BROCKHAUS
Capital Management

2020

Annual Report of BCM Group

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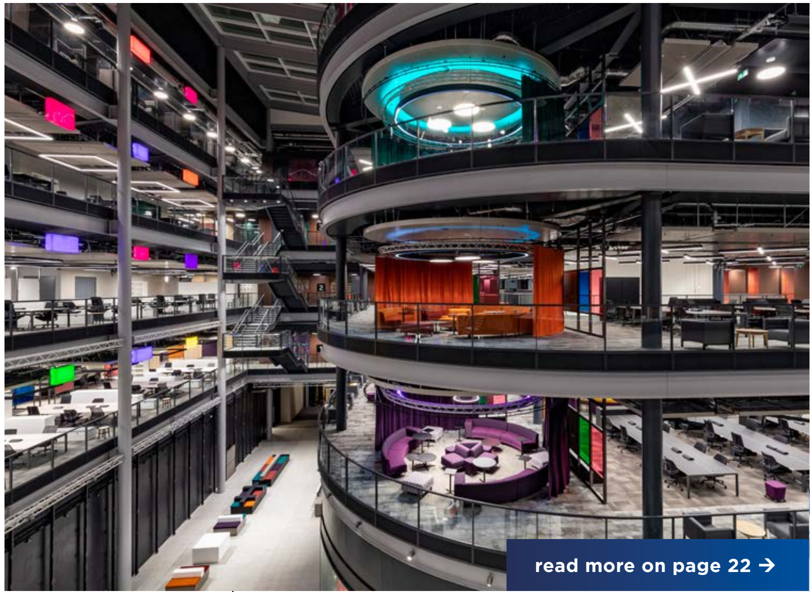
The year 2020 at a glance



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IHSE technology in remote medical monitoring

Hospital are making increasing use of KVM technology from IHSE for central monitoring of remote devices, including video cameras to observe at-risk patients. This enables better care for at-risk patients despite personnel shortages.

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IHSE technology at BBC Wales

At the new Broadcasting House of BBC Cymru Wales, a large central IHSE KVM system is giving the production teams unprecedented creative freedom by allowing them access to all networked computers and devices from any workstation without delay.

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Successful initial listing

On 14 July 2020, BCM Group celebrated the initial listing of its shares on the Frankfurt Stock Exchange. Due to the restrictions in the wake of the COVID-19 pandemic, the investor roadshow was conducted almost entirely digitally using videoconferencing and conference calls.

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Palas solutions in the pandemic

Palas devices can be used during the pandemic not only to reliably test the effectiveness of respiratory masks, but also to test air quality in indoor spaces and examine exhaled air for aerosols in the size range of coronaviruses.

Key figures for 2020

24%
ADJUSTED EBITDA MARGIN

€51.6m
REVENUE

5%
R&D RATIO

231
EMPLOYEES

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To our share-holders

Ladies and Gentlemen, dear Shareholders,

We are delighted to present you our report on the 2020 fiscal year.

Over the past year, the COVID-19 pandemic slowed economic development around the world. Travel restrictions, social distancing, and lockdowns lasting several months in many countries posed extreme challenges not only for the population, but also for virtually all economic players.

During this coronavirus crisis, it was and still is imperative to show resilience against setbacks – and that is something we managed very well in 2020. With revenue of €51.6 million, BCM Group is down by only 5.0% on its record year in 2019. Free cash flow before taxes and costs of the initial listing amounted to €9.4 million. Adjusted EBITDA was €12.3 million and the operating margin came to around 24%. On a non-pro-forma basis, i.e. including the inorganic growth resulting from the acquisition of IHSE at the end of 2019, we recorded an increase in revenue of 211.5%. The growth trend in our home market of EMEA (Europe, Middle East, and Africa) continued unabated in the past year, with revenue up 22%. At the same time, however, the severe travel restrictions and social distancing rules imposed as a result of COVID-19 meant that in the Americas and in the Asia-Pacific region (APAC) we suffered significant declines in revenue of 34% and 29% respectively that could not be fully offset by our strong performance in EMEA.

With our two subsidiaries, Palas and IHSE, we are actively working toward becoming less affected internationally by travel barriers. One of the developments contributing to this is the establishment of a distribution company, which Palas set up in Shanghai in the third quarter. IHSE is planning to follow suit by starting a subsidiary in China. A local presence in China will help us benefit from the huge growth opportunities in the Chinese market, which is already showing clear signs of macroeconomic recovery. In many other export markets, the continuing expansion of our distribution network through local partners is expected to help us regain momentum in 2021.

The COVID-19 pandemic had very different effects on our operating segments in the year under review. Environmental Technologies, which currently comprises the Palas Group, recorded revenue growth of 31%. As a specialist for high-precision measurement of micro-particles in the air, Palas benefited from an internally developed test rig for respiratory masks. The system, which was developed at the beginning of 2020, is now used, for example, by the federal government to conduct quality assurance on masks imported from China to Germany. In contrast, the Security Technologies segment, which currently consists of the IHSE Group, recorded a significant shift of customer orders outside EMEA because of the international travel restrictions and social distancing rules, and this led to a decline in segment revenue by a total of 17%. However, the continuing positive performance in EMEA highlights the fact that the underlying trends such as connectivity, digitalization and cybersecurity are unbroken. Moreover, IHSE's most recent success was the acquisition of an innovative project for control rooms in the autonomous driving segment, which could become very promising in the future.

For 2021, we are confident that the fight against the pandemic will be won thanks to increasing supplies of vaccines. We expect a sustained upswing for the entire BCM Group. The tasks in the months ahead will focus in particular on the acquisition of further technology champions from the German Mittelstand segment – and we are working toward this goal with determination and clarity while adhering to our strategy and the high expectations we have of the companies involved.

As members of the Executive Board, we want to thank our more than 200 employees for their commitment as well as our investors for their support in realizing our long-term goal of building Germany's leading technology group.

SINCERELY,
MARCO BROCKHAUS **DR. MARCEL WILHELM**

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Our team – the Executive Board

Marco Brockhaus

Chief Executive Officer

Marco Brockhaus can look back on more than two decades of successful activities as an investor. He is the CEO and Chairman of the Executive Board of BCM AG, which he and other team members founded in 2017. With over 20 years of experience in the equity investment business, he has successfully managed and advised three fund generations of Brockhaus Private Equity GmbH with total capital under management of around €300 million. He has held numerous supervisory and advisory board positions in various industries. Furthermore, from 2011 to 2015, he was a member of the Board of the German Private Equity and Venture Capital Association (BVK), where he was responsible for the German Mittelstand division. Before that, from 1997 to 2000, he was a manager at 3i. His professional career began in 1995 in the corporate finance division of Rothschild.

Marco Brockhaus graduated from Julius Maximilian University of Würzburg in 1994 with a degree in business administration.

Dr. Marcel Wilhelm

Chief Operating Officer, Legal Counsel

Dr. Marcel Wilhelm is responsible for all legal and administrative matters at BCM AG. He has been with Brockhaus Private Equity GmbH since 2006 and became Managing Director in 2012. He is a lawyer specializing in corporate and tax law and previously headed the team for international clients at Rödl & Partner Germany.

He graduated from the University of Passau and has been a member of the Munich Bar Association since 2001. In 2006, he received his doctorate in media law and politics.

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Our team – the management

Harald Henning
Head of Finance

Harald Henning is responsible for financial reporting at BCM AG and its subsidiaries. He has been with Brockhaus Private Equity since 2014 and previously was M&A advisor at Lincoln International and IKB Deutsche Industriebank as well as an audit associate at Ernst & Young.

He graduated in 2009 as Bachelor of Science in Business Administration from the University of Mannheim and Leeds University Business School.

Paul Göhring
Head of Investor Relations

Paul Göhring is responsible for investor relations and capital market activities at BCM AG.

He joined the M&A team of BCM AG as investment manager in 2018. Before that, he worked in Corporate Finance/Equity Capital Markets at Berenberg Bank, advising companies on equity capital transactions in the public market with special focus on IPOs, capital increases, and secondary placements.

Paul Göhring graduated in 2015 in Business Administration from the Frankfurt School of Finance & Management.

Georg Ganghofer
Head of Mergers & Acquisitions

Georg Ganghofer heads the M&A team of BCM AG and is responsible for the development of acquisition opportunities, the management of M&A processes, as well as operational support for subsidiaries. He has been part of the team at Brockhaus Private Equity since 2013.

Georg Ganghofer graduated from the Karlsruhe Institute of Technology in 2013 with a Master's degree in Business Engineering.

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Our team – the Supervisory Board

We are grateful for the positive support of our Supervisory Board, which is made up of the following members:

Dr. Othmar Belker
Chairman

Michael Schuster
Deputy Chairman

Andreas Peiker
Member

Martin Bestmann
Member

Dr. Cornelius Liedtke
Member

"BCM AG's successful initial listing marks the beginning of a growth story at the Frankfurt Stock Exchange. Our subsidiaries performed well despite the coronavirus. This makes us confident for 2021 and beyond."

Dr. Othmar Belker
Chairman

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Mission & history

Elevating champions

BCM is a technology group that acquires high-margin, fast-growing technology champions with B2B business models in the German middle-market sector. With its unique platform approach and a long-term horizon, BCM supports its subsidiaries actively and strategically to enable them to achieve profitable long-term growth beyond sector and national boundaries. At the same time, BCM offers a level of access to these unlisted German technology champions that would otherwise be unavailable to capital market investors.

2000
Founding of Brockhaus Private Equity

2001
Brockhaus Private Equity I

2007
Brockhaus Private Equity II

2014
Brockhaus Private Equity III

2017
Founding of BCM AG

2020
Stock market listing of BCM AG

We know Germany. We know Mittelstand. We know Technology. We acquire Champions.

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Our investment process

We are a safe harbor for an entrepreneur's life's work. For investors, we are the gate-way to the German Mittelstand.

1 Finding the hidden champions

Extensive research and in-depth discussions with industry experts help us identify companies in the German Mittelstand that excel through unique technologies. These entrepreneurs are looking for robust succession arrangements for their life's work or want to establish new structures.

2 Getting to know each other personally

Initial discussions with the entrepreneurs give all those involved an opportunity to become acquainted with each other and to create transparency and trust. The parties involved find a com-mon starting position for further negotiations.

3 Working out the details

We invest a lot of work in creating a solid and fair basis for action. This includes not only a thorough due diligence process and the calculation of enterprise value, but also a candid joint assessment of the company's future potential.

4 Closing the transaction

Once all the parties have reached an agreement, the necessary formalities are completed and the acquisition is closed. The entrepreneur has found a safe harbor for her or his life's work.

What our entrepreneurs say about us

“While planning the succession arrangements for the founder of Palas, I actively searched the market for an investor with a long-term focus that would be able to assure me of continuity and active support. I opted for BCM, which has since become a valued sparring partner for us, giving us excellent support, especially on issues such as internationalization. BCM’s extensive network of experts has also proved a major advantage.”

Dr. Maximilian Weiß
CEO Palas

“We faced the challenge of finding succession arrangements for IHSE that would take us to a management structure that is independent of its founders. The BCM team reached out to us at the perfect moment and gave us competent, targeted support during this phase. The new arrangements for the management structure allowed us to put IHSE on a solid foundation, thus securing continuing, sustainable international growth.”

Dr. Enno Littmann
CEO IHSE

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BCM Group at a glance

Locations

8 ↗ **11**

2019 2020

Employees

200 ↗ **231**

2019 2020

Market drivers & trends

Identifying growth potential sooner and partake in it for longer.

CYBERSECURITY

$42 billion

expenditure on global cybersecurity in 2020E

$6 trillion

global cost expected as a result of cybercrime in 2021E

DEMOGRAPHICS

around 110%

forecast growth in the number of people over 65 worldwide by 2050E

around 20%

average annual growth of the global smart city market in 2018A-2025E

DIGITALIZATION AND NETWORKING

5.8 billion

Internet-of-Things (IOT) terminals worldwide in 2020E

8.9%

annual value-add in digital production in 2019E-2022E

COVID-19

worldwide

global demand for solutions to combat the COVID-19 pandemic

Considerable growth potential

global demand for precise monitoring solutions

AUTOMATION

4 million

industrial robots in use worldwide by 2022E

26%

annual growth in the number of process automation devices in 2015A-2018A

SUSTAINABILITY

50%

increase in total global greenhouse gas emissions since 1990A

$33 trillion

annual expenditure on sustainable development goals by 2030E

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Successful initial listing on 14 July 2020

BCM Group celebrated the successful initial listing of its shares on the regulated market of the Frankfurt Stock Exchange with additional post-admission obligations (Prime Standard) on 14 July 2020. The shares are now traded under the ticker symbol BKHT and the WKN (German Securities Identification Number) A2GSU4.

In the course of an international private placement, a total of 3,593,750 new registered shares were placed (including the over-allotment option of 468,750 shares), each with a notional value of €1.00 per share. This corresponded to a capital increase with gross proceeds of €115 million, which is intended to be used to fund the further inorganic growth strategy through new acquisitions. After the initial listing, 10,386,808 shares were outstanding.

In light of the restrictions in the wake of the COVID-19 pandemic, the investor roadshow consisting of a total of around 100 one-on-one and group meetings was conducted almost entirely digitally using videoconferencing and conference calls. Because of these extensive marketing activities, the capital increase was ultimately significantly oversubscribed, with anchor investors from Germany, the U.S.A. and the United Kingdom.

The post-listing shareholder structure consists of a combination of international capital market investors and high-net-worth individuals, family offices, and industry experts from the BCM network who have already supported the Company in pre-listing private placements. The founding team remains the largest group of shareholders. The free float, as defined by Deutsche Börse AG, is approximately 50.6%.

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“We are programmed for growth”

An interview with Marco Brockhaus

Mr. Brockhaus, how is BCM different from other equity investment companies?

We are a safe harbor for an entrepreneur’s life’s work. In BCM Group, a company remains intact – with its identity, market presence and location. Everything is preserved. When it comes to investors, BCM opens up a new opportunity: They can use us as a gateway to invest in Mittelstand technology leaders they could otherwise not reach via the capital markets. In other words, we combine the stock market’s Prime Standard with the virtues of sustainability and a long-term orientation – qualities of the German Mittelstand that investors value for good reason.

What alternatives would be available to an entrepreneur who wanted to sell?

Entrepreneurs could turn over their life’s work to a private equity investor. But it would need to be clear to them that an investor like this would put the company up for sale again after three to five years. A strategic investor is another alternative, but is likely to be interested primarily in the company’s technology or its IP, not its employees, locations or brand. With us, in contrast, entrepreneurs join a group of champions who support each other. At BCM we offer our subsidiaries the entrepreneurial and strategic support they need to move ahead full-steam on the world’s markets. Seeing and enabling growth – we are programmed for that.

You spent a long time in the private equity business. However, at BCM you think much more about the long term. What is your motivation?

For me it’s a change from being a fund manager to becoming an entrepreneur. I used to fulfill investors’ profit expectations by buying a company and selling it again a few years later with the greatest possible return. Sometimes I used to be really upset when I resold a company with an utterly robust business model and unused potential just because it was expected of me. That was the catalyst for me in changing my thinking and leaving the private equity world.

> **“At BCM we offer our subsidiaries the entrepreneurial and strategic support they need to move ahead full-steam on the world’s markets.”**

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And today?

Today I'm building a company, little by little. This is an intrinsic motivation for me: growing organically, becoming steadily larger and stronger and forming a technology group that also offers its shareholders added value through increasing value creation. I particularly enjoy the entrepreneurial role of seeing and making use of opportunities – such as the Palas expansion into China. As a fund manager, you stand on the sidelines, and can only ask: "Have you ever thought of expanding into China?" Today and here, we can pursue that actively.

"This is an intrinsic motivation for me: growing organically, becoming steadily larger and stronger and forming a technology group that also offers its shareholders added value through increasing value creation."

To date the Group has consisted of two companies: Palas and IHSE. Have you already succeeded in leveraging synergies?

Absolutely. Central functions such as controlling, marketing or communication are used jointly for the subsidiaries, and earlier this year we added talent sourcing: A colleague with experience in headhunting manages the search for top candidates for all the subsidiaries when, for instance, a production manager or sales manager abroad is needed. And synergies arise between the subsidiaries as well: When one of them has overcapacity, it can produce for the other.

Can working together go as far as balancing liquidity?

We could do that, but it hasn't been necessary to date, since our companies have very profitable business models and have been able to finance their growth organically. So in this respect, both subsidiaries operate independently. In the future, however, central cash or financing pooling could be an interesting option.

What about knowledge transfer?

That's very important to us. It's why we institutionalized the exchange of know-how in what we call industry leadership circles. We bring the managing directors and managers of the subsidiaries together in an exciting exchange with experts from our big industry network, which is made up of a wide variety of sectors. In addition to presentations, a big highlight of these network days is the evening get-together with its informal exchanges between the 30-45 participants. We had to cancel this event last year owing to the coronavirus crisis, but we hope to reconvene it again soon.

