized as a separate line item under accumulated depreciation. Maintenance costs are recognized as assets only if the maintenance extends the expected life of the asset, expands production capacity or otherwise increases asset values. The cost of maintenance and repair that do not increase asset values is charged directly to income. The following estimated useful lives are applied in determining depreciation:

Buildings	20–40 years
Plant and equipment	6–10 years
Other tangible assets	3–10 years

Intangible assets

The intangible assets recognized are goodwill, rights to trademarks and names, customer lists, technology, licenses, patents, and software. Intangible assets are recognized at cost and generally amortized on a straight-line basis over their expected useful life. Goodwill and acquired rights to trademarks and names are not amortized but are tested annually for impairment (see section “Impairment of non-current assets” below). The expense for amortization of intangible assets with finite useful lives is recognized in the income statement under that expense category which corresponds to the function of the particular asset in the Group.

The following estimated useful lives are applied in determining amortization:

Customer lists	10–15 years
Technology	5–10 years
Computer software	3–5 years

Provisions

Provisions are recognized only where Comet has a present obligation to a third party arising from a past event and the amount of the obligation can be estimated reliably. No provisions are recognized for possible losses that may result from future events.

Provisions are classified as current to the extent that the related cash outflows are expected to occur within one year from the balance sheet date. Conversely, the cash outflows in respect of non-current provisions are expected to occur more than twelve months after the balance sheet date. If the interest effect is material, the cash outflows are discounted.

Post-employment benefits

Comet maintains post-employment benefit plans for its employees which differ according to the local circumstances of the individual Group companies. The benefit plans are financed by contributions to benefit arrangements that are separate legal entities (foundations or insurance companies) or by the accumulation of reserves in the balance sheet of the respective Group company. In the case of defined contribution plans or economically equivalent arrangements, the expenses accrued in the reporting period represent the agreed contributions of the Group company. For defined benefit plans, the service costs and the present value of the defined benefit obligation are calculated in actuarial valuations by independent experts, using the projected unit credit method. The calculations are updated annually. The surplus or deficit recognized in the balance sheet is equal to the present value of the defined benefit obligation as determined by the actuary, less the fair value of plan assets. Any resulting net surplus is recognized as an asset only to the extent of the potential economic benefit that may be realized from this asset in the future, taking into consideration IFRIC 14. The expense charged to income is the actuarially determined service cost plus the net interest cost. Actuarial gains and losses are recognized in other comprehensive income. They comprise experience adjustments (the effects of differences between the previous actuarial assumptions and the observed outcomes) and the effects of changes in actuarial assumptions (particularly regarding the discount rate and life expectancy).

Long-term employee benefits

Comet grants length-of-service awards to its employees after a certain number of years of service, in the form of lump-sum payments that increase in amount with the number of years of employment. Comet calculates the resulting obligation using the projected unit credit method. The calculation is updated annually. Any actuarial gains or losses from the remeasurement are immediately taken to income.

Share-based payments

Part of the variable compensation of the members of the Executive Committee under the short-term incentive plan (STIP), and part of the fixed compensation of the Board of Directors, is paid in stock. In addition, the Executive Committee is granted stock under a long-term incentive plan (LTIP). The expense is recognized at the value of the stock earned, measured at the quoted market price (fair value) at the grant date. The amount accrued for those components of compensation which must be equity-settled (i.e., for which there is no option of cash payment) is recognized directly in equity. For components which the beneficiary can choose to receive in equity or in cash, the value of the option which this choice represents is determined and recognized as an increase in equity, while the rest of the obligation is recorded as a liability.

Income tax

The income tax expense for the reporting period is composed of current taxes and deferred taxes.

Current taxes

Current tax liabilities and assets for the current period and prior reporting periods are recognized based on the amount expected to be payable to or refunded by the tax authorities. They are calculated based on the tax regulations and tax rates in effect at the balance sheet date.

Deferred taxes

Deferred taxes are accounted for by the liability method. Under this approach, the income tax effects of temporary differences between the tax bases and the values used in the consolidated financial statements are recorded as non-current liabilities or non-current assets. Deferred taxes are calculated at actual or expected local tax rates. Changes in deferred taxes are included in income tax expense in the income statement, except for deferred taxes in respect of items that are recognized outside profit or loss. These latter deferred taxes are likewise recognized outside profit or loss; according to the underlying accountable event, they are recognized either in other comprehensive income or directly in equity. Deferred tax liabilities are recognized on all taxable temporary differences except for goodwill. Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit for the period nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future.

Leases

Leases of property, plant and equipment that transfer substantially all risks and rewards of ownership to Group companies are classified as finance leases. For assets acquired under finance leases, the lower of the fair value of the asset and the net present value of future non-cancelable lease payments is recognized as a non-current asset. Assets held under finance leases are depreciated over the shorter of their estimated useful life and the term of the lease. Service contracts (particularly outsourcing agreements) involving direct or indirect provisions on the use of specified assets are reviewed at inception as to whether the arrangements contain a lease under IFRS.

Payments under operating leases are recorded as operating expenditure and recognized on a straight-line basis in profit or loss over the periods to which they relate.

Impairment of non-current assets

The value of property, plant and equipment and other non-current assets, including intangibles, is reviewed whenever it appears possible, as a result of changed circumstances or events, that the assets' carrying amount represents an overvaluation. Intangible assets under construction are tested for impairment annually. If the carrying amount exceeds the amount recoverable through use or sale of the asset, the carrying amount is reduced to this recoverable amount and the difference is recorded as an impairment charge in the income statement. The recoverable amount is the higher of realizable value or value in use. Value in use is determined on the basis of discounted expected future cash flows. Any acquired goodwill and any rights to trademarks or names with an indefinite useful life are not amortized but are reviewed annually at the same date for impairment. This impairment test is based on the results for the fiscal year, the rolling multi-quarter forecast and the rolling multi-year plan.

03 Revenue from contracts with customers

In the following tables, sales revenue is analyzed by region and by market sector.

In thousands of CHF	Plasma Control Technologies (PCT)		X-Ray Systems (IXS)		Industrial X-Ray Modules (IXM)		ebeam Technologies (EBT)		Consolidated	
	2018	2017 ¹	2018	2017 ¹	2018	2017 ¹	2018	2017 ¹	2018	2017 ¹
	Sales by region									
Europe	8,947	7,808	35,661	41,176	29,431	26,396	13,979	18,199	88,018	93,579
USA	165,224	162,290	15,167	19,647	23,526	19,780	3,422	5,900	207,338	207,617
Asia	37,925	42,648	70,981	65,895	13,978	13,274	1,866	5,031	124,751	126,848
Rest of world	101	204	13,501	12,527	1,984	2,279	663	316	16,249	15,326
Total	212,197	212,950	135,310	139,245	68,919	61,729	19,930	29,446	436,356	443,370

¹ Restated for IFRS 15 (see note 2.1).

Sales by market

In thousands of CHF	2018	2017 ¹
PCT		
Semiconductor	187,417	187,579
Flat panel	8,741	6,552
Others	16,039	18,819
Total PCT	212,197	212,950
IXS		
Automotive	55,955	63,685
Electronics	40,787	38,203
Science & New materials	17,527	16,922
Aerospace	14,395	16,110
Others	6,646	4,325
Total IXS	135,310	139,245
IXM		
Non-destructive testing	47,210	39,260
Security	11,371	14,136
Others	10,338	8,333
Total IXM	68,919	61,729
Total EBT	19,930	29,446
Total net sales	436,356	443,370

¹ Restated for IFRS 15 (see note 2.1).

The aggregate amount of the transaction prices allocated to performance obligations that were unsatisfied or partly unsatisfied at December 31, 2018 was CHF 114 million. Comet will realize this revenue as soon as the performance obligations have been fulfilled and the customers have acquired control of the products or services. It is expected that this will generally be the case in the next 12 to 24 months. Comet is making use of the practical expedient available for the initial application of IFRS 15 regarding the disclosure of remaining performance obligations.

Contract balances

Opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers are presented in the balance sheet and in note 5. The contract assets consisted mainly of the rights to consideration for product deliveries and services of the X-Ray Systems division that were completed but not yet billed at the balance sheet date. The contract liabilities consisted of prepayments received from customers. The revenue recognized in 2018 from contract liabilities that existed at the beginning of the period amounted to CHF 22.6 million (prior year: CHF 26.8 million).

Material changes in contract balances result from the receipt of customer payments and the invoicing of satisfied performance obligations. The divestiture of the ebeam systems business in Davenport, Iowa, USA, caused a reduction of CHF 5.0 million in contract liabilities. Further details are disclosed in note 21.

04 Segment reporting

The Group is managed on the basis of the following four operating divisions, which are delineated based on their products and services. For financial reporting purposes the divisions are also referred to here as “operating segments” or “segments”.

- The **Plasma Control Technologies (PCT)** division develops, manufactures and markets vacuum capacitors, radio frequency (RF) generators and RF impedance matching networks for the high-precision control of plasma processes required, for instance, in the production of memory chips and flat panel displays.
- The **X-Ray Systems (IXS)** division develops, manufactures and markets x-ray systems and services for non-destructive examination using x-ray and micro-focus technology and computed tomography.
- The **Industrial X-Ray Modules (IXM)** division develops, manufactures and markets highly compact x-ray sources and portable x-ray modules for non-destructive testing, steel metrology and airport security inspection.
- The **ebeam Technologies (EBT)** division develops, manufactures and markets compact ebeam sets for the treatment of surfaces in the food and printing industries.

Segment operating income represents all revenues and expenses attributable to a particular division. The only revenues and expenses not allocated to the segments are those of Comet Holding AG, certain government grants, and net financial items and income taxes. These unallocated expenses and revenues are reported in the “corporate” column. Transactions between the segments are invoiced at prices also charged to third parties.

The segment assets and liabilities represent all operating items. The following assets and liabilities are not allocated to operating segments: the assets and liabilities of Comet Holding AG, all cash and cash equivalents, all current and non-current debt and all income tax assets and liabilities. These unallocated assets and liabilities are reported in the “Corporate” column.

04.1 Operating segments

Fiscal year 2018

In thousands of CHF

	Plasma Control Technologies (PCT)	X-Ray Systems (IXS)	Industrial X-Ray Modules (IXM)	ebeam Technologies (EBT)	Elimination of interseg- ment sales	Corporate	Consolidated
Net sales							
External net sales	212,197	135,310	68,919	19,930	–	–	436,356
Intersegment sales	–	359	12,276	63	(12,698)	–	–
Total net sales	212,197	135,669	81,195	19,993	(12,698)	–	436,356
Earnings							
Segment operating income	38,162	(5,714)	16,073	(28,249)	278	–	20,549
Unallocated costs	–	–	–	–	–	(2,587)	(2,587)
Operating income	38,162	(5,714)	16,073	(28,249)	278	(2,587)	17,962
Financing expenses							(9,387)
Financing income							6,562
Income before tax							15,137
Income tax							(2,858)
Net income							12,279
EBITDA	41,806	(1,510)	20,039	(20,233)	278	(2,587)	37,793
EBITDA in % of sales	19.7%	–1.1%	24.7%	–101.2%			8.7%
Assets and liabilities at Dec. 31, 2018							
Segment assets	104,586	102,327	89,125	18,535	–	53,186	367,759
Segment liabilities	(24,464)	(48,793)	(19,102)	(4,961)	–	(70,400)	(167,721)
Net assets	80,122	53,534	70,023	13,574	–	(17,215)	200,038
Other segment information							
Capital expenditure	12,372	1,525	13,632	3,125	–	–	30,653
Depreciation and amortization	3,644	4,204	3,967	8,016	–	–	19,831
Change in provisions	906	2,902	(318)	(1,228)	–	–	2,262
Other non-cash expense/(income)	315	(69)	1,150	508	43	1,177	3,125
Number of employees at year end	535	420	314	77	–	–	1,346