Do the two companies also open doors for each other when it comes to internationalization?

Yes, and that even succeeds without BCM needing to contribute anything to it. Our subsidiaries have put together an informal network that they use to exchange ideas. We're completely flexible on this point, and support whatever is most efficient from an entrepreneurial point of view. In general, our position is that everything that makes sense is allowed – and is supported by me personally.

Do you have an example?

I spent time in 2019 in Shanghai and Hong Kong and built up a really useful network. I met a lot of people who can and want to support us. That made a huge difference when we took Palas to Shanghai in 2020 and were able to start operations in June with a genuine China insider as managing director. He's German, is married to a Chinese woman, and has lived in China for 15 years. Our business is developing very well there. Now that we've taken this step once, we're doing the same thing with IHSE, which is going to Guangzhou. We're setting up the structures there securely and efficiently because now we know how that works. That's how we as BCM can offer synergies.

What opportunities do you see for Palas in China?

A competitor analysis showed us how much potential there is in China for Palas, especially in the area of fine dust. The sales potential here is several times higher than in Europe – and Palas's technology is better. So our managing director and co-shareholder Dr. Maximilian Weiß and I decided: "China it is. Let's go." And to be completely truthful, Palas would not have gone to China so quickly without BCM as a controlling shareholder.

Let's talk about acquisitions: Will anything happen during this coronavirus year of 2021?

I assume so – but what happens will need to be really good. There's no lack of interesting projects in our pipeline, and we're not unwilling to pay high prices for top companies. But owing to low interest rates, we are currently experiencing an asset price inflation that is driving up prices even for mediocre companies. We don't intend to be fooled, so we're waiting for the right opportunities, and they will arrive!

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PALAS

Founded in 1983, Palas a leading developer and manufacturer of high-precision devices for generating, measuring and characterizing particles in air.

With several active patents, Palas develops technologically leading and certified fine dust and nanoparticle measuring instruments, aerosol spectrometers, -generators and -sensors as well as related systems and software solutions.

EMPLOYEES

96

HEADQUARTERS

Karlsruhe, Germany

OFFICES

- **Hong Kong**
- **Shanghai**

The experts in aerosol technology

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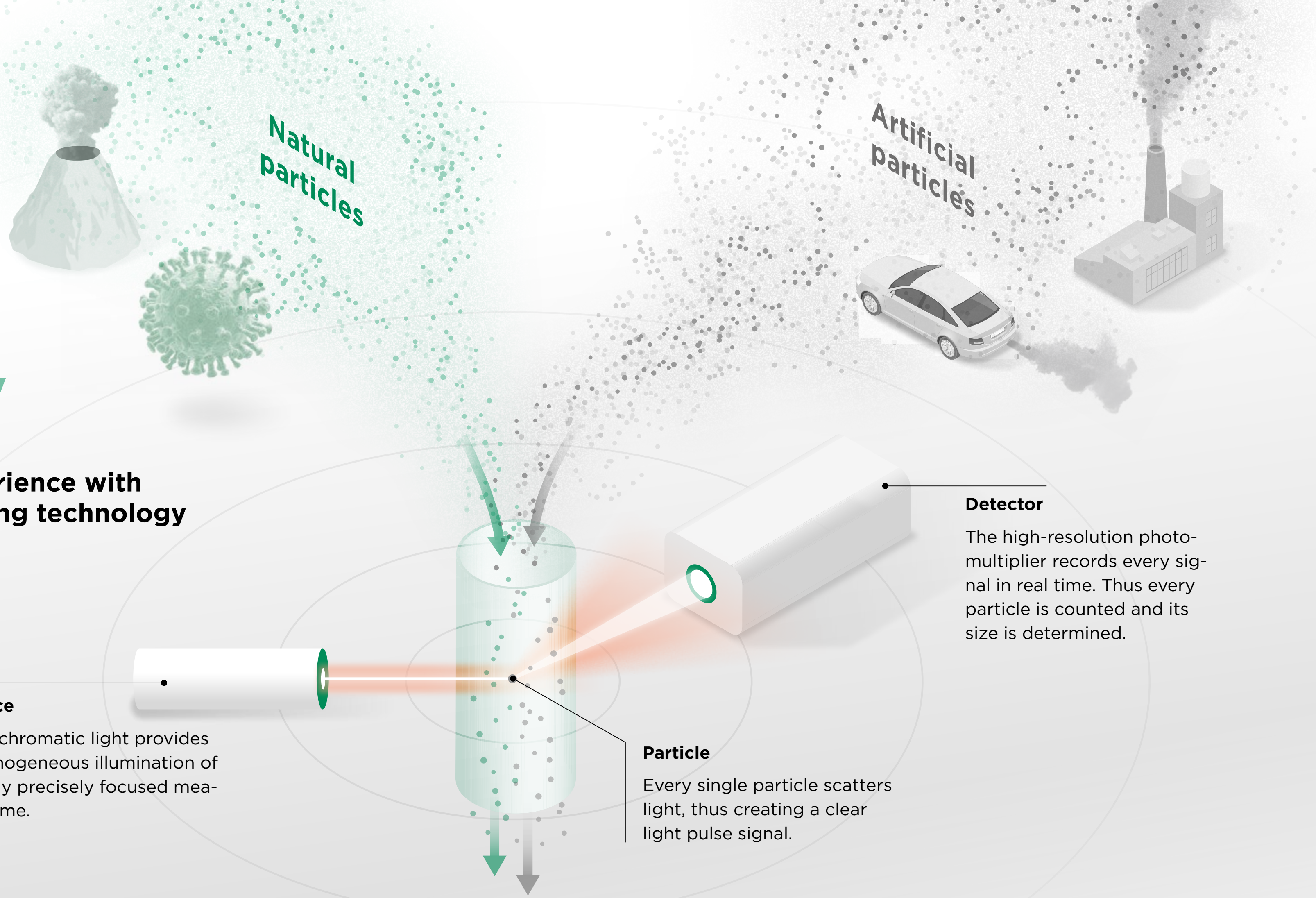
Palas aerosol technology

More than 35 years of experience with innovative particle measuring technology



Detector

The high-resolution photo-multiplier records every signal in real time. Thus every particle is counted and its size is determined.

Light source

White polychromatic light provides stable, homogeneous illumination of the optically precisely focused measuring volume.

Particle

Every single particle scatters light, thus creating a clear light pulse signal.

Selected application areas

Mask testing

Exhalation

Interior air quality

Exterior air quality

Laboratories

Palas technology in use

A triad against the pandemic

Palas makes an important contribution to protecting the population in times of the coronavirus, as shown by the great interest among the press and the public. This Karlsruhe-based company is at the cutting edge with its triad of products.

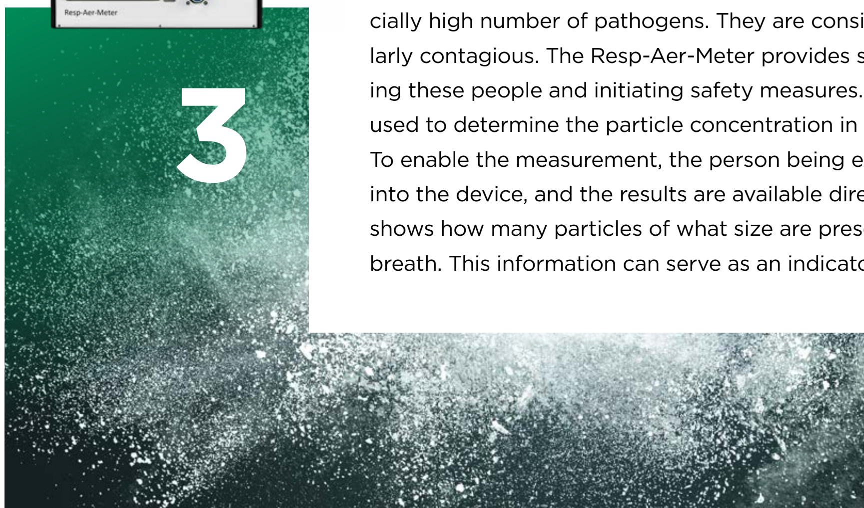
Is the interior air quality safe?

As soon as people enter rooms and remove their respiratory masks, AQ takes over the task of monitoring the air. It combines proven, highly precise measuring technologies to determine the statistical risk of infection for people in rooms based on the concentration of particles and CO_2. This aerosol monitoring system contributes to recognizing and reducing the risk of infection. The display of an air quality index delivers information about whether measures for improving air quality must be taken, such as opening windows.

The "Palas triad against the pandemic" consists of three highly precise devices with different focuses

Are the respiratory masks effective?

One of the most heavily discussed topics last year was protection from the coronavirus. One possibility for achieving that is respiratory masks. There are many types and models available, but not all of them fulfill the prescribed standards – and not every standard is sufficient to protect people from infection. With its PMFT series of test rigs, Palas is in a position to measure the quality of filters and protective masks even in a size range that includes potentially virus-laden aerosols. This technology is being used, for instance, for the federal government at manufacturing locations and testing institutes around the world. Palas also offers mask testing as a service.



Do I have a superspreader here?

Superspreaders or superemitters are people who exhale an especially high number of pathogens. They are considered to be particularly contagious. The Resp-Aer-Meter provides support for identifying these people and initiating safety measures. The device can be used to determine the particle concentration in a person's breath. To enable the measurement, the person being examined breathes into the device, and the results are available directly: The device shows how many particles of what size are present in the person's breath. This information can serve as an indicator of possible illness.

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IHSE is a world-leading manufacturer of flexible and highly secure KVM (keyboard, video, mouse) solutions for extending and switching mission-critical computer signals. With more than 35 years of experience, IHSE designs and manufactures its ISO-certified solutions in Oberteuringen on Lake Constance. Its products are renowned for their outstanding manufacturing quality for 24/7 operation, high security standards, great ease of use and high modularity.

EMPLOYEES

125

HEADQUARTERS

Oberteuringen, Germany

OFFICES

- Singapore
- USA
- France
- Israel
- India
- South Korea

KVM & Beyond

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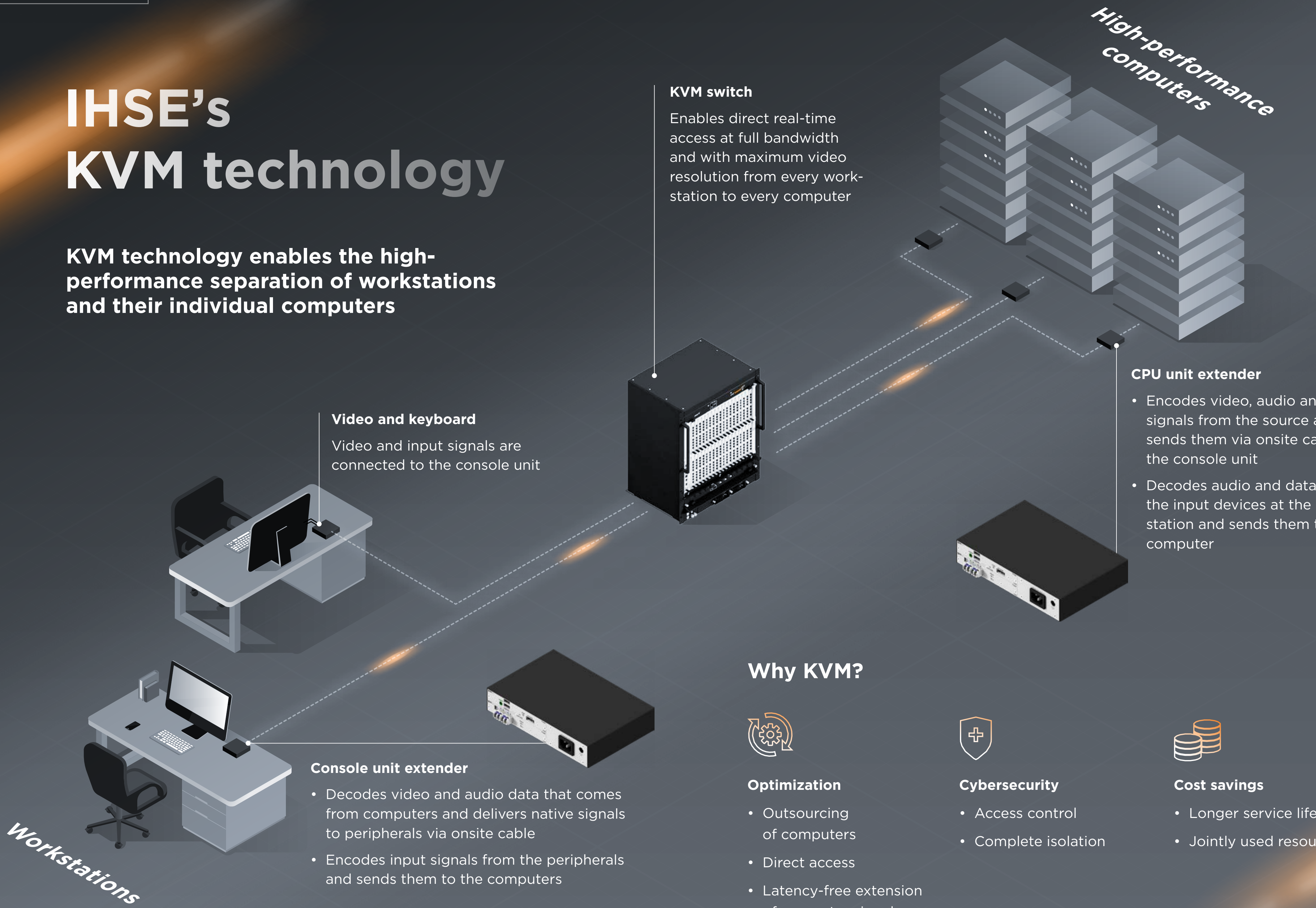
IHSE's KVM technology

KVM technology enables the high-performance separation of workstations and their individual computers



KVM switch

Enables direct real-time access at full bandwidth and with maximum video resolution from every work-station to every computer

CPU unit extender

- Encodes video, audio and data signals from the source and sends them via onsite cable to the console unit
- Decodes audio and data from the input devices at the work-station and sends them to the computer

Video and keyboard

Video and input signals are connected to the console unit

Console unit extender

- Decodes video and audio data that comes from computers and delivers native signals to peripherals via onsite cable
- Encodes input signals from the peripherals and sends them to the computers

Why KVM?

Optimization

- Outsourcing of computers
- Direct access
- Latency-free extension of computer signals

Cybersecurity

- Access control
- Complete isolation

Cost savings

- Longer service life
- Jointly used resources

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IHSE KVM in use

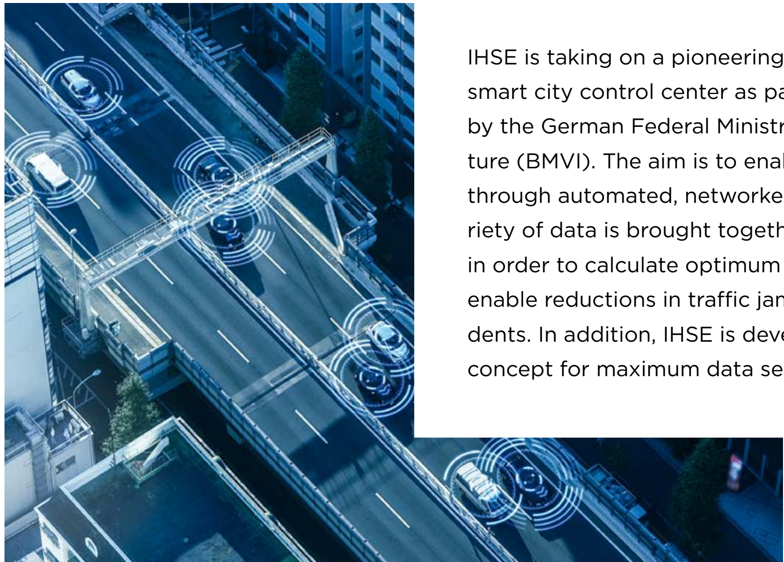
Mission-critical data transmission

Agile broadcast workflows

The new Broadcasting House of BBC Cymru Wales was completely equipped with the latest technology. A central IHSE KVM system connects the production team's workstations with all the necessary computers and devices for the desired agility in work processes combined with maximum fail-safe operation. IHSE technology thus provides the BBC with enormous creative freedom while protecting all the mission-critical devices from unauthorized access.

Remote medical monitoring

IHSE's KVM technology is frequently used in medical facilities such as hospitals for the central monitoring of remote devices, including video cameras used to observe at-risk patients. This enables better care and increases the safety of nursing staff despite personnel shortages. Especially during a pandemic, the use of highly reliable signal transmission is necessary to protect personnel and patients and prevent the spread of infection within hospitals and care facilities.



Smart city control center for autonomous driving

IHSE is taking on a pioneering role in the development of a future smart city control center as part of the ALFRIED project sponsored by the German Federal Ministry of Transport and Digital Infrastructure (BMVI). The aim is to enable a sustainable mobility system through automated, networked driving. For this purpose, a wide variety of data is brought together in the control center and assessed in order to calculate optimum traffic routes. In the future this will enable reductions in traffic jams and ease the traffic burden on residents. In addition, IHSE is developing a corresponding cybersecurity concept for maximum data security within the control center.