Fiscal year 2017¹

In thousands of CHF	Plasma Control Technologies (PCT)	X-Ray Systems (IXS)	Industrial X-Ray Modules (IXM)	ebeam Technologies (EBT)	Elimination of intersegment sales	Corporate	Consolidated
Net sales							
External net sales	212,950	139,245	61,729	29,446	–	–	443,370
Intersegment sales	–	548	17,080	33	(17,661)	–	–
Total net sales	212,950	139,793	78,809	29,479	(17,661)	–	443,370
Earnings							
Segment operating income	52,541	4,615	14,401	(18,411)	(743)	–	52,403
Unallocated costs	–	–	–	–	–	(1,666)	(1,666)
Operating income	52,541	4,615	14,401	(18,411)	(743)	(1,666)	50,737
Financing expenses							(6,971)
Financing income							6,086
Income before tax							49,852
Income tax							(14,516)
Net income							35,336
EBITDA	55,676	8,179	17,963	(16,206)	(743)	(1,666)	63,203
EBITDA in % of sales	26.1%	5.9%	22.8%	–55.0%			14.3%
Assets and liabilities at Dec. 31, 2017							
Segment assets	114,755	98,139	69,141	36,587	–	71,167	389,789
Segment liabilities	(31,788)	(48,731)	(20,614)	(13,682)	–	(73,426)	(188,241)
Net assets	82,967	49,408	48,527	22,905	–	(2,259)	201,548
Other segment information							
Capital expenditure	20,803	3,968	12,472	4,264	–	–	41,507
Depreciation and amortization	3,135	3,563	3,563	2,205	–	–	12,466
Change in provisions	2,221	(645)	(185)	940	–	(118)	2,213
Other non-cash expense/(income)	997	192	1,522	564	(85)	(653)	2,537
Number of employees at year end	549	433	302	151	–	–	1,435

¹ Restated for IFRS 15 (see note 2.1).

Reconciliation of aggregate segment assets and liabilities to consolidated results

In thousands of CHF	2018	2017 ¹
Operating segments' assets	314,573	318,621
Total cash and cash equivalents	43,007	60,420
Derivatives used for foreign exchange hedging	26	277
Tax receivables	2,893	2,660
Deferred tax assets	7,063	7,536
Comet Holding AG's receivables from third parties	196	275
Total assets	367,759	389,789
Operating segments' liabilities	(97,321)	(114,814)
Current and non-current debt	(67,812)	(67,865)
Derivatives used for foreign exchange hedging	(379)	(2)
Tax payables	(870)	(3,131)
Deferred tax liabilities	–	(1,137)
Comet Holding AG's payables to third parties	(1,339)	(1,292)
Total liabilities	(167,721)	(188,241)

¹ Restated for IFRS 15 (see note 2.1).

04.2 Geographic information

Comet markets its products and services throughout the world and has its own companies in Switzerland, Germany, Denmark, the USA, China, Japan and South Korea. Net sales are allocated to countries on the basis of customer location.

Net sales by region

In thousands of CHF	2018	2017 ¹
Switzerland	3,208	2,788
Germany	36,726	34,227
Rest of Europe	48,084	56,564
Total Europe	88,018	93,579
Total USA	207,338	207,617
China	57,749	64,080
Japan	22,365	23,814
Rest of Asia	44,637	38,954
Total Asia	124,751	126,848
Rest of world	16,249	15,326
Total	436,356	443,370

¹ Restated for IFRS 15 (see note 2.1).

Property, plant, and equipment and intangible assets by region

In thousands of CHF	2018	2017
Switzerland	114,978	94,950
Germany	31,733	36,220
USA	5,423	13,178
Rest of world	2,284	2,355
Total	154,418	146,703

04.3 Sales with key accounts

In the year under review, the Plasma Control Technologies division recorded sales of CHF 115 million with its largest customer, which represented 26.4% of Group sales (prior year: CHF 120 million and 27.3%).

05 Trade and other receivables

In thousands of CHF	2018	2017 ¹
Trade receivables, gross	53,996	57,021
Impairment of trade receivables	(614)	(1,104)
Trade receivables, net	53,382	55,917
Refundable sales taxes and value-added taxes	2,648	3,785
Prepayments to suppliers	5,552	3,375
Contract assets	887	–
Sundry receivables	1,474	1,497
Total other receivables	10,561	8,657
Total trade and other receivables	63,943	64,574

¹ Restated for IFRS 15 (see note 2.1).

At January 1, 2017, the beginning of the prior year, net trade receivables were CHF 43.3 million; there were no contract assets. The divestiture of the ebeam systems business in Davenport had a negative effect of CHF 1.1 million on trade receivables. Further details are disclosed in note 21.

The allowance account for impairment of trade receivables showed the following movement:

In thousands of CHF	2018	2017
January 1	1,104	1,018
Added	95	230
Released	(562)	(180)
Foreign currency translation differences	(23)	36
December 31	614	1,104

At the balance sheet date, complete impairment was recognized on CHF 0.5 million (prior year: CHF 0.5 million) of trade receivables. Within the item “other receivables” and within contract assets, there were no amounts past due or written down. The Group does not hold security against trade and other receivables.

The aging schedule for past-due trade receivables on which impairment has been recognized is summarized in the table below.

In thousands of CHF	Expected loss rate	Gross carrying amount Dec. 31, 2018	Expected credit loss Dec. 31, 2018	Net carrying amount Dec. 31, 2018	Net carrying amount Dec. 31, 2017 ¹
Trade receivables		53,996	614	53,382	55,917
Not past due	0.1%	46,892	68	46,824	50,390
Over 30 days past due, impairment recognized	0.3%	5,004	16	4,988	2,424
Over 60 days past due, impairment recognized	0.5%	575	3	572	1,304
Over 90 days past due, impairment recognized	1.1%	409	4	405	505
Over 120 days past due, impairment recognized	1.5%	212	3	209	251
Over 150 days past due, impairment recognized	57.4% ²	905	519	386	1,043

¹ Restated for IFRS 15 (see note 2.1).

² Includes individual impairment allowances.

06 Other financial assets and liabilities

06.1 Other financial assets

In thousands of CHF	2018	2017
Other financial assets at fair value through profit or loss		
Derivatives used for foreign exchange hedging	26	277
Total other financial assets at fair value through profit or loss	26	277
Other financial assets at amortized cost		
Other non-current financial assets	209	239
Total other financial assets at amortized cost	209	239
Total other financial assets	235	516
Total current	26	277
Total non-current	209	239

06.2 Other financial liabilities

In thousands of CHF	2018	2017
Other financial liabilities at fair value through profit or loss		
Derivatives used for foreign exchange hedging	379	2
Total other financial liabilities at fair value through profit or loss	379	2

06.3 Derivative financial instruments

At the balance sheet date, open positions in forward exchange contracts were as follows:

In thousands of CHF	2018	2017
USD forward exchange contracts		
Contract amounts	21,763	17,860
Positive fair values	26	228
Negative fair values	284	2
JPY forward exchange contracts		
Contract amounts	2,197	2,549
Positive fair values	–	49
Negative fair values	79	–
CNY forward exchange contracts		
Contract amounts	858	–
Positive fair values	–	–
Negative fair values	16	–

The gains and losses from foreign exchange contracts are recognized as financing income or expense (see note 26). The contract amounts shown represent the notional principal amounts of the forward contracts. Consistent with the nature of the Group's activities, the forward exchange contracts have maturities of less than one year; most are due within six months.

07 Inventories

In thousands of CHF	2018	2017 ¹
Raw materials and semi-finished products	45,495	42,242
Work in process	14,470	21,023
Finished goods	31,125	39,560
Total inventories	91,090	102,825

¹ Restated for IFRS 15 (see note 2.1).

The inventory amounts reflect any necessary individual write-downs for items with a market value below manufacturing cost. The expense recognized for inventory write-downs was CHF 5.5 million (prior year: CHF 5.3 million).

The divestiture of the ebeam systems business in Davenport caused a reduction of CHF 10.5 million in inventories. Further details are disclosed in note 21.

08 Prepaid expenses

In thousands of CHF	2018	2017 ¹
Contract costs	1,629	1,145
Other prepaid expenses	3,480	3,410
Total prepaid expenses	5,109	4,555

¹ Restated for IFRS 15 (see note 2.1).

The contract costs represent capitalized sales commissions for agent activities (incremental costs directly attributable to obtaining a contract). In the fiscal year, sales commissions of CHF 3.6 million were recognized in the income statement (prior year: CHF 4.0 million).

The other prepaid expenses consisted largely of prepayments made for the subsequent fiscal year.

09 Property, plant and equipment

Fiscal year 2018

In thousands of CHF

	Real estate	Plant and equipment	Other tangible assets	Assets under construction	Total property, plant and equipment
Cost					
January 1, 2018	51,637	76,928	18,909	41,200	188,674
Additions	8,431	11,368	1,084	7,837	28,720
Commissioning of assets under construction	36,872	2,527	1,004	(40,403)	–
Disposals	–	(5,076)	(1,495)	–	(6,571)
Foreign currency translation differences	(21)	(256)	(227)	3	(501)
December 31, 2018	96,919	85,491	19,275	8,637	210,322
Accumulated depreciation					
January 1, 2018	24,998	57,020	11,601	–	93,618
Additions	1,243	4,856	2,411	–	8,510
Impairments	–	535	131	–	666
Disposals	–	(4,567)	(1,140)	–	(5,707)
Foreign currency translation differences	(11)	(172)	(174)	–	(357)
December 31, 2018	26,230	57,672	12,829	–	96,731
Carrying amount					
January 1, 2018	26,639	19,908	7,309	41,200	95,056
December 31, 2018	70,689	27,819	6,446	8,637	113,591

The disposals of other tangible assets included the reclassification of CHF 0.5 million (prior year: CHF 0.2 million) of internally produced demonstration equipment to inventories, which did not result in an outflow of funds. There were no leased assets (under finance leases) within property, plant and equipment (prior year: CHF 0.2 million).

The assets under construction related largely to improvements of (i.e., finishing-work on) the building expansion in Flamatt. For the building expansion, completed at the end of 2018, and for the improvements to it, interest of CHF 0.6 million was capitalized (prior year: CHF 0.4 million). The interest rate used is the effective interest rate of the bond (see note 13).

The divestiture of the ebeam systems business in Davenport resulted in an impairment charge of CHF 0.7 million and reductions in cost and accumulated depreciation of CHF 1.4 million for plant and equipment and of CHF 0.4 million for other tangible assets. At the time of the disposal, all items of property, plant and equipment had already been fully written off. Further details on the Davenport divestiture are given in notes 11.1 and 21.

Fiscal year 2017

In thousands of CHF	Real estate	Plant and equipment	Other tangible assets	Assets under construction	Total property, plant and equipment
Cost					
January 1, 2017	51,589	71,307	15,790	14,077	152,763
Additions	–	4,233	2,805	30,516	37,554
Commissioning of assets under construction	–	1,631	1,816	(3,447)	–
Disposals	–	(448)	(1,806)	–	(2,254)
Foreign currency translation differences	48	205	304	54	611
December 31, 2017	51,637	76,928	18,909	41,200	188,674
Accumulated depreciation					
January 1, 2017	23,425	52,785	9,650	–	85,861
Additions	1,549	4,407	2,118	–	8,074
Disposals	–	(316)	(437)	–	(753)
Foreign currency translation differences	24	144	270	–	437
December 31, 2017	24,998	57,020	11,601	–	93,618
Carrying amount					
January 1, 2017	28,164	18,521	6,140	14,077	66,902
December 31, 2017	26,639	19,908	7,309	41,200	95,056

Assets pledged or assigned as collateral for Group obligations (encumbered assets)

At December 31, 2018, all real estate liens (mortgage notes in the amount of CHF 30.0 million) were held within the Group. In the prior year, the carrying amount of pledged real estate was CHF 63.2 million, of which CHF 24.0 million was pledged as collateral for Group obligations for CHF 8.0 million of loan amounts drawn.