Report of the Supervisory Board

The Supervisory Board of Brockhaus Capital Management AG, Frankfurt am Main, (“**Company**” or “**BCM AG**” and together with its subsidiaries “**BCM Group**”) oversaw the activities of the Company’s Executive Board in accordance with the requirements of the German Stock Corporation Act and the Articles of Association of BCM AG and provided advice and support to the Executive Board during the fiscal year from 1 January 2020 to 31 December 2020.

The Executive Board reported regularly to the Supervisory Board on the business development of BCM AG. Particular focus areas were the preparations for the Company’s initial listing on 14 July 2020 (first trading day), the integration of the two subsidiaries (Palas Holding GmbH and its subsidiaries (“**Palas**”) and IHSE AcquiCo GmbH and its subsidiaries (“**IHSE**”)) and their further development, the search process for suitable further acquisitions and the ongoing assessment of the impact of restrictions in connection with the COVID-19 pandemic on business activities in Germany and export markets. Changes in costs, statement of financial position items and cash flows were presented and explained in detail, in each case with a comparison with the budget and the previous year. The Supervisory Board was directly involved in all key decisions, in particular issues of strategy and planning and in the review of strategic options. Detailed discussions were held on this basis at the many meetings.

The Company’s Articles of Association specify that the Supervisory Board should hold at least two meetings per calendar half-year. A large number of Supervisory Board meetings as well as other informal verbal and telephone discussions were held in fiscal year 2020. In the current fiscal year 2021, there were several additional Supervisory Board meetings. The Chairman of the Supervisory Board was in regular personal and telephone contact with the members of the Executive Board and was proactively and comprehensively informed about all important business transactions. If necessary, the Chairman of the Supervisory Board kept the other members of the Supervisory Board informed between meetings.

The Executive Board provided detailed information on the course of business at the regular Supervisory Board meetings. Dominant issues were the preparations for and implementation of the initial listing, the impact of the COVID-19 pandemic on the Company and the Group and the opportunities and risks of the search processes for new acquisition targets. Fundamental issues at the meetings were the annual and consolidated financial statements of BCM AG for fiscal year 2019, the quarterly financial statements of the 2020 fiscal year, the half-yearly report as of 30 June 2020, as well as current economic developments, the preparation and assessment of the Annual General Meeting on 17 June 2020, cost trends at the Company and the subsidiaries, the integration of IHSE, the further development of Palas, personnel development at the Company, the implementation of the employee participation program for BCM Group and the approval of new rules of procedure for the Executive Board and the Supervisory Board.

Another fixed feature of the regular Supervisory Board meetings was an examination of the relevant risks and support for the development of a formal internal control system at the Company and the subsidiaries. In the course of the discussions relating to risk, the Supervisory Board was in all cases able to obtain a clear picture, in particular about whether and which risks could adversely affect the Company’s financial position and results of operations. In addition, the Supervisory Board and the Executive Board regularly discussed the Company’s long-term strategic alignment.

Mr. Bestmann was appointed to the Supervisory Board in February 2020 on the basis of the right of appointment granted to Falkenstein Heritage GmbH, Wetzlar, under the Articles of Association. By way of a resolution of the Annual General Meeting 2020, the number of Supervisory Board members was increased from four to six. Dr. Liedtke was appointed as a member of the Company’s Supervisory Board by a decision of the Frankfurt am Main Local Court on 14 September 2020. The appointment was based on a corresponding application by the Company. The appointment is limited to the end of the Annual General Meeting resolving to approve the actions of the Supervisory Board for the fiscal year of the Company ending 31 December 2020. The Company’s application was correspondingly limited in line with the recommendation in C.15 sentence 2 of the German Corporate Governance Code (the Code).

In fiscal year 2020, the Supervisory Board held 14 meetings, which were normally conducted using videoconferencing and conference calls due to the conditions caused by the COVID-19 pandemic and to reduce the risk of infection. Unless specified otherwise below, the Supervisory Board meetings were attended by all Supervisory Board members in office. Following his appointment to the Supervisory Board in February 2020, Mr. Bestmann attended all 13 subsequent Supervisory Board meetings in 2020. Following his appointment as a member of the Supervisory Board by a decision of the Frankfurt am Main Local Court on 14 September 2020, Dr. Liedtke attended all three subsequent Supervisory Board meetings in 2020. One meeting, on 16 September 2020, was held without Mr. Peiker being present.

In fiscal year 2021 to date, four meetings were held and attended by all members. The Supervisory Board has not established any committees thus far.

The training and development measures required for discharging their duties, for example on changes in the legal environment and on new technologies, are taken by the members of the Supervisory Board under their own responsibility, with the Company's support where requested. New members of the Supervisory Board can meet the members of the Executive Board to exchange information on fundamental and topical issues and in this way get an overview of the issues relevant to the Company. An appropriate onboarding process was conducted for the new members of the Supervisory Board, Mr. Bestmann and Dr. Liedtke, in the fiscal year under review.

The Supervisory Board addressed the following topics at its meetings in the 2020 fiscal year.

SUPERVISORY BOARD MEETING on 31 January 2020
For the purpose of implementing the IHSE transaction, the Supervisory Board consented to implementing a capital increase with the partial use of Authorized Capital 2017/I and approved the measures for implementation and the amendments to Article 5 of the Articles of Association (Share Capital, Authorized Capital).

SUPERVISORY BOARD MEETING on 11 March 2020
The Supervisory Board and Executive Board held in-depth discussions on the progression and impact of the COVID-19 pandemic and a risk analysis for BCM Group. The subsidiaries' integration into the Group was also discussed. In addition, the Executive Board presented the latest transaction processes from the H1 2020 pipeline. Furthermore, the Supervisory Board received information on the status of the 2019 annual financial statements (HGB and IFRS) and discussed the status quo and costs of the preparations for an initial listing of BCM Group.

SUPERVISORY BOARD MEETING on 3 April 2020
The latest situation caused by the coronavirus pandemic and potential risks to the economy and BCM Group were analyzed. In this context, discussions focused in particular on the economic development of the subsidiaries Palas and IHSE in the first quarter of 2020. The Executive Board and Supervisory Board discussed the progress of preparations for the initial listing and resolved to drive the project further. Moreover, the Supervisory Board discussed the status of current acquisition projects with the Executive Board.

SUPERVISORY BOARD MEETING on 22 April 2020
The Executive Board and Supervisory Board discussed the developments and risks caused by the COVID-19 pandemic. Negative and positive effects on the operating business of BCM Group were analyzed against this backdrop. No risks threatening the Company's continuing existence were identified. The Executive Board reported on the current acquisitions pipeline.

SUPERVISORY BOARD MEETING on 29 April 2020
The Supervisory Board received a status quo report and a risk analysis for BCM Group against the backdrop of the ongoing coronavirus pandemic. After the auditor's report on the conduct of the audit and the audit results relating to the 2019 HGB annual financial statements and the consolidated financial statements prepared for fiscal year 2019 on a voluntary basis, as well as a detailed examination of the auditor's reports by the Supervisory Board, the Supervisory Board adopted the audited 2019 HGB annual financial statements, which had received an unqualified audit report dated 29 April 2020, and approved the audited IFRS consolidated financial statements prepared for fiscal year 2019 on a voluntary basis, which had received an unqualified audit opinion dated 29 April 2020.

SUPERVISORY BOARD MEETING on 19 May 2020
Against the backdrop of the COVID-19 pandemic, the current situation and potential risks to the economy, society and BCM Group were on the agenda, as were the status quo of operations of BCM AG and the subsidiaries as well as the progress of preparations for the initial listing. The possible acquisition of a software provider was discussed. On the basis of the German COVID-19 Act, a virtual Annual General Meeting to be held on 17 June 2020 and the draft resolutions for the agenda were resolved.

SUPERVISORY BOARD MEETING on 2 June 2020
The Executive Board informed the Supervisory Board about the analyst presentation taking place on the same day and discussed the timing of the initial listing with the Supervisory Board. The potential investment in software company was examined from a strategic perspective. The discussion focused on forms of equity and debt financing and any potential impact on the initial listing.

SUPERVISORY BOARD MEETING on 17 June 2020
Directly after the Annual General Meeting, the Executive Board and Supervisory Board discussed the economic situation of BCM Group companies and the impact of the COVID-19 pandemic on the expectations for the year. Other issues included the planned initial listing and ongoing acquisition processes.

SUPERVISORY BOARD MEETINGS on 2/6 and 9 July 2020 in preparation for the initial listing
In preparation for the initial listing, three Supervisory Board meetings were held in which the necessary steps were resolved by the Supervisory Board. The requirements were always met in good time by the Executive and Supervisory Board, as well as the supporting law firms. Before the relevant resolution by the Supervisory Board, the timing of the initial listing, the status of negotiations with the engaged banks, the status of administrative procedures at BaFin and the risk assessment for a successful corporate action were among the items discussed with the Executive Board. The Chairman of the Supervisory Board, the Executive Board and BCM AG's employees relevant

for the initial listing were in close contact during the entire process, especially in relation to the negotiations with the engaged banks and the virtual roadshow. The Chairman of the Supervisory Board kept the members of the Supervisory Board continuously informed of all key events.

The meetings were supplemented by the resolution of the Supervisory Board on 7 July 2020 to propose to the Company's extraordinary General Meeting to increase the Company's share capital against cash contributions by issuing up to 3,125,000 new registered shares and to authorize the Executive Board to conduct a private placement with a view to implementing the capital increase. The Supervisory Board's resolution on 9 July 2020 concerned the proposals for the extraordinary General Meeting on the greenshoe capital increase and further amendments to the Articles of Association.

Despite the restrictions due to the COVID-19 pandemic, the initial listing on the Prime Standard of the Frankfurt Stock Exchange was successfully implemented on 14 July 2020.

SUPERVISORY BOARD MEETING on 16 September 2020

The Supervisory Board resolved new rules of procedure for the Executive Board and the Supervisory Board. It discussed the D&O insurance for the Company's governing bodies and resolved a modification of the D&O insurance policy for the Supervisory Board. One focus of the meeting was the personal discussion with the managing directors of the subsidiaries about the current status of their companies, with particular emphasis on revenue, order intake, effects of the COVID-19 pandemic, liquidity and the opportunities and risks of reaching budgets and projections.

The most recently canceled or lost acquisition processes were presented and analyzed and ongoing acquisition options were discussed in the context of the Company's current market and competitive environment on the M&A markets.

Various issues had to be addressed as new standard topics following the initial listing. These included half-yearly financial reporting, the expansion of the internal risk management system, the declarations of conformity in accordance with the Code and other mandatory reports of the Company. In this context, the agenda was expanded to include an investor relations report and the disclosure of potential conflicts of interest of Supervisory Board members, particularly in acquisition processes (involvement of Supervisory Board members as industry experts in due diligence processes). No conflicts of interest occurred among its members in the period under review.

SUPERVISORY BOARD MEETING on 11 November 2020

The Supervisory Board determined the procedure for the budget process for fiscal year 2021 together with the Executive Board. Another focus was on the corporate governance system of BCM Group, consisting of the following subareas: risk management system (RMS), internal control system (ICS), internal audit system (IRS), compliance management system (CMS) and implementation in the subsidiaries (implementation of IDW AuS 340). The Supervisory Board discussed further personnel development at the Company and resolved to grant options to one employee on the basis of the existing stock option program. Furthermore, the Executive Board reported on ongoing acquisition processes.

SUPERVISORY BOARD MEETING on 16 December 2020

Following in-depth prior internal discussions, the Supervisory Board resolved the declarations of conformity with the Code. The renewed "hard" lockdown in Germany was discussed, along with its impact on the subsidiaries, acquisition processes and the uncertainty of achieving targets for 2020 and budgeting for 2021. The Supervisory Board approved voluntary audit and non-audit services by the auditor.

The Supervisory Board addressed the following topics at the meetings held to date in the 2021 fiscal year.

SUPERVISORY BOARD MEETING on 3 February 2021

The 2021 budget for the BCM AG, the subsidiaries and BCM Group was discussed in detail. In particular the uncertainties due to the coronavirus situation as well as reconciliations from German GAAP to IFRS were discussed. The Supervisory Board resolved the budget for 2021. Another focus was the current economic situation of the Company and the subsidiaries and their product roadmap, personnel developments and the current internationalization steps. The acquisition projects from the Q1 2021 pipeline were discussed. Following the expiration of the lock-up period for the existing shareholders, movements in the share price are exposed to random sell orders due to the low trading volumes. As a technology group, BCM AG is focused on steady medium-term revenue and earnings growth, as well as further acquisitions. This will also have a positive impact on the share price in the medium term.

SUPERVISORY BOARD MEETING on 3 March 2021

The Executive Board discussed the current acquisition processes with the Supervisory Board. The Executive Board and Supervisory Board will ensure that any potential or actual conflicts of interest are discussed regularly and that all economic activities with related parties are managed strictly on an arm's length basis.

SUPERVISORY BOARD MEETING on 24 March 2021

As part of the debate on diversity and corporate culture, the Supervisory Board passed resolutions on the independence of the Supervisory Board, the setting of targets for the proportion of women and adopted the corporate governance statement. Other focus points of the meeting were governance, risk and compliance, the review of the effectiveness of ICS and RMS and the current status of the preparation of the 2020 annual and consolidated financial statements and the combined management report and its audit by the independent auditor.

AUDIT OF THE 2020 ANNUAL AND CONSOLDIATED FINANCIAL STATEMENTS

The annual financial statements and combined management report of BCM AG prepared in accordance with the requirements of the HGB as well as the consolidated financial statements and combined management report of BCM AG prepared in accordance with IFRS as applicable in the European Union for fiscal year 2020 were audited by the independent auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, which had been elected by the Annual General Meeting. The engagement letter for the audit of the annual and consolidated financial statements and of the combined management report was issued by the Supervisory Board. In March 2021, the Supervisory Board discussed the annual and consolidated financial statements and in this context spoke about the reconciliations from HGB to IFRS. At the meeting held on 24 March 2021, the independent auditor reported on the current status of the audit, on the respective focus points of the audit and on the preliminary findings of the audit and answered all questions raised by the Supervisory Board. Furthermore, the independent auditor explained that there were no facts that gave rise to concerns about bias on its part and informed the Supervisory Board about services provided in addition to the audit services.

Ahead of the meeting to approve the financial statements on 7 April 2021, the Supervisory Board received the auditor's reports on the audit of the annual financial statements and combined management report and of the consolidated financial statements and combined management report. The independent auditor issued an unqualified audit opinion for each of the above-mentioned documents.

The Supervisory Board reviewed the annual financial statements, the consolidated financial statements and the combined management report for fiscal year 2020, taking the auditor's report into account in each case. The independent auditor's representatives who signed the audit reports took part in the discussion of the annual and consolidated financial statements. They reported to the Supervisory Board on the main findings of their audit and were available for additional information. No objections were raised after the final result of the review by the Supervisory Board; at the meeting to approve the financial statements on 7 April 2021, the Supervisory Board approved the annual financial statements prepared by the Executive Board. They were thereby adopted in accordance with section 172 sentence 1 of the German Stock Corporation Act (AktG). BCM AG's accumulated losses brought forward from the previous year, together with the net loss for the fiscal year, are carried forward to new account.

In addition, the Supervisory Board approved the consolidated financial statements and combined management report of BCM AG. No objections to these documents were raised, either, after the final result of the review by the Supervisory Board.

The Supervisory Board thanks the members of the Executive Board and all employees of BCM Group for their enormous personal commitment and our shareholders for the confidence they placed in the Company in this challenging year.

On behalf of the Supervisory Board

Dr. Othmar Belker, Chairman
Frankfurt am Main, April 2021

Combined management report

The registered office of Brockhaus Capital Management AG (**BCM AG,** the **Company**, or the **parent company**, together with its subsidiaries **BCM Group** or the **Group**) is in Nextower, Thurn-und-Taxis-Platz 6, 60313 Frankfurt am Main, Germany and the Company is registered in the commercial register at the Local Court in Frankfurt am Main under commercial register number HRB 109637. The Company was created by changing the legal form of Eagle Fonds Verwaltungs- und Treuhand GmbH, with its registered office in Frankfurt am Main (Frankfurt am Main District Court, commercial register file number HRB 78705) and its entry in the commercial register on 19 September 2017.

In addition to information on the Group, this combined management report (**management report**) includes information on the parent company. The reporting on the position of the Group generally corresponds to the reporting on the position of the Company. Supplemental information on the annual financial statements of BCM AG at the level of the single entity can be found in the subsection Economic development of BCM AG in the Business performance section. This combined management report has been prepared in accordance with German Accounting Standard No. 20 (GAS 20). "Combined" means that the report describes the position of both the Group as a whole and the parent company as a single entity.

Unless otherwise stated, the period-related disclosures in this management report relate to the period from 1 January 2020 to 31 December 2020 (**reporting period**) and disclosures for a specific date relate to 31 December 2020 (**reporting date**). Quantitative information is rounded in accordance with standard commercial practice. Due to this rounding method, the individual amounts reported do not always add up precisely to the totals presented. Negative amounts are shown in parentheses.

Business description

BCM Group is a group of companies focused on high-margin, fast-growing technology champions with B2B business models in the German middle-market sector. With its distinctive platform approach and a long-term investment horizon, BCM Group supports its subsidiaries actively and strategically to enable them to achieve profitable long-term growth beyond sector and national boundaries. At the same time, BCM Group offers capital market investors a level of access to these unlisted German technology champions that would otherwise be unavailable to them.

In addition to capital for additional future acquisitions, the inputs required to carry out the business activities include in particular highly qualified specialists from a wide variety of high-tech fields, e.g., information technology, electronics, optics and various fields of physics. Material intangible assets include the extensive experience of the employees and their technological and process expertise, long-standing customer relationships and internally developed software and trademarks. Other inputs include externally sourced goods such as electrical, electronic and optical parts and components, as well as device cases.

BCM Group's business activities consist on the one hand of its acquisition activities, i.e. identifying and acquiring subsidiaries and supporting their long-term growth and on the other, of its existing operating segments of Environmental Technologies and Security Technologies. The Group comprised 13 consolidated entities in Germany and abroad at the reporting date.

Since 14 July 2020, BCM Group has been listed in the regulated market of the Frankfurt Stock Exchange with additional post-admission obligations (Prime Standard). BCM Group's reporting therefore also follows the high level of requirements stipulated for the Prime Standard.

Central Functions | Organizationally, the M&A activities are concentrated on the Group parent. They focus on the identification, due diligence and acquisition of majority stakes of innovative technology companies with strong organic growth, a high level of profitability and business models requiring a low level of capital intensity. Central Functions also include activities such as financial controlling, investor relations, marketing and compliance.

In addition to competitive bidding processes involving a large number of prospective buyers, BCM Group concentrates on creating proprietary transaction situations. This approach aims to avoid the high purchase prices commonly found in auctions with multiple bidders. It is also designed to ensure the greatest possible probability that the transaction will enter the due diligence phase. Selling processes of M&A consultants are selectively pursued with an eye to cost-benefit aspects.

To obtain access to attractive investment opportunities, BCM Group actively nurtures its existing network and grows it continuously. To ensure a constant deal flow of high-quality proprietary and semi-proprietary acquisition opportunities, BCM Group has implemented a structured, software-based and tried-and-tested process that is designed to identify and proactively develop close relationships with attractive companies, their founders, family shareholders and directors.

BCM Group's support for its subsidiaries' sustainable post-acquisition performance pursues a nuanced approach with the goal of driving their growth. The aim is to develop a close relationship and partnership with the management teams at the subsidiaries, to provide them with comprehensive strategic support and to enable the continuous review of strategic options, such as professionalization or expansion through internationalization.

Environmental Technologies | The Environmental Technologies operating segment is active in the areas of environmental measurement technology and sustainability technologies. This segment currently comprises the Palas companies, in which BCM Group acquired 70% of the ordinary shares in December 2018 as part of a succession arrangement.

Palas develops, manufactures and distributes high-precision devices for measuring and characterizing air particles using a variety of active patents. The company is certified to ISO 9001 and is a global leader in researching and developing certified aerosol, fine dust and nanoparticle measuring instruments. This is also reflected in numerous cooperation arrangements with universities and research institutes as well as its membership of several standards development committees at bodies such as ISO, DIN and VDI.

Its highly precise optical measurement technologies and competitive pricing thanks to the comparatively low total cost of ownership for its devices make Palas attractively positioned in its niche. One of the company's unique selling propositions is that the optical sensor is able to measure several particle sizes and fractions (e.g. PM10 and PM2.5 mass fractions as well as size-resolved aerosol number concentration) simultaneously in real time.

Palas products are developed for the following particle measurement applications:

- Fine dust monitoring devices for measuring concentrations of particles of different size ranges, such as PM10 and PM2.5
- Nanoparticle measuring devices for considerably smaller particles than fine dust
- Aerosol spectrometers for measuring size distributions and concentrations of air particles
- Aerosol generators for generating test particles
- Filter test rigs for testing filter media and complete filter systems
- Mask test systems for testing respiratory masks for separation efficiency for virus-sized particles and penetration measurements in accordance with numerous testing standards

Increasing air pollution, growing awareness of the resulting health risks and corresponding regulatory requirements are driving demand for Palas's products. Among other areas, they are used in the public sector (in particular environmental monitoring), in the automotive industry, in manufacturing industry, in process monitoring, in the pharma and medical technology industries and in laboratories and clean rooms. Fine dust pollution in particular is playing an increasingly important role in public perception. Fine dust relates to pollutants in the form of particles that are released above all by industrial processes in power plants, furnaces and motor vehicles. There are various sizes of fine dust particles – the smaller the particles are, the deeper they can penetrate the human body.

Among other applications, filter media test rigs are used in the automotive industry, in laboratories and clean rooms, or to monitor industrial exhaust gas emissions. Palas has also identified the measurement of ultrafine aerosols as a key future area and already offers a nanoparticle measuring device for this application. The device measures particles in sizes of between two and 1,000 nanometers.

In the wake of the COVID-19 pandemic, public interest in the topic of "aerosols" and the effectiveness of respiratory masks has jumped dramatically. The SARS-CoV-2 virus is a nanoparticle with a size of around 150 nanometers. This size range can be tested reliably using technology from Palas. After the outbreak of the pandemic, the company was able to develop products in a relatively short term that can test respiratory masks for their separation efficiency for particles in the SARS-CoV-2 size. These test rigs are being used, for example, by the German government for imports of masks from China, as well as on-site at hospitals and in nursing and old people's homes. The test rigs can also be used to make penetration and breathing resistance measurements on masks in accordance with a wide variety of test standards.

Palas is headquartered in Karlsruhe. Effective 28 May 2020, Palas established its first foreign subsidiary, Palas (Asia) Ltd., whose registered office is in Hong Kong. BCM Group holds 90% of the shares of Palas (Asia) Ltd. The remaining 10% is held by the managing director responsible for Asia. As of 15 July 2020, Palas (Asia) Ltd. formed its Palas Instruments (Shanghai) Co. Ltd. subsidiary, whose registered office is in Shanghai, China and has held a 100% interest since that date. The Asian entities are distribution locations responsible for serving Palas's local APAC markets, especially China.

Palas serves an international group of customers in some 40 countries in a very wide range of end-markets, such as certified public measurement networks, OEMs, healthcare agencies, industrial companies and research institutions. Palas's customers include Siemens, BASF, Bosch, Roche, BMW, the NHS National Institute for Health Research and the Fraunhofer Society.

Palas's business is normally subject to a certain level of seasonal fluctuations, with approximately 40% of its revenue in past years typically being generated in the fourth quarter of the calendar year. Palas's management believes that the reason for this is largely linked to its customers' internal budget policies.

Security Technologies | The Security Technologies operating segment is active in the field of high-performance secure network technology for challenging application areas. The segment currently comprises the IHSE companies, which have been part of BCM Group since December 2019 when it acquired all shares of IHSE.

IHSE develops, produces and distributes KVM (keyboard, video, mouse) network solutions "Made in Germany" for mission-critical applications. These are used in a variety of areas, including broadcasting, post-production, air traffic control, banking, manufacturing industry, healthcare, maritime and control centers – especially where latency, system failures or cyber attacks could have severe consequences.

KVM technology allows primary computer signals – including DVI, HDMI, DisplayPort, audio and USB – to be switched, converted and extended bidirectionally. KVM technology can also be used to create highly secure direct access from a workstation to several servers (switching) and/ or conversely from several workstations to a single server (sharing). The outcome is a significant increase in the efficiency, reliability, security and user-friendliness of high-end IT applications. IHSE's network infrastructure solutions bridge distances between control units and computer units, as a rule servers or other high-performance computers, of up to 160 km.

To enable interfaces to IP-based networks or cloud-based solutions, IHSE has developed solutions that combine the characteristics of these networks with extremely secure and powerful products, but at the same time preserve IHSE's unique selling propositions. This hybrid approach is supported by additional interfaces to cloud-based infrastructures that enable access to virtual machines, for example.

IHSE focuses on high-performance systems in the following product groups:

> Extenders to connect control units and computer units
> Matrix switches as routing systems for connecting one or more control units with one or more computer units
> IP gateways that connect KVM systems to IP-based computer and control units
> Signal converters, splitter cables and other peripherals

IHSE products are hub technologies that can be used in a wide range of end-markets, almost all of which are characterized by mission-critical data transmission. IHSE thus benefits from a large number of megatrends (including autonomous driving, Industry 4.0 and networked production) that are driven by growing connectivity and digital transformation and the accompanying growth in mission-critical data transmission.

When planning control rooms, for example, operators must take account of future developments to the best extent possible. The increasing pace of digital transformation, closing security gaps in hardware and software in light of the growing cyber attacks and the creation of best possible working conditions are the focus of efforts to optimize control rooms. IHSE's systems are optimized for these factors and are thus focused directly on customer requirements. IHSE's solutions offer a high degree of investment protection, among other benefits, because their modular approach. Customers can flexibly assemble their own tailored KVM system from a variety of modules. Existing installations can be equipped with new functions and interface standards with a minimum of effort and expense. These aspects systematically enhance IHSE's customer loyalty and hence also follow-up business with longstanding customers.

IHSE is headquartered in Oberteuringen on Lake Constance. A subsidiary in the U.S.A. located in Cranbury, New Jersey, was established in 2009 as a joint venture to strengthen the company's distribution activities in the U.S. market. IHSE acquired the remaining shares at the beginning of 2017 and now holds all the shares of the U.S. company. Additionally, IHSE established a subsidiary in Singapore in 2015 to allow it to better serve the Asian market. IHSE also has regional sales offices in France, Israel, India and South Korea.

The customers are primarily sales partners and systems integrators. Key accounts in 2020 included the BBC, Fox News, Berlin-Brandenburg Airport, Frequentis, MTU, Hong Kong Airport and RATP.

IHSE's business activities are largely unaffected by seasonal influences. In some cases, increased revenue is observed in the second half of the calendar year. However, IHSE's management does not consider this to be statistically significant.

Research and development

The Group's development activities are concentrated on the development of new – and enhancement of existing – technologies, products, processes and software in the areas of particle measurement technology relating to aerosols and in the high-performance secure transmission and switching of computer signals.

The Group's research and development spending in the reporting period amounted to €2,368 thousand (4.6% of revenue), of which €392 thousand was required to be capitalized and €1,976 thousand was expensed. The capitalization ratio was therefore 16.6%. Including amortization of capitalized development costs amounting to €78 thousand, the total research and development expense was €2,054 thousand.

At Group level, the main change in research and development activities related to the inclusion of IHSE in the Group from December 2019. At the level of the individual subsidiaries, R&D activities were largely unchanged compared with the previous year.

Environmental Technologies | Now that Palas already produces and successfully markets fine dust measurement devices for outdoor applications, the focus in the reporting period was on the further development of corresponding devices for indoor use that had already begun in 2019. For example, the new AQ Guard product was made market-ready and marketed in initial pilot projects. Technically, the most significant innovation consists of a considerably smaller device whose accuracy is comparable with the existing much larger products. There was also a strong improvement in user-friendliness. To make the product more attractive for indoor use, the housing was completely redesigned in collaboration with Porsche Design.

In response to the COVID-19 pandemic, a patent for determining infection risk in indoor spaces, whose technology is used in the AQ Guard, was registered at the beginning of April 2020. This patent describes a combinatory measurement of CO_2 as a tracer in exhaled air and particle numbers or fine dust.

In addition, Palas developed test rigs for respiratory masks in the reporting period and launched them successfully in the market. The PMFT 1000 and PMFT 1000 M filter test rigs enable both quality assurance in production and precise measurements in the development of masks or their acceptance by end-customers. The Mas-Q-Check rapid testing device can be used directly at the point of use, e.g. in hospitals, nursing homes, or offices, to conduct samples of mask deliveries, or thorough testing of masks that have been used multiple times. The device is easy to use and can be installed and operated without the need for any lengthy training.

On 27 August 2020, Palas filed a patent application with the European Patent Office for a measuring device that immediately indicates the number and size of particles in exhaled air. The universally deployable measuring device developed by Palas can directly identify particles in exhaled air with high-precision size resolution and thus help detect infections in humans, for example COVID-19 or influenza. During the current COVID-19 pandemic, this could help curb the spread of the disease in particular. The patent application has not yet been published. This is generally published 18 months after the application date and the applicant only enjoys the rights from the patent filed from that date.

Palas has research and development cooperation agreements with research institutes and universities. Palas has 12 employees working in its R&D department.

Security Technologies | For reasons of efficiency and security, the majority of IHSE's products use proprietary technology that does not use the standardized Internet Protocol (IP). Development activities were stepped up in this area to advance the continuous development of the existing product portfolio of IP-based devices. The new IHSE system enables location-independent access via IP but also ensures system security. The IHSE system uses a special technology to isolate the IP connection from the secured core matrix. Flexible and at the same time suitable for mission-critical installations, the system keeps the requirements for IP networks as low as possible. Neither complex IGMP multicast configuration nor high bandwidths are necessary.

To reflect the growing requirements for security-certified products, processes are currently underway for a product family to obtain certification under the US NIAP (National Information Assurance Partnership), the international Common Criteria for Information Technology Security Evaluation and the German KRITIS (critical infrastructure in accordance with the Federal Offices for Civil Protection, Disaster Assistance and Information Security).

In the area of research and development, IHSE cooperates with the Fraunhofer Society in the field of image and video coding. There is also a cooperative arrangement with a number of companies in the Lake Constance District to develop a test track for autonomous vehicles with an integrated smart city control center under the leadership of IHSE. IHSE has 14 employees working in its R&D department.

Control system

The Group's control system is geared towards its objective of sustainably increasing the long-term value of its subsidiaries. To achieve this, BCM Group management receives and evaluates monthly reports from the subsidiaries. In addition to financial reporting, these also contain explanations by the relevant management on material events, opportunities and risks.

The Group's most important financial key performance indicators are revenue and adjusted EBITDA margin.

Revenue is the key indicator of market performance or the growth generated by the Group. For the purpose of managing the Company, revenue is calculated in accordance with IFRS 15, for revenue from contracts with customers and IFRS 16, for income from short-term leases.

Adjusted EBITDA or the ratio of adjusted EBITDA to revenue expressed as a percentage (**adjusted EBITDA margin**) indicates firstly the Company's pricing power and secondly a company's cost efficiency. The calculation of adjusted EBITDA is shown in Note 7 to the consolidated financial statements. It is calculated as earnings before interest, taxes, depreciation and amortization, adjusted for the cost of acquisition of subsidiaries, costs of equity transactions to be recognized in profit or loss and costs of share-based payments.

Business performance

At the time of the initial listing in July 2020, BCM Group expected revenue growth in the mid single-digit percentage range compared with the pro forma prior-year figure of €54,290 thousand. It was expected that the lower revenue growth might have a negative impact on the adjusted EBITDA margin, which might be below the figure of 29.8% (pro forma prior year). On 13 November 2020, the Group adjusted its guidance, expecting a single-digit percentage decline in revenue (compared with pro forma 2019). With revenue of €51,581 thousand in 2020, the decrease was 5.0% compared with the pro forma figure for the previous year. This corresponds almost exactly to the midpoint of the forecast range. At 23.8%, the EBITDA margin was below the pro forma figure of 29.8% for the previous year.

As BCM Group sees itself as a high-growth technology company, any decline in revenue is not at all satisfactory. However, in light of the most serious economic crisis since the Second World War, we believe that our performance in 2020 constitutes a tremendous success.

COVID-19 pandemic

Business performance in the reporting period was impacted significantly by the effects of the COVID-19 pandemic. BCM Group took action at an early stage to align the Group with the current conditions, to protect the health of all employees, ensure delivery capabilities for customers and safeguard its liquidity. For example, extensive healthcare, safety and hygiene measures were implemented at all locations. Depending on the local situation, parts of the workforce, in particular administrative departments, started working from home. We were able to maintain production and delivery capabilities at all locations and there were no significant disruptions of the supply chains.

In light of the decline in revenue, BCM Group is leveraging the flexibility of its operating costs while avoiding measures that would endanger the Group's future growth prospects.

The Group continues to actively monitor the global development of the pandemic. Necessary adjustments to or extensions of existing measures are made in line with the recommendations and directives of the relevant governments and expert bodies.