10 Intangible assets

Fiscal year 2018

In thousands of CHF	Goodwill and trademarks	Customer lists	Technology	Software	Other intangible assets	Total intangible assets
Cost						
January 1, 2018	29,229	28,825	4,753	22,174	224	85,205
Additions	–	–	401	1,291	241	1,933
Disposals	–	(7,529)	(2,654)	(1,612)	(188)	(11,983)
Foreign currency translation differences	(817)	(380)	(68)	(239)	(1)	(1,505)
December 31, 2018	28,412	20,916	2,432	21,614	276	73,650
Accumulated amortization						
January 1, 2018	0	19,199	2,041	12,253	65	33,558
Additions	–	1,470	367	3,413	5	5,255
Impairments	–	3,433	1,814	–	153	5,400
Disposals	–	(7,529)	(2,654)	(562)	(188)	(10,933)
Foreign currency translation differences	–	(295)	(52)	(110)	(0)	(457)
December 31, 2018	0	16,278	1,516	14,994	35	32,823
Carrying amount						
January 1, 2018	29,229	9,626	2,712	9,921	159	51,647
December 31, 2018	28,412	4,638	916	6,620	241	40,827

The divestiture of the ebeam systems business in Davenport resulted in an impairment charge of CHF 5.4 million and reductions in cost and accumulated amortization of CHF 4.4 million for customer lists and of CHF 2.7 million for technology. Further details on the Davenport divestiture are given in notes 11.1 and 21.

Fiscal year 2017

In thousands of CHF	Goodwill and trademarks	Customer lists	Technology	Software	Other intangible assets	Total intangible assets
Cost						
January 1, 2017	27,374	27,863	4,694	17,686	230	77,847
Additions	–	–	–	3,953	–	3,953
Foreign currency translation differences	1,855	962	59	535	(6)	3,405
December 31, 2017	29,229	28,825	4,753	22,174	224	85,205
Accumulated amortization						
January 1, 2017	0	16,809	1,492	9,794	50	28,144
Additions	–	1,584	468	1,896	14	3,962
Impairments	–	–	–	429	–	429
Foreign currency translation differences	–	806	81	134	1	1,022
December 31, 2017	0	19,199	2,041	12,253	65	33,558
Carrying amount						
January 1, 2017	27,374	11,054	3,203	7,892	180	49,703
December 31, 2017	29,229	9,626	2,712	9,921	159	51,647

The categories “goodwill and trademarks”, “customer lists” and “technology” were capitalized in connection with business combinations. The residual useful lives of the customer lists ranged up to six years.

Under a long-term brand strategy, the established Yxlon name is used alongside the Comet brand. The Group therefore deems the capitalized Yxlon brand to have an indefinite useful life.

11 Impairment test of goodwill and intangible assets with indefinite useful lives

The impairment test for goodwill and other intangible assets with indefinite useful lives was performed as at September 30, 2018. For the purpose of the impairment test, the assets to be tested were allocated to and measured as the following two cash generating units, at the level of the IXS division and (within the IXM division) at the level of the IXT business unit:

- X-Ray Systems (IXS), as the relevant cash generating unit for all activities of the acquired Yxlon group and for the FeinFocus product group, with the exception of the generator business.
- Industrial X-Ray Technology (IXT), for the generator business acquired as part of the acquisition of Yxlon.

The impairment test is based on the value in use method. The recoverable amount is determined from the present value of the future cash flows (DCF valuation). The calculations are based on the Board-approved rolling forecast current at the time of the impairment test, and on the Board-approved rolling medium-term plan for 2019 to 2021. Using experience-based estimates, the amounts in the forecast and in the medium-term plan are based on growth projections for net sales, operating income and other parameters, taking into consideration the estimated market trends in the various regions. Cash flows beyond the forecast period are extrapolated using an assumed growth rate of 1.5% to 1.8%, which is within the expected rate of market growth. The assumptions applied in determining value in use correspond to the expected long-term average growth rate of the X-Ray Systems division’s operating business and of the generator business of Industrial X-Ray Modules. Input variables with a critical impact on the outcome of the impairment test are the assumed rates of sales growth and the projected trend in operating income.

Carrying amount of the assets tested

	X-Ray Systems (IXS) CGU		Industrial X-Ray Technology (IXT) CGU		Total	
	2018	2017	2018	2017	2018	2017
In thousands of CHF						
Goodwill	19,287	20,018	6,873	6,873	26,160	26,891
Trademarks (Yxlon)	2,253	2,338	0	0	2,253	2,338
Total carrying amount	21,540	22,356	6,873	6,873	28,412	29,229

Assumptions applied in the valuation model

	X-Ray Systems (IXS) CGU		Industrial X-Ray Technology (IXT) CGU	
	2018	2017	2018	2017
Discount rate (WACC) before tax	12.2%	11.4%	12.8%	12.8%
Growth rate of terminal value	1.8%	1.5%	1.5%	1.5%

Sensitivities to the assumptions applied in the valuation model

The measurement of the values in use of the X-Ray Systems CGU (IXS) and the Industrial X-Ray Technology CGU (IXT) is sensitive to the following assumptions in the planning period (2019 to 2021):

- Growth assumptions: Sales revenue is projected by product group and region. Based on the stable situation of 2018 as the starting point, the average annual rate of sales growth is assumed to be 6% for IXS (prior year: 5%) and 9% for IXT (prior year: 6%).
- Gross margins: It is expected that with rising sales, gross margins in the medium term will average approximately 38% for IXS (prior year: 44%) and 50% for IXT (prior year: 42%). Target achievement also depends in part on the trend in the purchasing prices of materials.
- Foreign exchange rates: The movement in exchange rates between the Swiss franc and the euro and US dollar has an effect on company value. The forecasts are based on September 2018 exchange rates.
- Discount rate (WACC): The capital costs were determined based on borrowing costs (before tax) as well as the long-term risk-free rate, a small-cap premium, and a market risk premium weighted by a Comet-specific beta factor.

Comet believes that, with a realistic change in the material assumptions, the recoverable amount would not fall below the carrying amount.

11.1 Impairment in EBS business

For the ebeam systems business (EBS, part of the EBT division), at the end of the first half of 2018 there were indications of asset impairment due to lower profitability projections, and an impairment test was therefore performed at June 30, 2018.

The impairment test showed the need for an impairment charge on the assets of the EBS CGU. The impairment test is based on the value in use method. The recoverable amount was determined from the present value of the future cash flows (DCF valuation), using a pre-tax discount rate (WACC) of 11.8%. The calculations were based on the Board-approved rolling forecast current at the time of the impairment test, and on the Board-approved rolling medium-term plan for 2019 to 2021. The impairment expense of CHF 6.1 million represents the write-down of certain property, plant and equipment and intangible assets in the EBS business to their recoverable amount. The expense is disclosed in the statement of income under cost of sales (CHF 2.2 million), development expenses (CHF 0.2 million) and marketing and selling expenses (CHF 3.7 million).

Comet divested the ebeam systems business at November 12, 2018, which gave rise to additional losses. Further detail is provided in note 21.

12 Income tax**12.1 Current and deferred income tax expense**

In thousands of CHF	2018	2017 ¹
Current income tax expense in respect of the current year	3,219	13,522
Current income tax expense in respect of prior years	194	401
Deferred income tax (credit)/expense	(555)	593
Total income tax expense	2,858	14,516

¹ Restated for IFRS 15 (see note 2.1).

12.2 Reconciliation of tax expense

In thousands of CHF	2018	2017 ¹
Income before tax	15,137	49,852
Expected income tax at base tax rate of 24% (prior year: 28%)	3,633	13,959
Effect of tax rates other than base tax rate	52	168
Effect of tax relief from canton of Fribourg	(520)	(1,568)
Effect of non-tax-deductible expenses	423	661
Effect of change in tax rate on deferred income tax	(29)	1,348
Recognition and offset of tax loss carry-forwards not recognized in prior years	(675)	–
Effect of non-recognition of tax loss carryforwards	–	208
Effect of credits for R&D and domestic manufacturing	–	(846)
Effect of income tax from other periods	(194)	401
Effect of non-refundable withholding tax	193	111
Other effects	(24)	74
Income tax reported in the income statement	2,858	14,516
Effective income tax rate in % of income before tax	18.9%	29.1%

¹ Restated for IFRS 15 (see note 2.1).

The Tax Cuts and Jobs Act for tax reform passed in the United States in December 2017 resulted in a reduction in Comet's expected corporate tax rate from 28% in 2017 to 24% in 2018.

Comet AG, based in Flamatt, has been granted conditional tax relief by the canton of Fribourg in the form of a reduction in cantonal and municipal taxes for the period to 2022. For 2018 the tax reduction amounted to 50% (prior year: 50%).

12.3 Deferred tax assets and liabilities

Deferred tax assets and liabilities can be analyzed as follows:

In thousands of CHF	2018		2017 ¹	
	Assets	Liabilities	Assets	Liabilities
Financial instruments	39	6	35	78
Receivables	979	133	4,392	248
Inventories	3,832	1,064	5,223	3,305
Property, plant and equipment	279	628	303	715
Intangible assets	1	3,274	–	4,076
Trade and other payables	418	184	1,375	7
Accrued expenses	429	52	961	3
Provisions	1,020	1	920	2
Employee benefit plan liabilities	1,364	–	940	–
Tax loss carryforwards, and tax credits for R&D and domestic manufacturing	4,046		684	
Total gross deferred tax of Group companies	12,406	5,343	14,833	8,434
Netting of deferred tax by Group companies	(5,343)	(5,343)	(7,297)	(7,297)
Amounts in the consolidated balance sheet	7,063	–	7,536	1,137

¹ Restated for IFRS 15 (see note 2.1).

The deferred tax assets and liabilities were measured at local tax rates, ranging from 14% to 35%. No deferred tax liabilities were established for temporary differences of CHF 75.6 million (prior year: CHF 90.9 million) in respect of the value of the ownership interests in Group companies. Distributions of retained earnings by subsidiaries are not expected to have an effect on income taxes, except for future distributions from China. There were no tax provisions for non-refundable withholding taxes on future distributions of foreign subsidiaries to Comet Holding AG. Distributions by Comet Holding AG to its shareholders have no effect on the reported or future income taxes.

12.4 Movement in deferred tax assets and liabilities

In thousands of CHF	2018	2017 ¹
Net asset at January 1	6,399	7,177
Origination and reversal of temporary differences recognized in the income statement	(2,808)	(593)
Recognition of deferred tax assets on loss carryforwards	3,772	–
Use of tax loss carryforwards	(408)	–
Deferred tax credit in the income statement	555	(593)
Origination and reversal of temporary differences recognized in other comprehensive income	132	(2)
Foreign currency translation differences	(23)	(183)
Net asset at December 31	7,063	6,399

¹ Restated for IFRS 15 (see note 2.1).

12.5 Tax loss carryforwards

Deferred tax assets, including tax loss carryforwards and expected tax credits, are recognized only if it is likely that future taxable profits will be available to which these deferred tax assets can be applied. Temporary differences (between the carrying amounts in the IFRS financial statements and the corresponding tax base) for which no tax assets were recognized were nil (prior year: nil).

At the balance sheet date of December 31, 2018, tax loss carryforwards stood at CHF 13.0 million (prior year: nil). Including tax credits for R&D and domestic manufacturing, the resulting deferred tax assets were CHF 4.0 million (prior year: CHF 0.7 million). The existing loss carryforwards can be carried forward indefinitely.

In the year under review there were no unrecognized deferred tax assets from tax loss carryforwards (prior year: loss carryforwards of CHF 3.3 million with a potential tax effect of CHF 0.7 million).

13 Current and non-current debt

On April 20, 2016 a five-year, CHF 60 million bond was issued. The bond has a coupon rate of 1.875% and is listed on the SIX Swiss Exchange (ticker symbol COT16; security number 32061943). Its effective interest rate is 2%.