Market environment

Fiscal year 2020 was marked by global efforts to contain the COVID-19 pandemic and its largely negative impact on the global economy. According to the Federal Statistical Office, German gross domestic product had already declined by 1.8% year-on-year in the first quarter of 2020. In the second quarter of 2020, the German economy fell into recession and – with a GDP decline of 11.3% – experienced the sharpest slump since quarterly statistics started to be recorded in 1970. Over the year as a whole, GDP declined by 4.9%, according to the Federal Statistical Office. The decline in economic output was 6.3% in the eurozone and 6.8% in the EU, according to the European Commission. The most important non-European markets for BCM Group are the U.S.A., where the GDP decline in the reporting period was 3.5% (U.S. Bureau of Economic Analysis) and China, whose economic growth of a forecast 2.3% (Statista) was significantly lower than in previous years.

The reporting period was characterized by exceptionally high volatility on the capital markets. Despite this fact, BCM Group successfully implemented its stock market debut in Frankfurt on 14 July 2020.

Because of the niche strategy of BCM Group's segments, no reliable statistics or studies are available on developments in the corresponding relevant markets. For this reason, the following information on market developments in the relevant segments refers to estimates by management.

Central Functions | The low interest rate environment and the high level of capital available for investment by the majority of financial investors, together with the resulting strong pressures to invest, led to continued high company valuations in the M&A market and to undiminished strong competition for equity investments. This trend was accompanied by continued attractive conditions for acquisition loans as the debt financing component in M&A transactions.

Starting in March 2020, the general high level of uncertainty in the M&A market attributable to the outbreak of the COVID-19 pandemic led largely to a standstill, with a corresponding impact on BCM Group's M&A activities. Especially in the market segment of auction processes organized by specialized consultants, almost all ongoing sale projects were suspended until further notice and marketing for new projects just did not start. The reason for this was, first, that the companies available for sale recorded lower revenues in some cases because of the crisis, which negatively impacted both the probability that transactions will be successful and the expected valuation levels. Second, a number of ongoing transactions in which the potential buyers were also using debt finance in addition to their own equity investment were put on ice because the banks were also being considerably more cautious since the global spread of the pandemic. However, it was evident that buyers were hesitant even in the case of companies that were not directly affected by COVID-19 because they were shunning the general uncertainty and volatility in the market. A handful of transactions involving companies that were able to report good earnings figures despite (or even because) of the COVID-19 pandemic were therefore even more sought after, with corresponding high purchase price expectations.

In line with its three-pronged sourcing approach, BCM Group focused on its own network and on proactive sourcing, due to the market weakness in broadly marketed auctions. A selective focus on the first two channels continues to bring the Group an attractive pipeline of potential acquisition targets.

The market environment for M&A transactions continued to recover in the third and fourth quarters. Over the year as a whole, however, there was a noticeable decline in transaction activity. For example, FINANCE magazine reported that the PE midmarket (majority acquisitions of German middle market companies by private equity investors) had shrunk by 30% in 2020. After the record year 2019, with 51 midmarket buyouts, there were only 34 deals in 2020. The estimated transaction volume declined by approximately 25% to €4 billion.

Environmental Technologies | Palas' markets recorded diverging trends in the reporting period, in particular after the outbreak of the COVID-19 pandemic. Equipping certified fine dust measurement networks operated by public-sector agencies, which were the company's most important buyers in the more recent past, was significantly impacted by the containment measures instituted against the virus. Because installing and accepting fine dust measurement devices often requires staff to work on-site, there were sweeping project postponements by buyers.

By contrast, the newly emerging market for mask test rigs had a significantly positive effect on Palas's business performance. The previous certifications for respiratory masks were heavily slanted towards dust, which consists of considerably larger particles than viruses. The need to test masks and their filter media for separation efficiency for virus-sized particles is exactly within Palas's core competence.

As a niche supplier specializing in fine dust measurement and aerosol measurement technology, Palas competes with both small companies and large measurement technology groups. Palas is a technology leader in the precise real-time measurement of the smallest particles down to the nanolevel.

Security Technologies | After a strong start to the year, trends on IHSE's markets were substantially impacted by the effects of the COVID-19 pandemic, especially from the second quarter of the reporting period. Beginning in Asia, the government-imposed lockdowns and travel restrictions led to significant delays in investment and construction projects. In the further course of the reporting period, there were similar developments in Europe and the U.S.A., which are IHSE's core markets.

Whereas the low-end and mid-sized KVM market in terms of technology is characterized by significant fragmentation and competition from a large number of generalist providers, there are only a few specialized suppliers in the high-end segment relevant to IHSE, competing directly with each other in specific end-markets.

Initial listing

BCM Group celebrated the successful initial listing of its shares on the regulated market of the Frankfurt Stock Exchange with additional post-admission obligations (Prime Standard) on 14 July 2020. The shares are now traded under the ticker symbol BKHT and the German Securities Identification Number (WKN) A2GSU4.

In the course of the international private placement, a total of 3,593,750 new registered shares were placed (including the overallotment option of 468,750 shares), each with a notional value of €1.00 per share. At an issue price of €32.00 per share, this corresponded to a capital increase with gross proceeds of €115 million.

With cash funds of €123,544 thousand as of the reporting date, BCM Group has sound liquidity position for further acquisitions.

Segment reporting

For organizational purposes, BCM Group is composed of the following operating segments.

- **Central Functions:** M&A activities, controlling, investor relations, marketing and compliance
- **Environmental Technologies:** Development, production and distribution of environmental measurement technology and sustainability technologies, consisting of Palas
- **Security Technologies:** Development, production and distribution of high-performance network technology for challenging application areas, consisting of IHSE

Operating segments

	Reportable segments							
	Environmental Technologies		Security Technologies		Central Functions and consolidation		Total	
€ thousand	2020	2019	2020	2019	2020	2019	2020	2019
Revenue	18,114	13,835	33,543	40,455	(76)	–	51,581	54,290
Revenue growth	30.9%		(17.1%)				(5.0%)	
Gross profit	13,874	10,875	24,680	28,995	–	–	38,555	39,870
Gross profit margin	76.6%	78.6%	73.6%	71.6%			74.7%	73.4%
Adjusted EBITDA	6,283	4,999	11,778	14,164	(5,793)	(2,997)	12,270	16,166
Adjusted EBITDA margin	34.7%	36.1%	35.1%	35.0%			23.8%	29.8%

As IHSE was only acquired in December 2019, the company was not part of BCM Group in the prior-year period. As a result, the relevant 2019 figures for the Security Technologies segment in the adjacent table would have been considerably lower and the totals for 2019 would have to be reduced correspondingly. To enhance the comparability and informative value of the segment reporting, the information is presented on a pro forma basis. This presents the Group as if IHSE had already been included in BCM Group from 1 January 2019. Please refer to the consolidated financial statements for a presentation without pro forma adjustments.

BCM Group's revenue fell by 5.0% compared with the pro forma prior-year period. The reason for this was the decline in revenue at the Security Technologies segment in the second and third quarter of fiscal year 2020 because of the COVID-19 pandemic. By contrast, revenue increased significantly in the Environmental Technologies segment. Because of the lower absolute size of this segment compared with Security Technologies, however, it was not possible to full offset the decline in the latter's business.

Broken down by regions, BCM Group's revenue growth in EMEA was very stable, at +21.8%%, whereas revenue growth in the Americas declined by -34.1% and in APAC by -29.0%. The disproportionate impact of the crisis on exports is attributable in particular to travel restrictions and local restrictions on in-person contact, which meant that the necessary direct interaction with sales partners was only possible to a limited extent. In order to actively counteract these consequences of the pandemic, the Group is stepping up the expansion of its sales partner network, with a focus on partners that operate local operations in the relevant target countries. Additionally, Palas opened its own sales office in Shanghai in the third quarter and IHSE is also currently planning to establish a subsidiary in China. This approach should ensure a better presence in the customer region in the future and create greater independence from travel barriers, such as quarantine after arrival in the destination country.

Central Functions | Costs rose in the Central Functions at the level of adjusted EBITDA. This was primarily the result of an increase in personnel expenses and higher due diligence activities compared with the prior-year period.

In particular from February to July 2020, business activities were mainly driven by efforts to prepare and implement the initial listing, in addition to searching for acquisition targets. The associated expenses are not included in adjusted EBITDA because they relate to the costs of equity transactions. Further information on these expenses is contained in the consolidated financial statements. However, adjusted EBITDA at Central Functions includes expenses of being a listed company following the initial listing in July 2020. These expenses included in particular legal and consulting costs.

BCM Group focuses on high-margin, fast-growing technology and industry leaders. Within this deal flow, companies that performed very well economically in the coronavirus crisis and exhibit a high degree of resilience to macroeconomic shocks in addition to their growth prospects were added to the shortlist. However, competition for these companies now for sale has become even more intense. This is also reflected in purchase price expectations, because some of the valuations of companies that were able to document their resistance to crisis in the preceding months even have a purchase price premium compared with the pre-crisis level.

The ability to generate proprietary transaction situations by means of active searches is proving to be challenging, in particular because of the cancellation of trade shows and events because of the restrictions on in-person contact. Nevertheless, in order to leverage this deal sourcing channel, BCM Group has introduced a software solution that enables automated searches for companies. The software can search public databases and corporate websites, news sites and social media channels and provide information filtered in accordance with user specifications. The software was originally designed for B2B sales. BCM Group was able to repurpose the application for its own needs, which is an entirely innovative application for the developer. Using this solution also increases the degree of automation of BCM Group's deal sourcing activities.

Environmental Technologies | Revenue grew by 30.9% in the Environmental Technologies segment. Although the first quarter was relatively weak, in particular because of general revenue fluctuations between the quarters and the initial effects of the lockdowns, customer demand grew significantly in the rest of the fiscal year. The pivotal reason for this were the very rapid development and market launch of products to test the effectiveness of respiratory masks.

Revenue by product group

€ thousand	2020	%	2019	%
Fine dust measurement devices	6,832	38%	8,515	62%
Test rigs	5,270	29%	415	3%
Aerosol generators, -spectrometers, -sensors	3,228	18%	3,023	22%
Nanoparticle measuring devices	974	5%	670	5%
Other	1,810	10%	1,212	9%
Revenue	**18,114**	**100%**	**13,835**	**100%**

The COVID-19 pandemic focused public attention on aerosols (airborne particles) and Palas was able to successfully position itself as a technology leader with its aerosol measurement technology. Test rigs for testing the effectiveness of respiratory masks recorded particularly strong sales.

Substantial interest was generated immediately when the products were launched in March 2020 and this was followed very quickly by the first orders for the new mask test rigs by the Federal Ministry of Health. It uses the devices to test respiratory masks at the BASF Innovation Campus in Shanghai that are destined for export to Germany. This was followed by a large number of orders from other customers. The new product range also attracted substantial media coverage. They have been or will be followed by further products for aerosol measurement, for example in indoor spaces or breathing air.

By contrast, a large number of procurement measures for conventional products were put on hold, especially in the automotive industry and the public-sector fine dust measurement networks and universities. The lockdown measures were successively eased in several countries in the meantime, with the result that interaction between distribution partners and their end-customers started growing again. However, there are still significant barriers to the necessary direct customer contact, in particular because of the next round of lockdowns initiated at the end of the reporting period.

At 76.6%, the gross profit margin was lower than the prior-year period (78.6%). Test rigs for respiratory masks enjoyed far greater market success than expected and, in contrast to the previous practice, were even sold through distribution partners. The sales volume therefore grew substantially, although the margin was down slightly because of the necessary rebates to the distribution partners.

At 34.7%, the adjusted EBITDA margin was down on the prior-year period (36.1%). This was due primarily to the gross profit effect described above.

In response to the COVID-19 pandemic, Palas took measures to safeguard particularly strong hygiene levels and ensure compliance with physical distancing rules. To ensure continued production, including in light of potential disruption to the supply chains, Palas has a stockpile of up to nine months for mission-critical parts. Despite the global lockdowns, there were no disruptions of the supply chains that had any significant impact on business activities. Palas did not make any fundamental changes to its receivables, liquidity and risk management.

Faced with a temporary slump in demand at the beginning of the year, Palas introduced short-time working for a few weeks in April 2020, although this did not have any significant impact on results of operations, net assets, or financial position because short-time working allowances amounted to only €12 thousand. The market success of the new products for testing respiratory masks already started emerging shortly after short-time working was introduced. Because of the high demand, production capacity was adapted wherever possible and overtime was worked especially in May, June and July to meet this demand in a timely fashion. Palas received temporary tax refunds of €249 thousand for advance tax payments already made in the reporting period from the German tax authorities. These had been returned to the tax authorities by the reporting date.

In terms of marketing activities, there were significant changes in particular in the area of trade fair attendance because of the cancellation or postponement of several events. This saw the disappearance until further notice of a key tool for attracting new customers.

Palas assumes that the procurement processes currently suspended by its customers will resume once there is a return to normal economic activity and the lockdown measures are progressively lifted. This could result in significant catch-up effects that would have a positive effect on the business situation in the area of conventional products, especially fine dust measurement systems. The question of when this effect will emerge will depend on the further evolution of the measures undertaken to contain the COVID-19 pandemic.

As the new products for testing respiratory masks involve an entirely new market, it is difficult to predict how demand will continue to develop in future. On the one hand, it is possible that it will diminish as soon as the relevant customers have been equipped with corresponding devices. On the other, it may happen that a sustained additional market establishes itself for the company. This could benefit, for example, from new regulatory requirements and certification standards for virus-sized particles.

Palas assumes that the COVID-19 pandemic has noticeably increased public interest in air quality and aerosols in the mid-term and that this could offer significant business opportunities in future.

Security Technologies | Because of project postponements triggered by the COVID-19 pandemic, the Security Technologies segment recorded a 17.1% decline in revenue. IHSE's revenue was still up substantially year-on-year in the first quarter. Initial order postponements in Asia, where the pandemic had its earliest impact on the economy, were more than compensated by continued strong business in EMEA and North America. This trend did not continue in the second and third quarters, because additional major projects were delayed by the global lockdown measures, in particular in the U.S. and European markets. As well as government-imposed measures, internal occupational health and safety policies at customers additionally curbed business. For example, several enterprise customers banned physical visits to their facilities by external staff. However, working on-site is indispensable for implementing larger installations. Fourth quarter revenue grew again at a stronger pace. Nevertheless, key projects delayed by customers because of the global lockdown measures as well as travel and social distancing restrictions had a significantly negative impact on revenue in the reporting period.

Revenue by product group

€ thousand	2020	%	2019	%
Digital KVM extenders	22,219	66%	28,809	71%
KVM matrix switches	9,757	29%	10,246	25%
VGA & USB extenders	413	1%	779	2%
Converters & peripherals	259	1%	306	1%
Installation accessories & power supply units	171	1%	266	1%
Other	724	2%	49	0%
Revenue	**33,543**	**100%**	**40,455**	**100%**

In general terms, IHSE's growth potential remains intact because underlying trends such as digital transformation, connectivity and cybersecurity are continuing to drive customer demand for technologies for highly secure, loss-free, low-latency data transmission. The more important data becomes in the widest range of end markets, the more important its high-performance transmission will also become. This is also reflected in IHSE's steadily growing sales pipeline, as announced projects are not disappearing but are merely being postponed. The third and fourth quarters of 2020 saw a significant increase in order intake compared with the low in Q2 2020. Starting from the end of the fourth quarter, renewed lockdowns again negatively impacted the order situation.

Expanded and more intensive marketing activities were able to keep the basic business stable in the area of smaller order volumes, but were unable to completely offset postponements of larger sales projects in the pipeline. Marketing activities included customer webinars with up to 150 participants, the recruitment of new distribution partners and new master agreements with key accounts in the U.S. and Europe, as well as the successful introduction of a digital configuration platform for direct system configuration online by the customer.

At 73.6% the gross profit margin was higher than the prior-year period (71.6%). The main reason for this was a lower share of revenue attributable to major projects in 2020 compared with the previous year. Such major projects are often accompanied by higher discounts than smaller order volumes. As a result, the average discounts granted in the reporting period were slightly lower and the gross profit margin was correspondingly higher.

At 35.1%, the adjusted EBITDA margin was largely unchanged compared with the prior-year period (35.0%). The high gross profit margin had a positive effect. Personnel expenses were down slightly year-on-year in absolute terms. IHSE recorded significant new hires in 2019 reflecting the strong growth trends before the outbreak of the coronavirus crisis. The full-year effect of these new hires led to a higher average number of employees in 2020. Personnel expenses nevertheless fell slightly due to lower performance-related remuneration expenses. However, this reduction was only disproportionate when compared with the decline in revenue, as a result of which the ratio of personnel expenses to revenue in 2020 was higher than in 2019. Other operating expenses declined substantially due to systematic cost-cutting measures, thus keeping the cost ratio in this area largely constant. For example, significantly lower trade show and travel expenses were offset by costs for certification projects. Those are necessary for IHSE to meet increasing requirements for security-certified products such as U.S. National Information

Assurance Partnership, German KRITIS and the international Common Criteria for Information Technology Security Evaluation. Comprehensive cost reduction measures were initiated that enabled the company to maintain a very high level of profitability, despite the significant decline in revenue.

In the wake of the COVID-19 pandemic, IHSE took measures to maintain its ability to act and to conduct its business operations as smoothly as possible. Production at the headquarters in Oberteuringen was split across two teams that worked at different times and different locations. If one team had been affected by the virus and had to go into quarantine, the other team would still have been able to work and produce. This measure was also implemented at the foreign subsidiaries in Singapore and in the U.S., where work was also split between two alternating teams. Management worked alternately from home and in the office, so that the ability to act would be maintained if there were an infection at the management level and the risk of mutual infection was minimized.

On a temporary basis, short-time working was used at IHSE in the reporting period for a small part of the workforce, but the short-time working allowance including social security refunds of only €28 thousand meant there was no significant impact on the results of operations, net assets, or financial position.

Cancelled events where IHSE usually has an active marketing presence included the NAB Show in April, a major industry event organized by the National Association of Broadcasters in Las Vegas.

There were no disruptions of the supply chains that had any significant impact on business activities. Receivables, liquidity and risk management at IHSE were intensified in part because of the situation, but there were no fundamental changes.

In the reporting period, IHSE made use of the possibility to defer income tax payments due to the coronavirus crisis. As of the reporting date, these deferrals resulted in a tax liability of €2,050 thousand.

In May 2020, IHSE took out a “Paycheck Protection Program” loan of USD 249 thousand in the U.S. As the company had not made any employees redundant by August 2020, this federal loan was forgiven in the course of the reporting period. The corresponding liability was consequently reversed in profit or loss. IHSE’s Singapore subsidiary received a total of USD 75 thousand under various local support programs.

IHSE expects that the customers’ project postponements resulting in declining revenue in the reporting period will lead to catch-up effects in the volume of business and in revenue once the measures imposed to contain the virus are successively eased. Due to the international nature of IHSE’s business, the timing and amount of such a trend reversal will depend on further developments in measures taken to contain the pandemic in the various regions.

IHSE believes that the relevance of remote and physically separate working will increase substantially in the mid-term because of the COVID-19 pandemic and that this could result in a large number of future business opportunities.

Results of operations

The change in the Group’s results of operations in 2020 compared with the prior-year period (non-pro forma) was marked in particular by the inclusion of IHSE in the Group. Since IHSE was required to be included in the consolidated financial statements for the first time in December 2019 when control was obtained by BCM Group, the consolidated statement of comprehensive income for the first eleven months of fiscal year 2019 merely comprised revenue generated by Palas and expenses and other income of Palas and BCM AG. For this reason, there is limited comparability for the results of operations in the reporting period compared with the prior-year period. That is why the Group’s revenue rose by 211.5% in 2020 to €51,581 thousand. In the pro forma perspective, which presents the figures as if IHSE had already been a member of BCM Group in the prior-year period, there was a 5.0% decrease in revenue.

The increase in expenses is also largely attributable to the inclusion of IHSE in the Group. Cost of materials rose by 220.6% to €13,782 thousand, personnel expenses by 187.0% to €19,529 thousand, other operating expenses by 116.7% to €12,042 thousand and depreciation and amortization expenses by 103.1% to €1,665 thousand. As a consequence of the IHSE acquisition, amortization of intangible assets identified in initial consolidation rose by 184.0% to €7,708 thousand. Finance costs rose by 229.8% to €3,890 thousand due to the loans taken out for the partial debt financing of the acquisition and because of remeasurement losses on the NCI put provision. After income taxes and exchange rate effects, the net loss for the year was €6,759 thousand (previous year: €3,823 thousand).

Inflation and exchange rates did not materially impact the Group’s results of operations.

Net assets

With total assets of €306,419 thousand, the Group's assets are split between 53.9% non-current assets and 46.1% current assets as of the reporting date. The largest items quantitatively are intangible assets, including goodwill (152,733 thousand), cash and cash equivalents (€123,544 thousand), property, plant and equipment (€11,715 thousand) and inventories (€9,710 thousand). Intangible assets relate primarily to the customer base, basic technologies and trademarks identified in the course of purchase price allocation for the Palas and IHSE acquisitions (PPA assets) as well as goodwill. Property, plant and equipment consists largely of land and buildings at IHSE's headquarters in Oberteuringen at Lake Constance.

The change in net assets since the beginning of the fiscal year was a result in particular of the inflow of cash funds from cash capital increases when BCM Group went public in July 2020. Assets rose by €98,692 thousand, from €207,728 thousand to €306,419 thousand at the reporting date. Particular factors reducing total assets were the costs of going public and amortization of PPA assets.

Financial position

The Group's cash and cash equivalents at the reporting date amounted to €123,544 thousand. Senior loans amounted to €45,376 thousand, resulting in net senior cash of €78,168 thousand after deduction of cash and cash equivalents. Senior loans declined by €4,207 thousand compared with 31 December 2019.

Together with real estate loans (€6,180 thousand), lease liabilities (€1,253 thousand) and NCI put liabilities (€1,451 thousand), financial liabilities amounted to €54,261 thousand, corresponding to a €7,063 thousand reduction compared with 31 December 2019 (€61,324 thousand). A subordinated loan taken on in connection with the acquisition of Palas was paid back in full in August 2020. As of the 31 December 2019 prior-year reporting date, this loan was still reported at €3,199 thousand in other financial liabilities. The decline in senior and real estate loans resulted from the contractual continuing repayment of principal. The Group had unused credit lines of €2,700 as of the reporting date.

The senior loans have different maturities up to 2026 inclusive, the real estate loans up to 2037 inclusive. All loans are denominated in euros. Part of the collateralized loans bear fixed rates of interest, whereas the rest bearing interest of EURIBOR plus a margin. If EURIBOR is negative, it is considered to be zero in line with the loan agreements for calculating the interest rate. There were no significant changes in loan terms in the reporting period.

The Group uses hedging transactions relating to half the volume of interest rate risk attributable to future interest payments linked to EURIBOR.

Some of the Group's loan agreements contain arrangements on whose basis extensive early repayment obligations may be triggered. For example, the loans in question may be repayable immediately if the Group breaches contractual conditions. For example, the loans in question are subject to covenants that must be complied with by the subsidiaries funded by the loans.

Additionally, other shareholders of one subsidiary hold a put option on their shares. The option entitles those other shareholders to sell their shares to the parent company in the course of 2024. The sale price must be calculated on the basis of a contractually defined valuation formula whose inputs include in particular the EBITDA and net financial debt of the subsidiary in 2022 and 2023. The corresponding obligation is presented under financial liabilities and provisions in the consolidated financial statements.

The deferred tax liabilities of €16,296 thousand relate almost entirely to the customer base, basic technologies and trademarks identified in the course of purchase price allocation for the Palas and IHSE acquisitions (PPA assets) and will be reversed through profit or loss (but with no effect on cash flow) in the future as these PPA assets are amortized. There will be no cash outflows relating thereto.

The parent company implemented a substantial volume of capital increases in the reporting period. The Company increased its equity by €150,686, from €6,642,372 to €6,793,058, in February 2020. The capital increase was linked to the acquisition of IHSE in December 2019 and a subsequent reinvestment tranche. The shares were issued at a price of €32.00 per share, generating cash funds of €4,822 thousand for the Company. The share capital was further increased when BCM AG's shares were listed for the first time in the Prime Standard (subsegment of the regulated market with additional post-admission obligations) of the Frankfurt Stock Exchange on 14 July 2020. A private placement of new shares was implemented in the run-up to going public. BCM AG's share capital was increased by €3,125,000, from €6,793,058 to €9,918,058, on entry in the commercial register on 10 July 2020. The new shares were issued at a price of €32.00 per share, as a result of which additional cash funds of €100,000 thousand (before transaction costs) were generated for BCM Group. Exercise in full of the greenshoe option in the wake of the initial listing further increased the share capital by €468,750 to €10,386,808. This capital increase was entered in the commercial register on 21 July 2020. The new shares were also issued at a price of €32.00 per share, generating an additional €15,000 thousand (before transaction costs) for BCM Group. These capital increases played a significant role in the increase in BCM Group's cash and cash equivalents in the reporting period.

In conjunction with the initial listing, BCM AG agreed with the advisory banks not to announce or implement any capital increases from authorized capital or the issuance of financial instruments with conversion rights until 10 January 2021. An exception to this is the issuance of new shares to form joint ventures and to buy companies.

There are restrictions on the availability of the Group's capital in the form of restrictions on distributions by the subsidiaries resulting from the loan agreements. Cash and cash equivalents are held in separate accounts by the relevant Group companies. There are no cash pooling arrangements.

The Group had cash and cash equivalents of €3,721 thousand in a range of foreign currencies at the reporting date. These cash holdings are not hedged.

Because of its good liquidity position, the Group was able to discharge its payment obligations at all times in the reporting period. No liquidity shortfalls arose and none are foreseeable on the basis of the known development of the Group's business.

Group equity at the reporting date was €223,437 thousand, equal to 72.9% of total assets. This represents an increase of 15.7% points compared with 31 December 2019, when equity amounted to €118,917 thousand or 57.2% of total assets. The main drivers of the increase in equity were the cash capital increases in the course of the Group's initial listing.

The Executive Board defines the principles and goals of the Group's financial management. The primary goals are to safeguard liquidity and limit financial risks. Despite the current low interest rate level, our goal is therefore not to enter into any risks from the investment of the Group's cash funds. To ensure this, these funds are held in bank accounts at domestic credit institutions until they are needed to finance acquisitions.

There are no plans to pay dividends until further notice under BCM Group's dividend policy. The aim is to invest existing cash funds to acquire high-margin, fast-growing technology companies.

Cash flow from operating activities was €5,686 thousand, or €6,954 thousand before income taxes paid and resulted primarily from the operating earnings contributions of Palas and IHSE. In the prior-year period, cash flow from operating activities was €1,426 thousand.

Cash flow from investing activities amounting to €-1,406 thousand consisted principally of amounts paid to acquire items of property, plant and equipment and capitalized development costs. This item was considerably lower than the prior-year period (€-87,293 thousand) because IHSE was acquired in the prior-year comparative period. Of the investments in property, plant and equipment, €15 thousand was attributable to Central Functions, €820 thousand to Environmental Technologies (chiefly for internally produced demonstration devices and operating and office equipment) and €119 thousand to Security Technologies (primarily for IT infrastructure).

Cash flow from financing activities amounted to €102,312 thousand and was driven primarily by the capital increases when BCM Group went public in July 2020. It was reduced by repayments of loans and other financial liabilities amounting to €7,553 thousand, which related chiefly to loans from the acquisition of Palas and IHSE, the costs of capital increases amounting to €7,116 thousand and interest payments of €2,301 thousand. In particular a loan of €3,000 thousand was repaid that had been made available by the seller of Palas as part of the acquisition finance in connection with the acquisition of that company in December 2018. The positive cash flow from financing activities in the prior-year period of €71,466 thousand resulted mainly from the cash capital increase in connection with the acquisition of IHSE.

Free cash flow (operating activities plus investing activities) before tax and cost of equity transactions amounted to €9,413 thousand.

Condensed statement of cash flows

€ thousand	2020	2019
Adjusted EBITDA (non-pro forma)	**12,270**	**2,770**
EBITDA adjustments	(3,938)	(1,500)
(Income taxes paid)/ income tax refunds	(1,268)	(1,735)
Expenses for equity-settled share-based payment transactions	242	97
Gain/ (loss) on sale of property, plant and equipment	39	(50)
Other non-cash expenses/ (income)	(378)	3
(Increase)/ decrease in inventories, trade receivables and other assets not attributable to investing or financing activities	(1,129)	495
Increase/ (decrease) in trade payables and other liabilities not attributable to investing or financing activities	(157)	1,215
Increase/ (decrease) in other provisions	6	131
Cash flow from operating activities	**5,686**	**1,426**
Payments to acquire property, plant and equipment	(954)	(919)
Proceeds from sale of property, plant and equipment	25	137
Payments to acquire intangible assets	(95)	(26)
Capitalized development costs	(392)	(443)
Acquisition of subsidiaries, net of cash acquired	–	(86,043)
Interest received	10	1
Cash flow from investing activities	**(1,406)**	**(87,293)**
Proceeds from loans raised	–	17,193
Repayment of loans and other financial liabilities	(7,553)	(1,673)
Repayment of lease liabilities	(539)	(337)
Interest paid	(2,301)	(232)
Proceeds from issuance of shares	119,822	56,784
Cost of capital increases	(7,116)	(269)
Cash flow from financing activities	**102,312**	**71,466**
Change in cash and cash equivalents	**106,592**	**(14,401)**
Effect of exchange rate changes on cash and cash equivalents	(219)	(6)
Cash and cash equivalents at beginning of period	17,171	31,578
Cash and cash equivalents at end of period	123,544	17,171

Economic development of BCM AG

The Group parent Brockhaus Capital Management AG (BCM AG) is managed by an Executive Board with two members. Marco Brockhaus is the CEO and Chairman of the Executive Board and Dr. Marcel Wilhelm is COO and Legal Counsel. The Group parent had 10 employees at the reporting date (previous year: 8), including the members of the Executive Board. The employees report directly to the Executive Board. They are employed by BCM AG and work at its head office.

BCM AG's annual financial statements are prepared under German GAAP in accordance with German principles of proper accounting.

BCM AG does not report any revenue because of its business model consisting of long-term holdings of majority interests. BCM AG's results in fiscal year 2020 were marked by the costs of going public, all of which are to be recognized as expenses under German GAAP. Personnel expenses rose from €1,583 thousand in the previous year to €3,622 thousand in the reporting period and other operating expenses from €1,855 thousand to €12,781 thousand. Other operating expenses were driven primarily by costs of the Company's initial listing amounting to €8,899 thousand. Net of these costs, other operating expenses amounted to €3,882 thousand. Overall, the net loss for the fiscal year was €16,151 thousand, compared with €3,802 thousand in the prior-year comparative period.

The Company's financial assets amount to €117,205 thousand (previous year: €113,966 thousand) and mainly comprise the investments in IHSE AcquiCo GmbH (€95,571 thousand), Palas Holding GmbH (€18,190 thousand) and IHSE Immobilien GmbH (€205 thousand), as well as a loan of €3,184 thousand to Palas Holding GmbH. The loan was added in the reporting period. The other items of financial assets were largely unchanged compared with the prior-year reporting date.

BCM AG's cash funds as of 31 December 2020 came to €108,561 thousand (previous year: €7,181 thousand). The increase is attributable to cash inflows resulting from the capital increases, which also led to a €103,671 thousand rise in equity to €223,409 thousand. There are no liabilities to banks.

Risks and opportunities

Risk management system

Risks and opportunities relate to potential future events that could result in a significant negative or positive deviation from BCM Group's goals. BCM Group is exposed to numerous risks in its business activities. The Group's goal is not to avoid risks in general, but to carefully weigh the opportunities and risks associated with its decisions and business activities on the basis of appropriate information. The aim is to establish an optimum balance between growth and profitability on the one hand and the associated risks on the other. Accordingly, opportunities that arise to increase enterprise value should be leveraged and risks should only be entered into to the extent that they are acceptable to the Group. A reasonable level of business risks must be accepted, but they must be managed by effective risk management that deploys suitable measures. Measures can limit risks to an acceptable level, transfer them to third parties in part or in full, or avoid them. All employees are expected to deal responsibly with risks within the scope of their areas of responsibility. The risk policy principles and risk strategy are coordinated with and closely linked to, the corporate strategy and the corporate goals. Risks to BCM Group or individual subsidiaries as a going concern must be avoided in any case. The risks and opportunities presented in the following also apply largely to BCM AG.

The concept, organization and functions of BCM AG's risk management system are defined by the Executive Board and the Supervisory Board. Documentation in the form of a manual on the risk management system ("risk manual") was prepared as of the end of fiscal year 2020. The risk-management requirements are regularly amended to reflect changes in the legal framework and are subject to a continuous improvement process.

The Finance department coordinates the implementation and enhancement of the risk management system and the Supervisory Board oversees its effectiveness, in particular to establish whether the risk early warning system is generally suitable for identifying risks and developments that could jeopardize the Group at an early stage so that suitable countermeasures can be taken without undue delay.

The risk management system consists of measures that enable BCM Group to identify, assess and monitor material risks to the attainment of the Company's objectives at an early stage. In fiscal year 2020, mainly internal monthly reports were used to cover the subsidiaries' primary reports (income statement, statement of financial position, statement of cash flows). These were analyzed and discussed by the Executive Board at least monthly. The scope of consolidation for group risk consolidation purposes is the same as the scope of consolidation for the consolidated financial statements.

The Group has been publicly traded since its stock exchange listing in July 2020. For this reason, the risk management system was significantly expanded and extended in the reporting period compared with the position in 2019. Consequently, the management of BCM AG and its subsidiaries significantly upgraded the degree of formalization and documentation of the risk management system.

Whereas overall responsibility for risk management lies with the Executive Board, the subsidiaries are responsible for the operational management of the individual risks relevant to them. This includes the early identification, assessment and definition of suitable measures, the management and monitoring of such measures and appropriate documentation and reporting. The risk manual is intended to ensure a uniform approach and binding applicability in the Group.