At the end of the fiscal year under review the Comet Group had undrawn credit facilities of CHF 45.6 million (prior year: CHF 41.2 million).

13.1 Non-current debt

The non-current debt consisted of the five-year bond maturing in 2021 and of bank loans. In the year under review, all interest and principal payments were made as contractually agreed.

In thousands of CHF	2018	2017
Repayment due in two to five years	63,000	66,000
Repayment due in more than five years	–	–
Subtotal	63,000	66,000
Future amortization of costs	(188)	(267)
Total non-current debt	62,812	65,733

All non-current debt represented fixed-rate debt instruments denominated in CHF and having fixed maturities. Loans with original maturities of more than twelve months coming due in the subsequent year were reclassified to current debt.

13.2 Finance lease obligations

At December 31, 2018, there were no liabilities under finance leases (prior year: CHF 0.1 million).

13.3 Movement in current and non-current debt**Fiscal year 2018**

In thousands of CHF	Jan. 1, 2018	Cash flows	Reclassif. from non-current to current	Unwinding of discount, and remeasurement	Foreign currency translation differences	Dec. 31, 2018
Current interest-bearing loans and borrowings (excluding items listed below)	2,000	–	3,000	–	–	5,000
Current obligations under finance leases	132	(136)	–	4	–	–
Non-current interest-bearing loans and borrowings (excluding items listed below)	65,733	–	(3,000)	79	0	62,812
Total liabilities from financing activities	67,864	(136)	–	83	0	67,812

Fiscal year 2017

In thousands of CHF	Jan. 1, 2017	Cash flows	Reclassif. from non-current to current	Unwinding of discount, and remeasurement	Foreign currency translation differences	Dec. 31, 2017
Current interest-bearing loans and borrowings (excluding items listed below)	2,500	(2,500)	2,000	–	–	2,000
Current obligations under finance leases	166	(156)	105	15	2	132
Non-current interest-bearing loans and borrowings (excluding items listed below)	67,655	–	(2,000)	78	0	65,733
Non-current obligations under finance leases and hire purchase contracts	105	–	(105)	–	–	–
Total liabilities from financing activities	70,426	(2,656)	–	93	2	67,864

14 Trade and other payables

In thousands of CHF	2018	2017 ¹
Trade payables	23,971	32,089
Sundry payables	4,406	4,933
Sales commissions	4,614	4,674
Total financial liabilities	32,991	41,696
Sales tax and value-added tax	1,928	849
Total other payables	1,928	849
Total trade and other payables	34,919	42,545

¹ Restated for IFRS 15 (see note 2.1).

The divestiture of the ebeam systems business in Davenport had the effect of a CHF 0.2 million reduction in trade payables. Further details are disclosed in note 21.

15 Accrued expenses

In thousands of CHF	2018	2017
Accrued staff costs	6,602	14,764
Other accrued expenses	13,715	10,994
Total accrued expenses	20,316	25,758

Accrued staff costs consist mainly of the amount accrued for performance-based compensation, and employees' vacation and overtime credits. The item "other accrued expenses" relates to outstanding invoices and payables of the fiscal year, such as for rent, energy and consulting.

16 Provisions**Fiscal year 2018**

In thousands of CHF	Warranties	Other provisions	Total provisions
January 1, 2018	7,814	2,380	10,194
Added	5,408	3,067	8,475
Used	(3,222)	(892)	(4,114)
Released	(2,308)	(10)	(2,318)
Foreign currency translation differences	(46)	(64)	(110)
December 31, 2018	7,646	4,481	12,127
Of which:			
January 1, 2018			
Current provisions	7,814	2,326	10,140
Non-current provisions	–	54	54
December 31, 2018			
Current provisions	7,646	4,434	12,080
Non-current provisions	–	47	47

The provision for warranties covers the risk of expenses for defects that have not occurred to date, but could potentially occur until the end of the warranty periods. Warranty provisions are measured based on historical experience. The divestiture of the ebeam systems business in Davenport had the effect of a reduction of CHF 0.2 million in warranty provisions. Further details are disclosed in note 21.

In the prior year, in an internal review of compliance with export regulations, a procedural error was found in the USA in connection with a transfer license. Comet informed the appropriate authorities of the error and initiated the necessary corrective measures. For the related expenses estimated to be incurred, CHF 1.1 million (prior year: CHF 1.5 million) is held in the item "other provisions".

The additions to other provisions in the fiscal year related largely to the reorganization of the IXS division.

17 Employee benefits

17.1 Defined benefit plans

The Comet Group maintains defined benefit pension plans in Switzerland and Germany. These plans differ according to their particular purpose (retirement, disability, and/or survivor benefits) and are based on the legal requirements in the respective countries.

Switzerland

The defined benefit plans are managed within a multi-employer pension fund. This is a separate legal entity falling under the Swiss Federal Act on Occupational Retirement, Survivors' and Disability Pensions (the BVG). The pension fund maintains a main ("base") plan for employees that provides the legally required benefits, and a supplemental plan that provides benefits in respect of pay components above the statutory range. The base plan was switched to a fully insured pension model effective January 1, 2018, as is the supplemental plan with effect from January 1, 2019. Both plans are administered by the multi-employer pension fund, which is in the form of a foundation organized by an insurance company. The pension fund is managed by the foundation's board of directors, which is composed of equal numbers of employee and employer representatives and is required to act in the interests of the plan participants. As the base plan is managed under a fully insured model, all investment risk is carried by the pension fund, or ultimately by the insurer. For the supplemental plan, the investment strategy was determined by the administration committee until the change-over to the fully insured model.

Plan participants are insured against the financial consequences of old age, disability and death. The benefits are specified in a set of regulations. Minimum levels of benefits are prescribed by law. Contribution levels are set as a percentage of the insured portion of employees' pay. The retirement benefit is calculated as the retirement pension asset existing at the time of retirement, multiplied by the conversion rate specified in the regulations. Plan participants can opt to receive their principal as a lump sum instead of drawing a pension. The supplemental plan as a rule pays out a lump sum, but a pension can be drawn on request. The amounts of the disability and survivor pensions are defined as a percentage of insured pay.

Germany

In Germany there is a closed plan with pension commitments which no longer has active participants. The obligations in respect of current pension payments and deferred pensions are recognized in the balance sheet.

Principal actuarial assumptions

	Switzerland		Germany	
	2018	2017	2018	2017
Discount rate at January 1	0.6%	0.6%	1.5%	1.5%
Discount rate at December 31	0.7%	0.6%	1.6%	1.5%
Expected rate of salary increases	1.0%	1.0%	–	–
Life tables used as basis for life expectancies	BVG 2015 GT	BVG 2015 GT	Heubeck 2018 GT	Heubeck 2005 GT

Movement in present value of defined benefit obligation, in plan assets and in net carrying amount for defined benefit plans

Fiscal year 2018

In thousands of CHF

	Present value of defined benefit obligation	Fair value of plan assets	Net carrying amount recognized in balance sheet
January 1	(82,536)	75,428	(7,108)
Current service cost	(3,636)	–	(3,636)
Past service cost	613	–	613
Administration cost, excl. cost of managing plan assets	(41)	–	(41)
Current service cost	(3,064)	–	(3,064)
Interest (expense)/income	(517)	461	(57)
Defined benefit cost recognized in the income statement	(3,581)	461	(3,120)
Return on plan assets, excluding interest income	–	(290)	(290)
Actuarial loss arising from changes in financial assumptions	731	–	731
Actuarial gain arising from changes in demographic assumptions	1,053	–	1,053
Actuarial loss arising from experience adjustments	(2,407)	–	(2,407)
Defined benefit cost recognized in other comprehensive income	(623)	(290)	(913)
Benefits paid-in/deposited	4,387	(4,364)	23
Employee contributions	(2,173)	2,173	–
Employer contributions	–	1,152	1,152
Foreign currency translation differences	74	(47)	28
December 31	(84,452)	74,513	(9,939)
Reported as an asset			–
Reported as a liability			(9,939)

The average duration of the defined benefit obligation was 11.6 years.

For the defined benefit plans in Switzerland, the board of directors of the pension fund (a foundation) has decided to reduce the pension conversion rates from the year 2021. This plan amendment leads to a negative past service cost (i.e., it results in income) and a corresponding reduction in the defined benefit obligation. The positive pre-tax effect of CHF 0.6 million is distributed across the 2018 operating income of the divisions as follows: PCT, CHF 0.2 million; IXM, CHF 0.3 million; EBT, CHF 0.1 million.

Fiscal year 2017

In thousands of CHF

	Present value of defined benefit obligation	Fair value of plan assets	Net carrying amount recognized in balance sheet
January 1	(66,286)	61,932	(4,354)
Current service cost	(2,698)	–	(2,698)
Past service cost	(2,543)	–	(2,543)
Administration cost excl. cost of managing plan assets	(32)	–	(32)
Current service cost	(5,273)	–	(5,273)
Interest (expense)/income	(440)	406	(33)
Defined benefit cost recognized in the income statement	(5,713)	406	(5,306)
Return on plan assets, excluding interest income	–	5,182	5,182
Actuarial loss arising from experience adjustments	(5,199)	–	(5,199)
Defined benefit cost recognized in other comprehensive income	(5,199)	5,182	(17)
Benefits paid-in/deposited	(3,217)	3,251	34
Employee contributions	(1,948)	1,948	–
Employer contributions	–	2,601	2,601
Foreign currency translation differences	(174)	108	(65)
December 31	(82,536)	75,428	(7,108)
Reported as an asset			–
Reported as a liability			(7,108)

The past service cost recognized in 2017 arose from the decision to switch the defined benefit plans in Switzerland to a fully insured pension model. This switch resulted in changes in benefits; as well, revaluation reserves no longer required were distributed among the retirement accounts of the insured individuals.

The negative pre-tax effect of CHF 2.5 million was distributed among the divisions as follows in their 2017 operating income: PCT: CHF 0.9 million; IXM: CHF 1.2 million; EBT: CHF 0.4 million.

Key figures by country

In thousands of CHF	Switzerland		Germany	
	2018	2017	2018	2017
Present value of defined benefit obligation	(82,505)	(80,466)	(1,947)	(2,070)
Fair value of plan assets	73,297	74,130	1,216	1,298
Net carrying amount recognized in the balance sheet	(9,207)	(6,337)	(732)	(772)
Defined benefit cost recognized in the income statement	(3,109)	(5,295)	(11)	(11)
Defined benefit cost recognized in other comprehensive income	(913)	(38)	0	21

The employer contributions to the plans in Switzerland for fiscal year 2019 are expected to amount to CHF 2.9 million.

Major categories of plan assets			
In thousands of CHF	2018	2017	
Cash and cash equivalents	13,629	2,320	
Equity instruments	–	19,447	
Debt instruments	–	39,914	
Real estate	–	12,449	
Total plan assets at fair value (quoted market price)	13,629	74,130	
Assets from insurance contract	60,884	1,298	
Total assets without a quoted market price	60,884	1,298	
Total plan assets	74,513	75,428	

For the base plan, which is managed under a fully insured model, all investment risk is carried by the pension fund, or ultimately by the insurer. The plan assets are therefore reported as "assets under an insurance contract". In the supplemental plan in 2018, Comet did not invest the plan assets directly but only through investment funds offered by insurance companies or banks. These investment products could contain equity securities or debt instruments of Comet Holding AG; however, Comet has no influence of any kind on the investment decisions of the fund managers. At December 31, 2018, the plan assets were held in cash and cash equivalents, in preparation for the change-over of the supplemental plan to a fully insured model with effect from January 1, 2019.

Companies of the Comet Group do not make loans to the pension plans and do not utilize any real estate held by the plans.

Sensitivities

The following table presents an analysis of how the reported present value of the defined benefit obligation would change in response to hypothetical changes in the actuarial assumptions.