The risk inventory, i.e., the identification of the universe of material risks, was based on the comprehensive due diligence work carried out in preparation for the initial listing and as a basis for preparing the prospectus.

The methodology used to quantify risk is discussed in the following. All material risks are assessed using defined classes (1 to 5) for probability of occurrence and the impact on the Group's objectives. The probability of occurrence refers to the estimated probability of a risk occurring during the time horizon under observation and is expressed as a percentage. The probability of occurrence (P) is determined by selecting one of the defined probability intervals, as shown in the following overview.

Value	Class and probability interval
75% < P	5 Highly probable
50% < P <= 75%	4 Probable
25% < P <= 50%	3 Possible
10% < P <= 25%	2 Unlikely
P <= 10%	1 Very unlikely

The assessment of the loss when a risk occurs can be either quantitative, which is the preferred method, or qualitative if risks cannot be quantified, or qualitative aspects predominate (e.g., for compliance risk). Classification is also based on classes with values of 1 to 5. The quantitative classes are based on an estimated loss in euros relating to the potential impact on the Group's net assets, financial position and results of operations. The qualitative classes are based on criteria that consider damage to the Group's reputation or the impact of any prosecution, with a particular focus on compliance-related risk.

Impact	Assessment
5 Very high	Going concern risks with a negative impact on business activities, net assets, financial position and results of operations as well as reputation >= €10 million per individual risk
4 High	Significant negative impact on business activities, net assets, financial position, results of operations and reputation €1 – €10 million per individual risk
3 Moderate	Some negative impact on business activities, net assets, financial position, results of operations and reputation €100 – €1,000 thousand per individual risk
2 Low	Limited negative impact on business activities, net assets, financial position, results of operations and reputation €10 – €100 thousand per individual risk
1 Immaterial	Immaterial negative impact on business activities, net assets, financial position, results of operations and reputation < €10 thousand per individual risk

All identified risks are assigned a risk score, based on the assessment of probability of occurrence and impact. This corresponds to the sum of the class for probability of occurrence and the class for impact if the loss occurs. The probability class is weighted at 30% and the impact class at 70%.

The color coding of the risk scores is presented in the following overview and corresponds to the visualization in the risk matrix.

Color code	Risk score
	5 Going concern risk
	4 Very high risk
	3 High risk
	2 Moderate risk
	1 Low risk

The risk matrix graphically presents the classification of the identified risks and is used to prioritize the most significant risks and enhance transparency across the Group's entire risk portfolio. The classification presented here corresponds to the net risk, i.e., the expected effect of control measures has been taken into account in the quantification. This systematic and standardized risk analysis and assessment is conducted once a year. Previously, the monthly reports were used to identify changes in the risk situation. In future, it will be the job of the risk officers to continuously monitor all changing risk situations within their departments or their company. Significant changes in the risk situation must then be reported to Risk Management or the Executive Board without undue delay.

Risk matrix

Amount of loss if event occurs	<= 10%	<= 25%	<= 50%	<= 75%	>75%
>= €10 million	Technology Liquidity	Due diligence Financial covenants			
< €10 million	Economy Key management Compliance	Customer concentration Growth obstacles Suppliers			COVID-19
< €1 million	IT Financial planning Interest rates Taxes	Credit risk	Deal sourcing		
< €100 thousand		Acquisition finance			
< €10 thousand					Foreign currency

Probability of occurrence

Risks

BCM Group classifies its risks into the areas of markets/ technology, new acquisitions, business operations, compliance and finance.

Market/ technology risks

Economy | The general economic environment and other economic and political conditions significantly impact BCM Group's markets. For example, the Environmental Technologies segment is driven primarily by global legislation relating to air quality and the measurement and regulation of fine dust pollution, among other factors. The Security Technologies segment depends on investments by industry and the public sector in the construction and renewal of highly sophisticated IT infrastructure. As a result, any departure from expected developments in the macroeconomic environment can result in both opportunities and risks in terms of demand for the Group's products.

As a general rule, diversification due to the diverse range of products and the international presence of the operating segments serves to mitigate economic risks to a certain extent. However, the cyclicality of the business models is not directly offsetting, with the result that there is still significant dependence on economic cycles.

In particular, there is a high level of uncertainty internationally in terms of growing trade barriers, for example due to greater, additional, or entirely new protectionist policies such as tariffs, or because of Brexit. These trends may negatively impact the global economic environment and hence lead to lower demand for BCM Group's products. They therefore constitute a significant risk. By contrast, they may also result in opportunities for the Group, because – as European manufacturers of high-tech products – Palas and IHSE can supply sensitive sectors in both the USA and China. In part, this may represent a competitive advantage compared with local providers.

COVID-19 | The risk of a global recession materialized because of the COVID-19 pandemic. This led to declining demand in Palas's conventional product lines and to substantial project postponements by IHSE customers. There is a risk that the improvement in macroeconomic conditions will be slower and/ or less pronounced than expected. This would adversely affect the Group's results of operations, net assets and financial position.

Customer concentration | The Group companies' niche strategy means that they are also exposed to significant customer concentrations. The loss or failure of one or more key accounts would therefore adversely affect the revenue and hence BCM Group's net assets, financial position and results of operations. To mitigate this risk, the Group has close, long-standing customer relationships and tries to avoid excessive customer concentrations wherever possible.

Technology | The success of the Group companies is rooted in their focus on technologies and innovative products that follow sustainable global trends such as digital transformation, automation, cybersecurity, or sustainability. Changes in customer preferences, new or substitutive technologies, or the emergence of industry standards and trends with negative consequences could make the Group's existing products obsolete or less attractive. To rule out this risk, the Group makes targeted investments in research and development.

Suppliers | Various disruptive factors such as financial, capacity, or procurement-related bottlenecks at the Group's suppliers could lead to delays or even the collapse of supply chains. This would result in the impairment of BCM Group's production and hence its revenue generation and would negatively impact the Group's results of operations, net assets and financial position. In order to mitigate this risk, the Group companies plan their future requirements in advance wherever possible and adjust their ordering behavior accordingly when circumstances dictate.

Risks from new acquisitions

Deal sourcing | BCM Group's business model is based on its ability to identify companies as suitable acquisition targets and acquire them on attractive terms. If the Group is not able to conclude such acquisitions, this may adversely affect its future growth and the efficiency of the allocation of its cash resources. To minimize this risk, BCM Group actively manages its network of sector experts, entrepreneurs, managers and consultants to give it access to potential acquisition targets. It also conducts its own prospecting activities, for example by attending trade fairs and systematically monitoring company awards.

Acquisition finance | In many cases, acquiring companies is associated with a substantial need for finance. Transaction processes could fail if BCM Group is not able to obtain this through equity or debt within a reasonable time. To prevent such a situation, the Group has numerous potential financing partners, which include debt funds and co-investors in addition to banks. The initial listing in the Prime Standard quality segment also represents a source of finance through capital increases.

Due diligence | It is possible that the Group might inaccurately estimate the value and future potential of target companies and that they will generate lower revenue and earnings than assumed before the acquisition. This may happen if risks relating to the target company and/ or its markets are not communicated or not identified. To reduce the possibility of this risk occurring, the Group conducts comprehensive due diligence before each acquisition, involving experienced specialist advisers. Nevertheless, it cannot be ruled out that material risks are not identified or not accurately assessed in the course of due diligence.

Operational risks

Operational obstacles to growth | Because the subsidiaries are relatively small organizations with ambitious growth targets, there is a risk that their management is not able to successfully address promising markets and customers, implement necessary product developments and develop scalable internal structures in good time. The Group manages this risk using proven tools such as the 100 day plan in which the initial initiatives resulting from the due diligence are documented, scheduled and implemented following the acquisition. There is also a standard Group-wide process for strategic planning and strict financial reporting. Furthermore, the members of the BCM team have extensive experience in developing scalable structures in growing companies.

Key management | The Group's economic success is critically sustained and driven by its ability to recruit, grow and retain experienced, talented managers and staff. There is a risk of inappropriate appointments when management structures are expanded to enable further expansion. If BCM Group is unable to suitably fill future and existing positions and retain existing managers and staff, this could materially adversely affect commercial success and hence BCM Group's net assets, financial position and results of operations. To counter this risk, remuneration structures in line with market conditions are in place in the Group, together with a pronounced focus on equity components and long-term incentives. These consist of both direct investments at the level of subsidiaries and investments in BCM Group in the form of shares and stock options.

IT | The Group's business processes are critically dependent on information technology (IT). As well as the opportunity to leverage operational efficiencies, this also entails risks. The Group's technical infrastructure could be impaired or fail due to accidents, disasters, technical failures, obsolete technology, or cyber attacks. There is also a risk of unauthorized access by external parties to confidential business or personal data. BCM Group has security systems that meet market standards in place to safeguard the availability, integrity and confidentiality of its data.

Compliance risks

There are numerous legal risks from the scope of statutory and regulatory requirements, as well as the large number of contractual relationships and agreements that the Group enters into regularly. These relate in particular to the areas of patent, capital markets and company law. These risks are reduced to a moderate level by extensive cooperation with experienced prominent law firms. The Group works with several law firms to avoid dependencies resulting from outsourcing and ensure an appropriate level of technical specialization. BCM Group also has a database of templates for standard contracts.

Other compliance risks that may result from breaching laws and regulations, such as capital market or data protection rules, are identified and monitored by the compliance department. BCM Group has developed a code of conduct that contains essential guidance for correct behavior. There are also training events on specialized topics, such as the proper handling of inside information. Compliance risks are continuously monitored and appropriate measures are taken if risks materialize.

Financial risks

Financial planning | BCM Group's financial planning is based on assumptions made by the management of the parent company and the subsidiaries. These assumptions relate to business performance and other external factors that are, in part, very difficult to predict or cannot be influenced by the Group and to measures, some of which still have to be implemented. There is therefore a risk that the assumptions underlying the planning could be incomplete or incorrect and that this may result in divergence between projected and actual earnings. There could also be opportunities if actual developments diverge positively from projections.

Financial covenants | Some of the Group's loan agreements contain arrangements on whose basis extensive early repayment obligations may be triggered. For example, the loans in question are repayable immediately if subsidiaries breach financial covenants. If one or more such cases were to arise, this would adversely affect the Group's liquidity. To manage this risk, the Group has established a comprehensive financial reporting system.

Interest rates | Any increase in interest rates could impact the future development of the Group for a variety of reasons and adversely affect its net assets, financial position and results of operations. On the one hand, rising interest rates would increase the Group's financing costs, but would also lead to higher acquisition financing costs for acquisitions. To the extent possible and commercially reasonable, BCM Group enters into hedges to mitigate interest rate risk. However, such hedges can only cover existing financing volumes, not those that may be necessary in the future.

Foreign currencies | BCM Group executes certain transactions in foreign currencies, giving rise to foreign currency risk. The Group hedges foreign currency risk from its order backlog and from receivables and liabilities where this appears to be economically expedient. The inclusion of subsidiaries from countries outside the eurozone in the consolidated financial statements results in risks from currency translation. As a general principle, the Group does not hedge these risks using derivatives.

Credit risk | It is possible that customers of BCM Group will be unable to settle their liabilities. This risk is mitigated by a stringent receivables management process and by agreeing advance payments in some cases. To the extent economically expedient, trade credit insurance is taken out to reduce the amount of potential credit losses.

Liquidity | Liquidity risk describes the risk that BCM Group might not be able to meet its financial obligations to a sufficient extent. To safeguard liquidity, changes in liquidity are continuously monitored as part of detailed financial planning and financial reporting. For external financing purposes, the opportunities available on the financial markets are continuously monitored in order to ensure sufficient flexibility.

Taxes | BCM Group is subject to income taxes and other taxes in various jurisdictions. Considerable discretion and significant estimates are needed to calculate obligations arising from income tax, value added tax and other taxes, including withholding taxes. In the case of various transactions and calculations in the course of the Group's ordinary business activities, for example in the case of intercompany transactions and transfer prices across jurisdictions and transactions with special documentation requirements, the ultimate tax calculations or the timing of tax effects are uncertain. BCM Group is subject to regular audits by the tax authorities, who may arrive at different results with regard to tax estimates or the Group's discretionary judgment. Although BCM Group believes that its tax estimates are appropriate, the final outcome of such tax audits may differ from the provisions and accruals. As a result, additional tax liabilities, interest, penalties, or regulatory, administrative, or other sanctions may be incurred.

Opportunities

In management's opinion, BCM Group has a large range of opportunities. We believe a pivotal task of management is to identify opportunities at an early stage as they arise and to be in a position to exploit them so as to increase enterprise value. The Group has a high level of cash funds to do this. The business segments subordinate to Central Functions have strong cash flows that – in conjunction with the asset-light business models – enable them to finance growth investments from their own resources. In light of this, the vast majority of the Group's cash and cash equivalents is designated for further growth through company acquisitions.

In addition to the risks already described, the pandemic and its consequences may also result in opportunities for the Group. At Palas, these materialized partly in the form of revenue from new products for mask testing that was not foreseeable before the SARS-CoV-2 outbreak. Both the Executive Board of BCM AG and Palas's management assume that the pandemic will result in a sustainable rise in public interest in air quality in very many spheres of life. Because aerosols are highly relevant as a transmission route and they are also Palas's core competency, significant new business opportunities may arise in the future. In the medium term, IHSE could also benefit substantially from the changed conditions resulting from the pandemic. For example, there could be increased structural requirements relating to remote work. In particular in areas with very high requirements for fail-safe operation, bandwidth and transmission speed, this could drive up demand for IHSE solutions.

Regardless of this, the business of the existing Environmental Technologies and Security Technologies segments have opportunities to perform better than planned, thanks to their technology leadership in markets with strong growth drivers. Environmental Technologies can benefit from a general increase in public awareness of the issue of air quality and aerosols. Customer demand in the Security Technologies is driven by a high level of requirements for secure, fast data transmission. Continuously increasing data volumes and the need to visualize them, as well as the requirement to protect this data from unintended access, can offer substantial business opportunities in the future.

To sum up, there are significant opportunities for BCM Group from the activities of its subsidiaries, as well as from further acquisitions in the future.

Overall assessment of risks and opportunities

In the opinion of the Executive Board, market/ technology risks have the most significant impact on BCM Group. This assessment is based in particular on the global recession that occurred in the reporting period as a result of the lockdown measures imposed to combat the COVID-19 pandemic. To the extent that the macroeconomic effects of the pandemic countermeasures continue, this could have a material adverse effect on the Group's net assets, financial position and results of operations. In this case, decreased revenue in particular would reduce adjusted EBITDA and, subsequently, the Group's equity and its cash and cash equivalents.

Overall, BCM Group is exposed to a high level of uncertainty that it can only partly influence itself. However, the Group has not identified any risks that, individually or in combination with other risks, could affect the continued existence of the Group as a going concern.

Internal control system relevant for the consolidated financial reporting process

The internal control system (**ICS**) is an integral component of BCM Group's risk management system. It aims to ensure regularity, completeness and reliability of the accounting system and the related financial reporting and compliance with the relevant legislation and standards. The internal control system comprises all organizational arrangements and measures for identifying, assessing and managing all risks that could materially impact the consolidated financial statements. Nevertheless, even an effective, appropriate and properly functioning internal control system cannot guarantee that all irregularities or inaccurate disclosures will be avoided or identified.

The Group considers the following elements of the internal control system to be significant with respect to the consolidated financial reporting process:

- Internal monthly reports consisting of an income statement, statement of financial position and statement of cash flows, including the presentation of year-on-year differences and differences versus the budget, as well as reporting on significant events
- Group-wide accounting manual
- Documentation of risks and controls in an ICS matrix, including risk description, control description, definition of documentation requirements, frequency of controls and definition of control owners
- Preventive and detective controls such as dual control principle, access authorizations and separation of duties
- Continuous analysis of new or amended accounting standards, legislation and other requirements and assessment of their impact on the financial statements
- Centralized overviews of quarterly, half-yearly and annual reporting, submission and publication requirements and their deadlines
- Support for subsidiaries to enhance accounting processes and systems, for example by providing advice on consolidation, making available templates and checklists
- Centralized preparation of consolidated financial statements, including the combined management report

Support services provided by an external service provider are used in the preparation of the consolidated financial statements. The same applies to the assessment of specific special issues, such as complex or rarely applied IFRS requirements.

If control weaknesses or opportunities for improvement are identified, they are assessed and countermeasures are developed with the responsible managers in order to continuously enhance the effectiveness of the internal control system. The Executive Board adopted an ICS manual at the end of fiscal year 2020 to ensure the standardization and further development of the ICS in the Group. It describes the significance, relevance and components of BCM Group's ICS. It addresses responsibilities, the ICS control cycle and the assessment of the effectiveness of implemented controls. In addition, the ICS manual contains a range of tools for supporting and efficiently designing the implementation and documentation of controls.

Expected developments

In macroeconomic terms, a significant upturn is expected for fiscal year 2021, driven primarily by recovery effects from overcoming the coronavirus crisis. The following overview shows the expected growth rates of the most important markets for BCM Group according to the "World Economic Outlook Update – January 2021" issued by the International Monetary Fund.