Sensitivity of present value of defined benefit obligation to different scenarios

In thousands of CHF	2018	Switzerland		Germany	
		2017	2018	2017	2018
Discount rate: 0.25% decrease	84,964	83,187	2,011	2,140	2,140
Discount rate: 0.25% increase	80,206	77,928	1,887	2,004	2,004
Salaries: 0.25% decrease	82,374	80,314	1,947	2,070	2,070
Salaries: 0.25% increase	82,637	80,617	1,947	2,070	2,070
Life expectancy: 1-year increase	83,177	81,415	2,040	2,169	2,169
Life expectancy: 1-year decrease	81,832	79,518	1,855	1,972	1,972

17.2 Defined contribution plans The contributions paid to defined contribution plans in the fiscal year amounted to CHF 6.3 million (prior year: CHF 5.5 million).

17.3 Length-of-service awards Comet grants length-of-service awards to its employees after a certain number of years of service, in the form of lump-sum payments that increase in amount with the number of years of employment. The provision for this item changed as follows in the year under review:

In thousands of CHF	2018	2017
Provision at January 1	1,330	1,192
Current service cost	202	161
Interest cost	12	11
Benefits paid	(137)	(104)
Actuarial (gains)/losses	(13)	29
Foreign currency translation differences	(26)	41
Provision at December 31	1,368	1,330

18 Other operating income

In thousands of CHF	2018	2017 ¹
Customers' contributions to development projects	2,136	2,674
Government grants	109	7
Income from the development of prototypes	1,508	968
Miscellaneous income	448	444
Total other operating income	4,201	4,093

¹ Restated for IFRS 15 (see note 2.1).

19 Staff costs and staff count**19.1 Staff costs**

In thousands of CHF	2018	2017
Wages and salaries	131,542	123,120
Employee benefits	21,588	22,166
Total staff costs	153,130	145,286

19.2 Staff count

	2018	2017
Number of employees (year-end)	1,346	1,435
Average full-time equivalents during the year	1,379	1,292

20 Development expenses

Development expenses comprise the costs of new-product development, improvement of existing products, and process engineering. Comet's development activities focus on the fields of vacuum technology, high voltage engineering and materials science, and on the further development of the divisions' core products. In view of the uncertainty of future economic benefits that may flow from development projects, Comet as a rule does not capitalize development costs but charges them directly to the income statement.

21 Loss on disposal of businesses

At November 12, 2018, Comet transferred the ebeam systems business (a part of the EBT division) to a new owner, Tri-City Electric Co. in Davenport, Iowa, USA. The new owner acquired the following assets and assumed the following liabilities of the Davenport facility:

In thousands of CHF	Carrying amount Nov. 12, 2018
Trade and other receivables	1,084
Inventories	10,546
Prepaid expenses	87
Total assets	11,717
Trade payables and contract liabilities	(5,195)
Provisions	(220)
Total liabilities	(5,415)
Total net assets	6,302
Cash payment to new owner	(293)
Book loss on transfer	(6,595)

The loss on the transaction is tax-deductible. The tax effect was a reduction of CHF 1.7 million in tax expense.

22 Amortization and depreciation

In thousands of CHF	2018	2017
Amortization	5,255	3,963
Depreciation	8,510	8,074
Total amortization and depreciation	13,765	12,037
Impairment of intangible assets	5,400	429
Impairment of property, plant and equipment	666	–
Total impairment	6,066	429

Further information on the impairment charges related to the divestiture of the ebeam systems business in Davenport is provided in note 11.1.

23 Financing income and expenses

In thousands of CHF	2018	2017
Interest expense	890	1,324
Losses on derivatives used for currency hedging	1,702	335
Foreign currency translation losses	6,794	5,312
Total financing expenses	9,387	6,971

In thousands of CHF	2018	2017
Interest income	30	14
Gains on derivatives used for currency hedging	647	1,586
Foreign currency translation gains	5,885	4,486
Total financing income	6,562	6,086

In thousands of CHF	2018	2017
Net interest expense	861	1,310
Net foreign currency translation losses/(gains)	1,964	(425)

Foreign currency translation gains and losses resulted largely from items denominated in US dollars and euros.

24 Earnings per share

Basic earnings per share represents the reporting period's consolidated net income divided by the average number of shares outstanding.

	2018	2017 ¹
Weighted average number of shares outstanding	7,757,904	7,750,232
Net income in thousands of CHF	12,279	35,336
Net income per share in CHF, diluted and basic	1.58	4.56

¹ Restated for IFRS 15 (see note 2.1).

There are no outstanding stock options or stock subscription rights that could lead to a dilution of earnings per share.

25 Off-balance sheet transactions**25.1 Contingent liabilities**

As a global company, Comet is exposed to numerous legal risks. These can include, especially, risks relating to product liability, patent law, export regulations, tax law and competition law. The outcomes of currently pending and future legal proceedings cannot be predicted with certainty. Expenses may therefore be incurred that are not, or not fully, covered by insurance benefits and which may thus have effects on the business trajectory and on future financial results.

Provisions are established inasmuch as the financial consequences of a past event can be estimated reliably and the estimate can be confirmed by independent expert opinion. Contingent liabilities that are likely to result in an obligation are included under provisions.

In 2006 Comet sold a property in Switzerland that is listed in the register of contaminated sites. Although in the opinion of the experts involved, the situation was unlikely to change significantly in the short to medium term, it was obligatory to monitor the site regularly in recent years by means of test drilling. The groundwater testing to date has not revealed any significant deterioration in the situation. The last planned round of drilling and sampling will therefore be conducted in spring 2019. If these groundwater samples do not show a further deterioration, all monitoring activities can be terminated as of the end of 2019. The site would then not require any further monitoring and would be deleted from the register of contaminated sites. A final assessment of the matter can probably be made in the course of 2019. However, based on the results of the groundwater sampling to date, Comet believes it is currently unlikely that any significant costs will be incurred.

25.2 Other off-balance sheet obligations

In the course of its operating activities, Comet has concluded long-term rental and lease agreements resulting in payment obligations that come due as follows:

In thousands of CHF	2018	2017
Due within one year	5,021	4,461
Due within two to five years	8,361	10,135
Due in more than five years	45	–
Total payment obligations	13,427	14,596

The payment obligations arise from off-balance sheet operating leases for business premises and for road vehicles, office equipment and similar assets. The expense recognized in the fiscal year for operating leases was CHF 6.0 million (prior year: CHF 5.0 million).

26 Financial instruments

26.1 Classes of financial instruments

Fiscal year 2018

In thousands of CHF

	Financial assets		Financial liabilities		Fair value
	At fair value through profit or loss	At amortized cost	At fair value through profit or loss	At amortized cost	
Cash and cash equivalents		43,007			*
Trade receivables, net		53,382			*
Derivatives	26		379		353
Financial assets		209			*
Current debt				5,000	5,009
Trade and other payables				32,991	*
Non-current debt (fixed rate)				62,812	63,133
Total	26	96,599	379	100,803	
Interest income/(expense)	–	30	–	(890)	
Gain/(loss) on derivatives	647	–	(1,702)	–	
Change in impairment and losses on trade receivables		467			
Total net gain/(loss) recognized in the income statement	647	497	(1,702)	(890)	

* The carrying amount approximates fair value.

IFRS require all financial instruments which are held at fair value, and all reported fair values, to be categorized into three classes (or “levels”) according to whether the fair values are based on quoted prices in active markets (Level 1), on models using other observable market data (Level 2), or on models using unobservable inputs (Level 3).

The only financial instruments that the Comet Group recognized at fair value were derivatives held for currency hedging. The measurement of the derivatives falls into Level 2 of the fair value measurement hierarchy under IFRS 13.

Fiscal year 2017 ¹

In thousands of CHF

	Financial assets		Financial liabilities		Fair value
	Held for trading	Loans and receivables	Held for trading	At amortized cost	
Cash and cash equivalents		60,420			*
Trade receivables, net		55,917			*
Derivatives	277		2		276
Financial assets		239			*
Current debt				2,132	2,173
Trade and other payables				41,696	*
Non-current debt (fixed rate)				65,733	68,364
Total	277	116,576	2	109,561	
Interest income/(expense)	0	14	0	(1,324)	
Gain/(loss) on derivatives	1,585	0	(335)	0	
Change in impairment and losses on trade receivables		(50)			
Total net gain/(loss) recognized in the income statement	1,585	(36)	(335)	(1,324)	

¹ Restated for IFRS 15 (see note 2.1).

* The carrying amount approximates fair value.

26.2 Fair values of financial instruments

The only differences between fair values and carrying amounts occurred in fixed-rate debt. For the CHF 60 million bond, the quoted market price is used as the fair value (Level 1). The fair values of the other items of fixed-rate debt are determined by discounting the future cash flows at the interest rate prevailing at the year-end. The interest rate spreads used are those of the most recently obtained or refinanced loans.

27 Management of financial risks

Comet operates its own subsidiaries in a number of countries and also exports products to still other countries. As an international company, the Group is subject to various financial risks which are inseparable from its business activities. Comet seeks to avoid unreasonable financial risks and to mitigate risks through appropriate hedges. The key elements of risk management form an integral part of Group strategy. Clearly defined management information and control systems are used to measure, monitor and control risks. Detailed risk reports are produced on a regular basis.

27.1 Capital management

The primary goal of capital management is to manage equity and debt capital in such a way as to ensure the Group's high creditworthiness and an equity ratio appropriate to the Group's risk profile, thus supporting its business activities. Comet manages the Group's capital structure to meet liquidity requirements and pursue growth and profitability targets, taking into account the economic environment and the financial results achieved and planned. On this basis, the Board of Directors proposes dividend payments or capital repayments to the shareholders or recommends increases in capital stock.

Comet monitors and evaluates its capital structure by reference to net debt and the equity ratio, with the aim of ensuring that the capital structure covers the business risks and assures the Group's lasting financial flexibility.

In thousands of CHF	2018	2017 ¹
Current debt	5,000	2,132
+ Non-current debt	62,812	65,733
./. Cash and cash equivalents	43,007	60,420
Net debt	24,805	7,445
EBITDA	37,793	63,203
Debt ratio (net debt in relation to EBITDA)	0.7	0.1
Shareholders' equity	200,038	201,548
Equity ratio (equity in % of total assets)	54.4%	51.7%

¹ Restated for IFRS 15 (see note 2.1).

27.2 Risks in connection with financial instruments

Comet is exposed to many risks associated with financial instruments. These can be divided into market risks, credit risks and liquidity risks.

27.2.1 Market risk

Market risk is the risk of changes in the price of financial assets, in currency exchange rates, interest rates and the price of exchange-traded commodities. As a manufacturer, Comet is inherently exposed to commodity price risks (for example, for inputs such as energy, copper and ceramics), but these are not considered financial risks for the purposes of IFRS 7, as Comet procures commodities only for use in manufacturing, not for trading of commodity contracts. Consequently, these risks are not explicitly determined and are not separately disclosed in the consolidated financial statements.

Exchange rate risk

With its worldwide activities and strong focus on exports, Comet has particularly high exposure to exchange rate risks, as revenues and costs often do not arise in the same currency. The currency risk from operations is reduced by purchasing and selling in local currency where possible, an approach known as natural hedging. In addition, to protect against fluctuation in exchange rates, significant foreign currency orders in the X-Ray Systems division are already hedged on receipt of the order, using forward exchange contracts. The Industrial X-Ray Modules, ebeam Technologies and Plasma Control Technologies divisions non-selectively hedge a large portion of the expected cash flows in foreign currency up to a one-year time horizon, by means of forward exchange contracts. As Comet hedges only cash flows, there are no hedges of net investments in foreign operations. The table below shows the sensitivity of income before tax and of shareholders' equity to a possible movement in those exchange rates that are material for Comet, with all other variables held constant. The most important monetary foreign currency positions in the balance sheets of the Group companies are in euros and US dollars. The percentages of movement in exchange rates are based on an estimated potential range of fluctuation.

Fiscal year 2018

In thousands of CHF	Increase in exchange rate in %	Effect on income before tax	Effect on equity
EUR/CHF	+10	+1,272	+1,059
USD/CHF	+10	+857	+1,379

Fiscal year 2017

In thousands of CHF	Increase in exchange rate in %	Effect on income before tax ¹	Effect on equity ¹
EUR/CHF	+10	+2,061	+2,046
USD/CHF	+10	+4,115	+1,950

¹ Restated for IFRS 15 (see note 2.1).

A reduction in exchange rates of the same percentage amount produces an opposite effect of equal size. The sensitivity analysis covers only monetary balance sheet items that, relative to the functional currency of the respective Group company, are settled in foreign currencies.

Interest rate risk

Comet's debt financing exposes it to the risk of interest rate fluctuation. As Comet's loans and bond carry fixed rates of interest, movements in market interest rates have no short-term effect on the amounts of interest payable and hence on the income statement. All loans are measured at amortized cost; consequently, in the year under review and the prior year, changes in market interest rates did not have an effect on the carrying amounts of the loans, nor therefore on income before tax or on equity. The fair values of long-term debt based on the current interest rate situation are presented on an indicative basis in note 26.1.

27.2.2 Credit risk

Credit risk is the risk that a counterparty will not be willing or able to meet its obligations. To mitigate this risk, Comet deals with multiple well-established banks and spreads the credit risk as widely as necessary and reasonable.

Banking transactions: Comet spreads its cash holdings among different banks in order to minimize the potential for losses from credit risk. Banking transactions are conducted only with reputable banks of national and international standing. The types of transactions in which subsidiaries are permitted to engage is determined centrally. The following table shows the amounts held at the most important counterparties at the balance sheet date:

In thousands of CHF	Rating *	2018	2017	
		Balance	Rating *	Balance
Bank A	A+	23,434	A+	17,420
Bank B	AAA	42	AAA	9,025
Bank C	A	2,458	A	4,289
Bank D	N/A	16	N/A	9,554
Bank E	A-	6,157	A-	9,407
Bank F	A+	5,093	A+	5,445
Other counterparties		5,807		5,280
Total bank deposits		43,007		60,420

* Long-term credit rating from Standard & Poor's.

Trade receivables: Comet operates worldwide, selling its products in various countries and to a large number of customers. Payment terms vary according to the market and customer. The credit limits and payment receipts for each customer are monitored by the individual Group companies and the resulting information is made available to Group management in the form of monthly special reports. Appropriate allowance for expected risk of default is made through the recognition of impairment on doubtful accounts. Receivables and contract assets are written off only when payment is highly unlikely to be forthcoming. Detailed information on impairment of receivables and contract assets and its movement in the year can be found in note 5.

The amount of exposure to credit risk equals the carrying amount of the respective financial instruments in the balance sheet.

27.2.3 Liquidity risk

Comet defines liquidity risk as the risk that, at any time, the Group will not be able to meet its financial obligations fully as they become due. The foremost goal of financial management is the permanent assurance of the Group's solvency in order to prevent such a contingency. To this end, using liquidity planning, Comet always maintains sufficient liquid assets and credit lines to avoid shortages of liquidity. Ensuring solvency also includes active working capital management. The Group's credit quality is safeguarded by monitoring the leverage ratio of net debt to EBITDA. Liquidity planning and liquidity procurement are to a large extent performed centrally for the whole Group. A rolling three-month cash flow forecast is prepared monthly based on a decentralized, bottom-up approach. The long-term financing of subsidiaries is normally arranged through loans of Comet Holding AG. Following is an overview of all contractual payment obligations as at the balance sheet date, on an undiscounted basis:

Fiscal year 2018

In thousands of CHF	Carrying amount	Payments due by period			
		Total	2019	2020–2023	After 2023
Current and non-current debt	67,812	71,627	6,275	65,352	–
Financial liabilities	32,991	32,991	32,991	–	–
Derivatives (negative fair values)	379	379	379	–	–
Total	101,182	104,997	39,646	65,352	–

Fiscal year 2017 ¹

In thousands of CHF	Carrying amount	Payments due by period			
		Total	2018	2019–2022	After 2022
Current and non-current debt	67,865	73,161	3,532	69,629	–
Financial liabilities	41,696	41,696	41,696	–	–
Derivatives (negative fair values)	2	2	2	–	–
Total	109,563	114,859	45,230	69,629	–

¹ Restated for IFRS 15 (see note 2.1).

Current and non-current debt represents both the principal amounts of these borrowings and the contractual interest payments.

The key assumptions of the above summary of payment obligations are:

- For variable-rate debt, the interest rates at the balance sheet date are used.
- All amounts denominated in foreign currencies are translated at the rate prevailing at the balance sheet date.
- The maturity date assumed is the earliest possible.

The contract amounts of open derivative positions are presented in note 6.3.

28 Equity capital structure and shareholders

28.1 Capital stock

The capital stock at January 1, 2018 was CHF 7,753,658, divided into 7,753,658 registered shares with a par value of CHF 1.00 per share.

In fiscal year 2018 the capital stock was increased by 6,224 shares from the portion of authorized capital designated for equity-based compensation. Including the increase of 6,224 shares from this portion of authorized capital, Comet Holding AG at December 31, 2018 thus had a new total of CHF 7,759,882 of capital stock, divided into 7,759,882 registered shares with a par value of CHF 1.00 per share. The capital stock is fully paid in.

At its meeting on August 9, 2018 the Board of Directors established that the capital increase from authorized capital for equity compensation was properly performed. The information in the commercial register, and the Bylaws of Comet Holding AG, were updated to reflect the change in capital stock.

	2018		2017	
	Number of shares	Par value in CHF	Number of shares	Par value in CHF
January 1	7,753,658	7,753,658	7,745,430	7,745,430
Increase in capital from the portion of authorized capital designated for equity compensation	6,224	6,224	8,228	8,228
December 31	7,759,882	7,759,882	7,753,658	7,753,658

At the balance sheet date, Comet Holding AG held no treasury stock (prior year: none).

28.2 Authorized capital for equity compensation

Under section 3b of its Bylaws, a portion of the Company's unissued authorized capital is designated for use only as equity-based compensation (in German this portion is known as "bedingtes Aktienkapital"). In such a capital increase, stock is issued to Executive Committee members and/or Board members of Comet Holding AG. With respect to this portion of authorized capital, the other shareholders' pre-emptive rights are excluded. The issuance of stock or stock subscription rights is based on a compensation plan (in the form of a written regulation) adopted by the Board of Directors.

In May 2018, in accordance with the compensation plan, the members of the Board of Directors were granted a total of 1,141 shares of stock in payment of CHF 153,750 of fixed retainers due for fiscal year 2017. In addition, as part of their compensation for 2018, the members of the Board of Directors were granted a total of 568 shares in payment of CHF 76,538 of fixed retainers due for the period from January 1, 2018 to the 2018 Annual Shareholder Meeting. The fully paid shares were applied to the retainers due at a price of CHF 134.75 per share.

Members of the Executive Committee were granted a total of 4,515 shares in payment of CHF 608,396 of profit-sharing compensation due for fiscal year 2018. The fully paid shares were applied to the compensation due at a price of CHF 134.75 per share.

As a result of these grants of a total of 6,224 shares made in 2018, the Company's unissued authorized capital for equity-based compensation showed the following movement:

	2018		2017	
	Number of shares	Par value in CHF	Number of shares	Par value in CHF
January 1	209,462	209,462	217,690	217,690
Increase in capital (awards to Board of Directors for prior term's retainer and to Executive Committee for prior year's profit-sharing compensation)	(6,224)	(6,224)	(8,228)	(8,228)
December 31	203,238	203,238	209,462	209,462

At the end of the year, the remaining unissued authorized capital for equity-based compensation was CHF 203,238, or 2.6% of the existing capital stock.

28.3 Authorized capital for other capital increases

At December 31, 2018, in addition to shares outstanding and to unissued authorized capital for equity compensation, the Company had unissued authorized capital for purposes set out in section 3a of the Bylaws (in German: "genehmigtes Aktienkapital"). The Board of Directors is authorized, at any time until April 26, 2020, to increase the capital stock by a maximum of CHF 1.4 million by issuing up to 1,400,000 fully payable registered shares with a par value of CHF 1.00 per share, which represents 18% of the existing capital stock. Increases by firm commitment underwriting and increases by part of the total authorized amount are permitted. The amount of the respective issue, the date when entitlement to dividend commences, the terms of any exercise of pre-emptive rights and the nature of the contributions are determined by the Board of Directors.

The Board of Directors is authorized to exclude shareholders' subscription rights and assign these rights to third parties if the shares in question are to be used for the acquisition of companies via equity swaps or to finance the cash purchase of companies or parts of companies, or to finance new investment projects of Comet Holding AG, or for providing an ownership interest to an industrial partner (either in order to cement a strategic alliance or in the event of a takeover offer for the Company). Stock for which pre-emptive rights are granted but not exercised must be sold by the Company at market prices.

28.4 Significant shareholders

At December 31, 2018 the Company, according to disclosure notifications, had the following significant shareholders (defined for this purpose as holding voting rights in excess of 3% of the Comet capital stock recorded in the Swiss commercial register of companies):

Beneficial owner	Direct shareholder	Share of voting rights as disclosed by shareholders
Haldor Foundation	Tringle Investment Pte Ltd	10.13%
N/A	VERAISON SICAV – Engagement Fund	7.29%
Pictet Asset Management SA (Direction de Fonds)		5.07%
UBS Fund Management (Switzerland AG)		3.63%
Credit Suisse Funds AG		3.01%

The Company has not been notified of nor is aware of any other shareholders that held more than 3% of its shares. To the best of the Company's knowledge, there were no voting pool agreements.

With an effective date of January 9, 2019, VERAISON has announced an increase in its voting rights to a share of 10.04%.

29 Share-based payments

Main elements of the compensation system

The remuneration of the members of the Executive Committee consists of fixed compensation and a performance-based component. The total compensation takes into account the recipient's position and level of responsibility.

The profit-sharing remuneration of the members of the Executive Committee consists of compensation under a short-term incentive plan (STIP) and a long-term incentive plan (LTIP). Two-thirds of the compensation under the STIP is paid in cash and one-third of it is paid in stock. The compensation under the LTIP is paid only in stock. The total variable compensation (STIP and LTIP combined) is capped by an upper limit. The profit-sharing compensation of employees who are not members of the Executive Committee is paid only in cash.

Share-based compensation of the members of the Board of Directors

To ensure the independence of the Board of Directors in its supervision of the Executive Committee, the Board members receive only a fixed retainer, of which two-thirds is paid in cash and one-third is paid in stock. The stock awarded is subject to a holding period of three years during which it cannot be sold.

Share-based compensation of the members of the Executive Committee

In addition to the fixed compensation, the members of the Executive Committee can earn a performance-related, STIP pay component, of which one-third is paid in stock. The balance of the STIP amount is paid in cash. Additionally, further stock compensation can be granted, under the LTIP. The stock transferred under the STIP is subject to a holding period of three years from the date of the award. Stock transferred under the LTIP does not have a holding period.

Calculation of grant price for share awards

The grant price, at which the stock is awarded and transferred to recipients, is the average closing market price of the stock in the period between (and excluding) the date of the annual results press conference and the date of the Annual Shareholder Meeting.

Expenses recorded

The expense recognized for share-based payments in the year under review was CHF 0.3 million (prior year: CHF 0.9 million). The amount included CHF 0.1 million for stock already awarded to the Board of Directors in 2018.

30 Compensation of the Board of Directors and Executive Committee

The expense for compensation of the members of the Executive Committee and Board of Directors can be analyzed as follows:

in thousands of CHF	2018	2017
Cash compensation, including short-term employee benefits	4,064	4,206
Contributions to post-employment benefit arrangements	416	355
Expense for share-based payments	349	916
Total compensation	4,830	5,477

The 2018 expense of CHF 349 thousand for share-based payments was CHF 72 thousand less than the corresponding addition of CHF 421 thousand to equity shown in the consolidated statement of changes in equity (prior year: CHF 36 thousand more than the corresponding addition to equity). The difference arises from the accrual accounting for the share-based payments expense, from the effective capital increase and from the issuance stamp duty that was payable on the capital increase and charged directly to additional paid-in capital.

Additional compensation of Board members

In the fiscal year, the law firm Bär & Karrer AG, Zurich, billed fees in the amount of CHF 8 thousand for consulting services. Mariel Hoch, a member of Comet's Board of Directors, is a partner at this law firm. In the prior year, no services were obtained from or invoiced by members of the Board of Directors or their related parties.

31 Events after the balance sheet date

There have been no events after the balance sheet date with a material effect on the amounts in the consolidated financial statements.

32 Proposed distribution to shareholders

The Board of Directors will propose at the Annual Shareholder Meeting to pay a distribution to shareholders of CHF 1.00 per share from distributable paid-in capital (prior year: CHF 1.50) and of CHF 0.20 per share from retained earnings (prior year: nil). The total amount of the proposed distribution is CHF 9.3 million (prior year: CHF 11.6 million).

33 Release of the consolidated financial statements for publication

The Board of Directors released these annual financial statements on March 7, 2019 for publication and will present them to shareholders for approval at the Annual Shareholder Meeting on April 25, 2019.



Ernst & Young Ltd
Schanzenstrasse 4a
P.O. Box
CH-3001 Berne

Phone: +41 58 286 61 11
Fax: +41 58 286 68 18
www.ey.com/ch

To the General Meeting of
Comet Holding Ltd., Flamatt

Berne, 7 March 2019

Statutory auditor's report on the audit of the consolidated financial statements



Opinion

We have audited the consolidated financial statements of Comet Holding Ltd. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 35 to 86) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.



Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond



to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Impairment of intangible assets – goodwill and other

Risk	<p>The group reviews the carrying amount of its cash generating units annually or more frequently if any impairment indicators are present with respect to goodwill or other intangible assets with indefinite useful life (trademarks). The impairment assessment involves performing a comparison of the estimated recoverable amount (fair value or higher net present value of each cash-generating unit) to its carrying amount. These annual impairment tests were significant to our audit because the balances for goodwill and trademarks of CHF 29.2 million as of 31 December 2018 are material to the financial statements. Furthermore, the underlying estimations to the impairment assessment are complex and any impairment of goodwill, trademarks or other intangible and tangible assets can have a material impact on the net income of the Comet Group. The valuation also depends on assumptions regarding the future development of the business and on judgments made by management. The impairment tests are complex and described in Note 11. The recoverable amount calculated via discounted cash flow analysis that is based on various assumptions such as future cash flows, terminal value growth rates, inflation rate and discount rate (WACC) of each cash-generating unit. These assumptions are determined by management and are therefore considered to be material judgments.</p>
Our audit approach	<p>We assessed the assumptions made in the impairment tests and involved our own valuation specialists to test the accuracy of the impairment calculation. We compared the terminal value growth rate as well as the inflation rate with externally available data and also checked the clerical accuracy of the model. In addition, we evaluated the estimates made by management in previous years in terms of the actual income generated, as well as assessed management's process for identifying possible impairments. Moreover, we evaluated the disclosures regarding impairment testing on goodwill and intangible assets with indefinite useful life with regard to the assumptions made.</p> <p>Our audit procedures did not lead to any reservations concerning the measurement of intangible assets – goodwill and other.</p>



Recognition of provisions resulting from claims

Risk	As outlined in notes 16 and 25.1 of the consolidated financial statements, Comet is exposed to potential claims and litigation in a variety of areas and counterparties. These areas include a former owner of a group company, tax authorities, other authorities and other third parties. Provisions, particularly for individual claims made against Comet, involve a high level of judgment as it is often uncertain if, when and to what extent such claims result in cash outflows. A provision has been raised based on management's best estimate of the likely outflow.
Our audit approach	We assessed Comet's process for identifying and monitoring new or pending claims. We inquired with both financial and legal staff, as well as outside attorneys that were engaged by Comet. Moreover, we read minutes of the Board of Directors and the Audit Committee and discussed open cases with management. Finally, we read legal letters that were provided by external attorneys or other parties that supported Comet in such cases. For recurring claims such as warranties, we assessed the provision based on the historical accuracy to assess the amount recorded in the current year. We also assessed the accounting for any change in the current year. Our audit procedures did not lead to any reservations concerning the completeness and measurement of the provisions resulting from claims.



Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.



Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: <http://www.expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.



Report on other legal and regulatory requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd

Roland Ruprecht
Licensed audit expert
(Auditor in charge)

Philippe Wenger
Licensed audit expert

Separate Financial Statements of Comet Holding AG

Contents

93	Balance sheet
93	Statement of income
94	Notes to the separate financial statements of Comet Holding AG
101	Board of Directors' proposal for the appropriation of retained earnings and distribution from distributable paid-in capital
102	Report of the statutory auditor

Balance sheet

In thousands of CHF	Note	Dec. 31, 2018	%	Dec. 31, 2017	%
Assets					
Cash and cash equivalents		114		782	
Trade receivables from subsidiaries		14		17	
Prepaid expenses		196		275	
Total current assets		324	0.2%	1,074	0.6%
Non-current financial assets - loans	3	113,484		119,451	
Investments in subsidiaries	2	75,431		61,785	
Intangible assets		–		523	
Total non-current assets		188,915	99.8%	181,759	99.4%
Total assets		189,239	100.0%	182,832	100.0%
Liabilities and shareholders' equity					
Current trade payables to non-Group entities		106		111	
Current trade payables to shareholders and governing bodies		262		264	
Accrued expenses		1,232		1,181	
Non-current interest-bearing liabilities	8	60,000		60,000	
Total liabilities		61,600	32.6%	61,556	33.7%
Capital stock	5	7,760		7,754	
Statutory capital reserve		8,434		19,233	
Statutory earnings reserve		4,967		4,967	
Retained earnings brought forward		89,323		74,535	
Net income for the year		17,156		14,788	
Total retained earnings		106,479		89,323	
Total shareholders' equity		127,639	67.4%	121,276	66.3%
Total liabilities and shareholders' equity		189,239	100.0%	182,832	100.0%

Statement of income

In thousands of CHF	2018	%	2017	%
Dividend income	20,164		14,463	
Other financing income	2,612		4,951	
Other operating income	–		491	
Total income	22,776	100.0%	19,906	100.0%
Financing expenses	(2,255)		(2,922)	
Other operating expenses	(2,842)		(1,898)	
Amortization of rights to trademarks and names, FeinFocus	(523)		(298)	
Total expenses	(5,620)	24.7%	(5,118)	25.7%
Net income for the year	17,156	75.3%	14,788	74.3%

Notes to the separate financial statements of Comet Holding AG

General information

Comet Holding AG has its registered office in Flamatt, Switzerland and is the Comet Group's parent holding company listed on the Swiss stock exchange. The separate financial statements of Comet Holding AG at and for the year ended December 31, 2018 comply with the provisions of the Swiss Code of Obligations. The manner of the inclusion of Comet Holding AG in the consolidated accounts is governed by the measurement principles set out in the notes to the consolidated financial statements.

01 Accounting principles

These separate financial statements were prepared in accordance with the principles of the applicable Swiss Accounting Law (Title 32 of the Swiss Code of Obligations).

Receivables and loans

Receivables and loans are stated at nominal amounts less any necessary write-downs.

Intangible assets

Intangible assets – the rights to trademarks and names related to FeinFocus – are recognized at historical cost less necessary amortization and impairment charges. The rights were written off in full in the year under review.

Investments in subsidiaries

Investments in subsidiaries are recognized at historical cost less necessary impairment charges, and individually tested annually for impairment.

02 Investments in subsidiaries

The following companies were consolidated in the Group financial statements of Comet Holding AG at December 31, 2018:

Company	Registered office	Currency	Capital stock	Equity interest in % *	
				2018	2017
Comet Holding AG	Flamatt, Switzerland	CHF	7,759,882	100%	100%
Comet AG	Flamatt, Switzerland	CHF	2,000,000	100%	100%
Comet Electronics (Shanghai) Co. Ltd.	Shanghai, China	CNY	5,466,148	100%	100%
Comet Mechanical Equipment (Shanghai) Co. Ltd.	Shanghai, China	CNY	1,655,420	100%	100%
Comet Technologies USA, Inc.	Shelton, CT, USA	USD	1,000	100%	100%
Comet Technologies Korea Co. Ltd.	Suwon, Korea	KRW	500,000,000	100%	100%
Yxlon International GmbH	Hamburg, Germany	EUR	110,000	100%	100%
Yxlon International A/S	Taastrup, Denmark	DKK	601,000	100%	100%
Yxlon International KK	Yokohama, Japan	JPY	10,000,000	100%	100%
Yxlon (Beijing) X-Ray Equipment Trading Co. Ltd.	Beijing, China	CNY	1,077,000	100%	100%

* Comet Holding AG also holds 100% of the voting rights in all companies.

03 Non-current financial assets – loans

Loans to subsidiaries were as follows:

In thousands of CHF	2018	2017
Comet AG	71,555	53,720
Comet Technologies USA, Inc.	22,153	39,165
Comet Technologies Korea Co. Ltd.	–	42
Yxlon International GmbH	16,785	22,689
Yxlon International A/S	2,991	2,980
Yxlon International KK	–	855
Total loans to subsidiaries	113,484	119,451

04 Listing and shareholders

Comet Holding AG (the “Company”) is the Group’s only company listed on a stock exchange. The Company’s registered office is in Flamatt, Switzerland. The registered shares of Comet Holding AG have been listed in the main market segment of the SIX Swiss Exchange in Zurich since December 17, 2002.

Ticker symbol	COTN
Security number	36 082 699
ISIN	CH0360826991
Closing price at December 31, 2018	CHF 79.75
Market capitalization at December 31, 2018	CHF 619 million

Assorted data on the stock of Comet Holding AG is provided inside the cover flap at the front of the annual report.

Listed and non-listed Group companies

Comet Holding AG has no publicly traded subsidiaries. The companies consolidated in the Comet Group are presented above in note 2, “Investments in subsidiaries”.

Registered shareholders

At December 31, 2018, Comet Holding AG had 5,121 voting shareholders of record (i.e., voting shareholders registered in the share register; prior year: 3,303). Of the total issued registered stock, 100% (prior year: 100%) represented free float. Comet Holding AG held no treasury stock at December 31, 2018 (prior year: none). The structure of share ownership size classes among the shareholders of record at December 31, 2018 was as follows:

Number of shares	Number of shareholders
1 to 1,000	4,698
1,001 to 10,000	379
10,001 to 50,000	33
50,001 to 100,000	5
More than 100,000	6

This analysis includes only the stock of shareholders who were registered in the share register. At December 31, 2018 the shares of unregistered owners amounted to 27% of the total (prior year: 40%).

Significant shareholders

Ownership interests in companies domiciled in Switzerland whose shares are listed at least partly in Switzerland must be notified both to the issuer company and to the SIX Swiss Exchange when the holder's voting rights reach, increase above or fall below certain thresholds. These notification thresholds are 3%, 5%, 10%, 15%, 20%, 25%, 33 $\frac{1}{3}$ %, 50% and 66 $\frac{2}{3}$ % of voting rights. The relevant details are set out in the Swiss Stock Exchange Act (BEHG) and in the Ordinance of the Swiss Financial Market Supervisory Authority on Stock Exchanges and Securities Trading (the FINMA Stock Exchange Ordinance).

At December 31, 2018 the Company, according to disclosure notifications, had the following significant shareholders (defined for this purpose as holding voting rights in excess of 3% of the Comet capital stock recorded in the Swiss commercial register of companies):

Beneficial owner	Direct shareholder	Share of voting rights as disclosed by shareholders
Haldor Foundation	Tringle Investment Pte Ltd	10.13%
N/A	VERAISON SICAV - Engagement Fund	7.29%
Pictet Asset Management SA (Direction de Fonds)		5.07%
UBS Fund Management (Switzerland AG)		3.63%
Credit Suisse Funds AG		3.01%

The Company has not been notified of nor is aware of any other shareholders that held more than 3% of its shares. To the best of the Company's knowledge there were no voting pool agreements.

With an effective date of January 9, 2019, VERAISON has announced an increase in its voting rights to a share of 10.04%.

Reportable changes during fiscal year 2018

In the fiscal year under review, 15 reportable announcements were published. For a complete list of all announcements under section 20 BEHG, refer to the publication platform of the disclosure section of the SIX Swiss Exchange: www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html

Cross-shareholdings

There were no cross-shareholdings with other publicly traded companies.

05 Equity capital structure**Capital stock**

The capital stock at January 1, 2018 was CHF 7,753,658, divided into 7,753,658 registered shares with a par value of CHF 1.00 per share (after the prior year's stock split).

In fiscal year 2018 the capital stock was increased by 6,224 shares from the portion of authorized capital designated for equity-based compensation. Including the increase of 6,224 shares from this portion of authorized capital, Comet Holding AG at December 31, 2018 thus had a new total of CHF 7,759,882 of capital stock, divided into 7,759,882 registered shares with a par value of CHF 1.00 per share. The capital stock is fully paid in.

At its meeting on August 9, 2018 the Board of Directors established that the capital increase from authorized capital for equity compensation was properly performed. The information in the commercial register, and the Bylaws of Comet Holding AG, were updated to reflect the change in capital stock.

	2018		2017	
	Number of shares	Par value in CHF	Number of shares	Par value in CHF
January 1	7,753,658	7,753,658	7,745,430	7,745,430
Increase in capital from the portion of authorized capital designated for equity compensation	6,224	6,224	8,228	8,228
December 31	7,759,882	7,759,882	7,753,658	7,753,658

At the balance sheet date, Comet Holding AG held no treasury stock (prior year: none).

Authorized capital for equity compensation

Under section 3b of its Bylaws, a portion of the Company's unissued authorized capital is designated for use only as equity-based compensation (in German this portion is known as "bedingtes Aktienkapital"). In such a capital increase, stock is issued to Executive Committee members and/or Board members of Comet Holding AG. With respect to this portion of authorized capital, the other shareholders' pre-emptive rights are excluded. The issuance of stock or stock subscription rights is based on a compensation plan (in the form of a written regulation) adopted by the Board of Directors.

In May 2018, in accordance with the compensation plan, the members of the Board of Directors were granted a total of 1,141 shares of stock in payment of CHF 153,750 of fixed retainers due for fiscal year 2017. In addition, as part of their compensation for 2018, the members of the Board of Directors were granted a total of 568 shares in payment of CHF 76,538 of fixed retainers due for the period from January 1, 2018 to the 2018 Annual Shareholder Meeting. The fully paid shares were applied to the retainers due at a price of CHF 134.75 per share.

Members of the Executive Committee were granted a total of 4,515 shares in payment of CHF 608,396 of profit-sharing compensation due for fiscal year 2018. The fully paid shares were applied to the compensation due at a price of CHF 134.75 per share.

As a result of these grants of a total of 6,224 shares made in 2018, the Company's unissued authorized capital for equity-based compensation showed the following movement:

	2018		2017	
	Number of shares	Par value in CHF	Number of shares	Par value in CHF
January 1	209,462	209,462	217,690	217,690
Increase in capital (awards to Board of Directors for prior term's retainer and to Executive Committee for prior year's profit-sharing compensation)	(6,224)	(6,224)	(8,228)	(8,228)
December 31	203,238	203,238	209,462	209,462

At the end of the year, the remaining unissued authorized capital for equity-based compensation was CHF 203,238, or 2.6% of the existing capital stock.

Authorized capital for other capital increases

At December 31, 2018, in addition to shares outstanding and to unissued authorized capital for equity compensation, the Company had unissued authorized capital for purposes set out in section 3a of the Bylaws (in German: "genehmigtes Aktienkapital"). The Board of Directors is authorized, at any time until April 26, 2020, to increase the capital stock by a maximum of CHF 1.4 million by issuing up to 1,400,000 fully payable registered shares with a par value of CHF 1.00 per share, which represents 18% of the existing capital stock. Increases by firm commitment underwriting and increases by part of the total authorized amount are permitted. The amount of the respective issue, the date when entitlement to dividend commences, the terms of any exercise of pre-emptive rights and the nature of the contributions are determined by the Board of Directors.

The Board of Directors is authorized to exclude shareholders' subscription rights and assign these rights to third parties if the shares in question are to be used for the acquisition of companies via equity swaps or to finance the cash purchase of companies or parts of companies, or to finance new investment projects of Comet Holding AG, or for providing an ownership interest to an industrial partner (either in order to cement a strategic alliance or in the event of a takeover offer for the Company). Stock for which pre-emptive rights are granted but not exercised must be sold by the Company at market prices.

06 Disclosure of shareholdings of the Board of Directors and Executive Committee

The ownership interests in Comet Holding AG held by current members of the Board of Directors and Executive Committee are disclosed below. This disclosure covers all persons who held positions on the Board of Directors or Executive Committee for all or part of the year under review or of the prior year, regardless of whether they still did so at the balance sheet date. The shareholdings shown include those of respective related parties.

	Total number of shares		Of which: number of shares subject to holding periods ending on:			Freely disposable	Share of voting rights	
	2018	2017	4/21/2019	4/20/2020	4/26/2021		2018	2017
Hans Hess Chairman of the Board	37,222	36,733	1,040	543	489	35,150	0.5%	0.5%
Lucas A. Grolimund Vice Chairman and member of the Board	9,865	9,621	520	271	244	8,830	0.1%	0.1%
Gian-Luca Bona Member of the Board	5,665	5,421	520	271	244	4,630	0.1%	0.1%
Rolf Huber Member of the Board	13,605	13,361	520	271	244	12,570	0.2%	0.2%
Mariel Hoch Member of the Board	515	271	0	271	244	0	0.0%	0.0%
Franz Richter Member of the Board	515	271	0	271	244	0	0.0%	0.0%
Rene Lenggenhager Chief Executive Officer	6,024	5,500	0	0	461	5,563	0.1%	0.1%
Markus Portmann Chief Financial Officer	2,943	2,469	540	709	357	1,337	0.0%	0.0%
Thomas Polzer Chief Operating Officer (until June 13, 2018)	658	269	0	269	326	63	0.0%	0.0%
Detlef Steck President of X-Ray Systems division (until June 30, 2018)	1,058	697	0	597	401	60	0.0%	0.0%
Thomas Wenzel President of X-Ray Systems division (since December 1, 2018)	73	0	0	0	0	73	0.0%	0.0%
Michael Kammerer President of Plasma Control Technologies division	1,877	2,361	530	691	656	0	0.0%	0.0%
Charles Flükiger President of ebeam Technologies division (until September 30, 2018)	3,323	2,361	530	691	348	1,754	0.0%	0.0%
Stephan Haferl President of X-Ray Modules division (since January 1, 2018)	151	0	0	0	0	151	0.0%	0.0%
Eric Dubuis Chief Information Officer	1,170	1,754	380	504	279	7	0.0%	0.0%
Prisca Hafner Chief Human Resources Officer (since January 1, 2018)	180	0	0	0	0	180	0.0%	0.0%

Each 10,000 registered shares of Comet Holding AG, of a par value of CHF 1.00 per share, represented 0.1289% of all voting power (prior year: 0.1290%). The members of the Board of Directors and Executive Committee held a combined total of 1.1% of voting rights (prior year: 1.2%). No material changes in ownership interests arose after the balance sheet date of December 31, 2018.

07	Options, conversion rights and treasury stock	Comet Holding AG has not issued any conversion rights or stock options. In fiscal year 2018 and the prior year, Comet Holding AG held no treasury stock.
08	Bond	<p>On April 20, 2016, Comet Holding AG issued a bond in the amount of CHF 60 million (denomination: CHF 5,000). The term is five years and the bond matures on April 20, 2021. The fixed coupon over the term of the bond is 1.875%, payable annually on April 20.</p> <p>Listing: SIX Swiss Exchange (security number 32061943, ISIN number CH0320619437, ticker symbol COT16).</p>
09	Guarantees and pledged assets	The Group is taxed as a single entity for purposes of value-added taxation, and Comet Holding AG therefore has joint and several liability for the value-added tax obligations of its Swiss subsidiary.
10	Number of full-time equivalents	The annual average number of full-time equivalents in 2018 and 2017 was less than ten.
11	Release of the separate financial statements for publication	The Board of Directors released these financial statements on March 7, 2019 for publication and will present them to shareholders for approval at the Annual Shareholder Meeting on April 25, 2019.

Board of Directors' proposal for the appropriation of retained earnings and distribution from distributable paid-in capital

- 01 Proposal for appropriation of 2018 retained earnings** At the Annual Shareholder Meeting the Board of Directors will propose the following appropriation of retained earnings:

In thousands of CHF	2018
Earnings brought forward	89,323
Transfer from distributable paid-in capital reserve	–
Net income for the year	17,156
Retained earnings available for distribution	106,479
Earnings carried forward	106,479

- 02 Proposal for payment of a dividend** At the Annual Shareholder Meeting the Board of Directors will propose a total distribution of CHF 1.20 per share in an aggregate amount of CHF 9.3 million. Provided it is approved, the distribution will result in the following movement in the distributable paid-in capital reserve and in retained earnings:

Distribution from distributable paid-in capital

At the Annual Shareholder Meeting the Board of Directors will propose a distribution of CHF 1.00 per share from distributable paid-in capital.

In thousands of CHF	2018
Distributable paid-in capital reserve at December 31, 2018	8,434
Payout of CHF 1.00 per share (prior year: CHF 1.50)	(7,760)
Distributable paid-in capital reserve after proposed payout	674

Distribution from retained earnings

At the Annual Shareholder Meeting the Board of Directors will further propose a distribution of CHF 0.20 per share from retained earnings.

In thousands of CHF	2018
Retained earnings at December 31, 2018	106,479
Payout of CHF 0.20 per share (prior year: nil)	(1,552)
Retained earnings after proposed payout	104,927

Provided these proposals are approved, the net total distribution of CHF 1.20 per entitled share will be paid on May 2, 2019.



Ernst & Young Ltd
 Schanzenstrasse 4a
 P.O. Box
 CH-3001 Berne

Phone: +41 58 286 61 11
 Fax: +41 58 286 68 18
www.ey.com/ch

To the General Meeting of
 Comet Holding Ltd., Flamatt

Berne, 7 March 2019

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Comet Holding Ltd., which comprise the balance sheet, income statement and notes (pages 93 to 100), for the year ended 31 December 2018.



Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.



Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.



Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibility* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Impairment of investments and loans

Risk	As the parent company of the Group, the company holds investments in various subsidiaries. Furthermore, the parent company uses intragroup loans to fund a number of subsidiaries. Investments and loans each amount to approx. 50% of total assets and are therefore material. By definition, amounts recognized on the balance sheet are subject to an impairment risk. When there are indications of possible impairments, management prepares the required calculations and, if applicable, records a depreciation or allowance. The calculations are based in part on simplified principles, especially when management considered the risk of an impairment to be low.
Our audit approach	We reviewed the calculations performed by management, which were based on statutory financial statements or assessments in connection with the consolidated financial statements. For more complex cases, we involved our valuation specialists in checking particularly the plausibility of the discount rates used. Our audit procedures did not lead to any reservations concerning the measurement of the investments and loans.



Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.



We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Roland Ruprecht
Licensed audit expert
(Auditor in charge)

Philippe Wenger
Licensed audit expert