Gross domestic product	2021 change year-on-year
Worldwide	5.5%
Eurozone	4.2%
Germany	3.5%
U.S.A.	5.1%
China	8.1%

Because of the renewed lockdowns since November 2020, however, we believe that these growth expectations are subject to an exceptionally high degree of uncertainty.

We assume that the first half of 2021 will continue to be substantially dominated by measures to contain the pandemic. Any seasonal easing of the situation in the summer should lead to the further relaxation of these measures and to an uptick in economic activity. We expect the availability of vaccines to improve globally and the pandemic to be slowly contained over the further course of 2021. As a result, we are expecting a significant reduction in travel and contact restrictions, which will enable improved direct contact with customers.

Although we are convinced that we will implement one or more acquisitions in fiscal year 2021, our forecast represents "as-is" planning. What this means is that the Group's earnings figures have been planned based on the assumption that there will be no change in the scope of consolidation. The reason for this approach is the difficulty in predicting the nature and scope of future acquisitions. We do not believe that any estimates in this respect are sufficiently reliable.

BCM Group is anticipating revenue of €62 million in fiscal year 2021, representing growth of 20% compared with the 2020 reporting period.

This expectation is based on our assumption of continued strong demand for devices for testing respirator masks in the Environmental Technologies segment, especially in the first half of the year. In addition, the course of the year should see continued recovery in the business with fine dust measurement devices for environmental monitoring. There were significant delays in procurement processes in 2020 in this area, particularly in the case of equipment for public measurement networks, so we are expecting corresponding catch-up effects.

We are anticipating significant catch-up effects for the Security Technologies segment from expected orders for projects postponed by customers. However, this outlook is still marked by a high degree of uncertainty because the renewed lockdowns since November 2020 are having a noticeable impact on IHSE's business development. Based on the projected significant increase in vaccinations over the course of 2021, we are anticipating particularly strong revenue growth in the second half of the year.

We are projecting a slight increase in the adjusted EBITDA margin, which we expect will be above the level of 23.8% in the reporting period. However, we consider a return to the record 2019 level of 29.8% to be unrealistic already in 2021. The reasons for this are the lower gross profit margin compared with 2019 due to a higher share of revenue attributable to more heavily discounted distribution partners in the Environmental Technologies segment as well as higher costs of the Central Functions.

With regard to the financial figures of Brockhaus Capital Management AG at the standalone entity level (German GAAP), we are expecting a significantly lower net loss for the year. This assessment is based on the fact that the German GAAP result in the reporting period was significantly impacted by the initial listing costs. No such transactions are expected in the 2021 forecast period.

Disclaimer

This Annual Report and in particular the report on expected developments, contains forward-looking statements that are based on management's current estimation of the future development of the market environment and the future performance of the Group. This estimation was made on the basis of all information available as of the preparation date of this Annual Report. Forward-looking statements are subject to uncertainties – as described in the Risks and opportunities section of our Management Report – that are beyond the Group's control. This relates in particular to the current coronavirus crisis, its future course and its macroeconomic impact. If the assumptions on which these expected developments are based are not accurate, or if the risks or opportunities described were to materialize, actual results may differ significantly from the statements made in the Report on expected developments. If the underlying information changes in such a way that a deviation from the expected developments is more likely than not, BCM Group will notify this in accordance with the statutory disclosure requirements.

Takeover-related disclosures

As required by section 176(1) sentence 1 of the German Stock Corporation Act (AktG), the Executive Board of Brockhaus Capital Management AG (BCM AG) is making an explanatory report on the disclosures relating to takeover law in accordance with sections 289a(1) and 315a(1) of the German Commercial Code (HGB).

BCM AG's subscribed capital was €10,386,808 as of 31 December 2020. It is composed of 10,386,808 no-par value bearer shares, each with a notional value of €1.00. The share capital is fully paid up. Each share conveys one vote at the Annual General Meeting. There are no other classes of shares. The Company did not hold any treasury shares as of 31 December 2020. The rights and obligations associated with the shares are defined in the German Stock Corporation Act.

To the knowledge of the Executive Board, there are no restrictions on the voting rights conveyed by shares.

There are restrictions on the transfer of shares in the form of lockup agreements entered into in connection with the Company's initial listing in July 2020. The Company's founding team and the managing directors of IHSE AcquiCo GmbH and Palas Holding GmbH have made a commitment to the banks that accompanied the initial listing not to sell any of the shares they held at the date of initial listing until 10 January 2021. These shareholders have also made a commitment to BCM AG not to sell the shares in question until 4 July 2022. These arrangements relate to a total of 2,905,293 shares of the Company, corresponding to 28.0% of the subscribed capital at the reporting date.

Additionally, the other shareholders who held shares of BCM AG prior to the Company's initial listing made a commitment to the banks that accompanied the initial listing not to sell any of the shares they held at the date of initial listing until 10 January 2021. This arrangement relates to a total of 3,887,765 shares of the Company, corresponding to 37.4% of the subscribed capital at the reporting date.

At the reporting date, Marco Brockhaus (resident in Germany) directly and indirectly held 22.4% of the Company's shares. To the knowledge of the Executive Board, there are no further interests in the capital that exceed 10% of the voting rights.

Under Article 9(2) of the Company's Articles of Association, Falkenstein Heritage GmbH, whose registered office is in Wetzlar (Germany), is entitled to appoint one third of the shareholder representatives on the Company's Supervisory Board. This right continues to exist for as long as Falkenstein Heritage GmbH holds at least 10% of BCM AG's shares. Marco Brockhaus holds the majority of the shares of Falkenstein Heritage GmbH.

The statutory provisions relating to the appointment and dismissal of members of the Executive Board are governed by section 84 et seq. of the German Stock Corporation Act. The Articles of Association include the following arrangements relating to the appointment and dismissal of members of the Executive Board.

"The Executive Board comprises one or more persons. The Supervisory Board determines the number of Executive Board members. The Supervisory Board can appoint a Chair of the Executive Board and a Deputy Chair."

Adoption of the Articles of Association is governed by section 23 of the German Stock Corporation Act. Under section 179(1) of the German Stock Corporation Act, any amendment to the Articles of Association requires a resolution by the Annual General Meeting. Under Article 12(2) of the Articles of Association, the Supervisory Board is entitled to make amendments to the Articles of Association that relate solely to the wording.

The Executive Board's powers to issue shares are described in Note 25.2 to the consolidated financial statements. As of the reporting date, the Executive Board is not authorized to buy back shares of the Company through the Company. Exemptions are described in section 71 of the German Stock Corporation Act. The Annual General Meeting had not authorized the Executive Board to buy back shares as of the reporting date.

The members of the Executive Board have a special right of termination in the event of a change of control. A change of control exists,

> if a third party or several third parties acting in concert who, at the time the contract of service of the Executive Board member was entered into, did not hold or held less than 20% of the voting rights in the Company, acquire voting rights in the Company such that they account for more than 30% in the aggregate (existing and acquired) of the voting rights in the Company, irrespective of whether this gives rise to an obligation to make a takeover bid (the relevant provisions of the German Securities Acquisition and Takeover Act (WpÜG), in particular sections 29, 30, apply to the calculation of the share of the voting power), or
> in the event of a merger (section 2 of the German Transformation Act (UmwG)) involving the transfer of the assets of the Company under section 174(1) or (2) sentence 1 of the German Transformation Act or a legal transfer of the material assets to third parties who do not belong to the group of the Company, or
> in the event of a control agreement and/ or a profit and loss transfer agreement is or are entered into by the Company as a dependent controlled company.

The Executive Board member is entitled to a severance payment if this special termination right is exercised. The severance payment, which

> is limited to a total of two annual salaries in the case of Mr. Brockhaus and
> to one year's salary in the case of Dr. Wilhelm,

comprises 50% of the total amount of the salaries no longer accruing and payable as a result of the early termination of the contract of service (fixed salary and variable remuneration, based on the last annual salary) and the additional payment amounting to one year's salary (fixed salary and variable remuneration, based on the last annual salary). The claim for the severance payment is due on termination of the contract of service. There is no entitlement to a severance payment if the contract of service would also have ended automatically within the following 12 months regardless of the change of control, or if the Company gives or was entitled to give the Executive Board member effective extraordinary notice of termination for good cause within the meaning of section 626 of the German Civil Code (BGB).

Remuneration report

This remuneration report forms part of BCM Group's combined management report. It contains the information that must be disclosed in the notes to the financial statements or the management report under German commercial law. In accordance with the statutory requirements, the remuneration report explains the principles and structure of the remuneration system for the Executive Board and Supervisory Board of Brockhaus Capital Management AG and also discloses the remuneration of the individual members of the Executive Board and Supervisory Board for the performance of their duties in the Company in fiscal year 2020.

Executive Board remuneration

The members of Brockhaus Capital Management AG's Executive Board are:

> Marco Brockhaus, Chair of the Executive Board, Chief Executive Officer
> Dr. Marcel Wilhelm, Chief Operating Officer, Legal Counsel

The remuneration structure is geared towards sustainable corporate development and consists of fixed and variable remuneration. The fixed, non-performance-related component of the remuneration consists of a fixed annual salary. The variable component consists of a performance-related bonus.

The remuneration of the individual Executive Board members is determined and reviewed periodically by the Supervisory Board. The aim is to remunerate the members of the Executive Board appropriately to reflect their activities and responsibilities, taking into account personal performance as well as the economic situation, the Company's success and its future prospects.

In this context, the Supervisory Board is guided by the remuneration paid by comparable companies to the members of their management and its appropriateness compared with the level of other salaries in the Company. The Supervisory Board's intention is to retain the members of the Executive Board for the long term and to provide an incentive to increase enterprise value. The variable remuneration is also designed to promote the motivation and commitment of the members of the Executive Board, but at the same time offers an opportunity to reflect the Company's economic situation when determining the bonus. The Supervisory Board reviews the remuneration periodically. In this review, it takes into account the individual performance and the scope of the responsibilities assumed, as well as the Company's economic situation. As the Supervisory Board has not established any committees thus far, in particular no committee dealing with remuneration issues, the relevant issues are discussed and decided on by the full Supervisory Board. In view of its network and wealth of experience, the Supervisory Board has thus far not obtained any consulting services from an external remuneration advisor.

The contracts of service of the two members of the Management Board are each dated 12 April 2018, based on the Supervisory Board resolution of the same date and each runs until 31 July 2022.

The Supervisory Board used the opportunity of Brockhaus Capital Management AG's initial listing on 14 July 2020 to analyze the existing remuneration system with the idea of continuously developing it, including with regard to the preparation of the new contracts of service, considering the recommendations of the German Corporate Governance Code in the version dated 16 December 2019 and taking into account BCM Group's further development.

Fixed remuneration

The fixed, non-performance-related annual remuneration of the Executive Board members is paid in twelve equal installments at the end of each month and for the last time for the full month in which the contract of service ends. It is reviewed annually for appropriateness and adjusted if required. It may also be adjusted by granting non-recurring special payments. The annual fixed remuneration of the members of Executive Board in fiscal year 2020 is disaggregated as follows.

€ thousand	2020	2019
Marco Brockhaus	540	540
Dr. Marcel Wilhelm	180	180
Total	**720**	**720**

Variable remuneration

In addition to the fixed salary, the Company grants the members of the Executive Board variable remuneration (bonus), the amount of which is determined for the relevant fiscal year on the basis of the Company's audited consolidated financial statements and is resolved by the Supervisory Board following approval of the consolidated financial statements for the past fiscal year. It is measured on the basis of EBITDA from the audited consolidated financial statements, which is defined in the relevant contracts of service of the Executive Board members. EBITDA means earnings before interest, taxes, depreciation and amortization, adjusted for the purpose of determining the bonus for expenses from share-based payments and costs of equity transactions recognized in profit or loss. Using EBITDA as a measure of operating profitability allows adequate account to be taken of the achievement of financial, operational and strategic targets. To ensure the appropriateness of the total remuneration, the Executive Board contracts of service stipulate that the variable bonus of the members of the Executive Board is limited to a maximum amount of 200% of the applicable fixed annual salary. The contracts of service of the Executive Board members specify the following percentage of annual EBITDA as a bonus.

% of EBITDA	2020	2019
Marco Brockhaus	10%	10%
Dr. Marcel Wilhelm	1%	1%

The variable remuneration to be granted for the reporting period on the basis of the contractual arrangements is presented in the following overview.

€ thousand	2020	2019
Marco Brockhaus	1,080	145
Dr. Marcel Wilhelm	124	15
Total	**1,204**	**160**

Additionally, the Supervisory Board has the discretionary right to grant members of the Executive Board a further variable bonus in an appropriate amount for exceptional performance. The Supervisory Board exercised this right in fiscal year 2020 and granted the members of the Executive Board a non-recurring special bonus for their extraordinary performance in connection with the Company's initial listing. The Executive Board made a significant contribution to the success of the initial listing through its activities, as a result of which the company received cash funds of €115 million, which are now available for the further development of the technology group. The total amount of the special bonus was €350 thousand and is divided among the members of the Executive Board as follows.

€ thousand	2020	2019
Marco Brockhaus	100	–
Dr. Marcel Wilhelm	250	–
Total	**350**	**–**

The Supervisory Board did not exercise the option to allow members of the Executive Board to participate in the Company's existing stock option program during the reporting period.

Other remuneration

In addition, the Company has taken out business and accident insurance for the Executive Board. Other remuneration in the reporting period amounted to €4 thousand (previous year: €4 thousand). As a component of remuneration, fringe benefits are taxable by the relevant Executive Board member.

In the event of early termination of their Executive Board activities by the Company, the Executive Board members are each entitled to a severance payment in accordance with the following arrangements. Unless expressly stated otherwise, the arrangements apply to both of the Executive Board members.

If the Company revokes the appointment for good cause and gives due notice of termination of the contract of service, the Executive Board member is entitled to a severance payment. The severance payment, which

> in the case of Mr. Brockhaus is limited to a total of two annual salaries the settlement of the remaining term, whichever is less and
> in the case of Dr. Wilhelm is limited to one annual salary or the settlement of the remaining term, whichever is lower,

comprises the total amount of the salaries no longer accruing and payable as a result of the early termination of the contract of service (fixed salary and variable remuneration, based on the last annual salary). The claim for the severance payment is due on termination of the contract of service. The claim does not apply if the Company gives effective extraordinary notice of termination to the Executive Board member for good cause within the meaning of section 626 of the German Civil Code (BGB).

If the Company revokes the appointment of the Executive Board member for good cause but does not terminate the employment contract within one month from the date of revocation, or if the Executive Board appointment ends due to the transformation of the Company, the Executive Board member is entitled in turn to terminate the contract of service by giving notice pursuant to section 622(2) of the German Civil Code. In the event of such termination by the Executive Board member, the member is entitled to the severance payment described above.

If the appointment of the Executive Board member is revoked for good cause or the Executive Board member is terminated for good cause under section 626 of the German Civil Code and it is finally and unappealably established in court or arbitration proceedings that there was no reason for revocation or that there was no good cause pursuant to section 626 of the German Civil Code, the Executive Board member will receive flat-rate compensation amounting to two years' salary (fixed salary and variable remuneration, based on the last annual salary) notwithstanding the member's claims described above.

If a member of the Executive Board dies during their term of office, their widow, or alternatively their dependent children, receive the fixed salary and the last variable remuneration for 24 months, but for no longer than the contractually agreed end date of the contract of service.

The members of the Executive Board have a special right of termination in the event of a change of control. A change of control exists,

> if a third party or several third parties acting in concert who, at the time the contract of service of the Executive Board member was entered into, did not hold or held less than 20% of the voting rights in the Company, acquire voting rights in the Company such that they account for more than 30% in the aggregate (existing and acquired) of the voting rights in the Company, irrespective of whether this gives rise to an obligation to make a takeover bid (the relevant provisions of the German Securities Acquisition and Takeover Act (WpÜG), in particular sections 29, 30, apply to the calculation of the share of the voting power), or
> in the event of a merger (section 2 of the German Transformation Act (UmwG)) involving the transfer of the assets of the Company under section 174(1) or (2) sentence 1 of the German Transformation Act or a legal transfer of the material assets to third parties who do not belong to the Group of the Company, or
> in the event of a control agreement and/ or a profit and loss transfer agreement is or are entered into by the Company as a dependent controlled company.

The Executive Board member is entitled to a severance payment if this special termination right is exercised. The severance payment, which

> is limited to a total of two annual salaries in the case of Mr. Brockhaus and
> to one year's salary in the case of Dr. Wilhelm,

comprises 50% of the total amount of the salaries no longer accruing and payable as a result of the early termination of the contract of service (fixed salary and variable remuneration, based on the last annual salary) and the additional payment amounting to one year's salary (fixed salary and variable remuneration, based on the last annual salary). The claim for the severance payment is due on termination of the contract of service. There is no entitlement to a severance payment if the contract of service would also have ended automatically within the following 12 months regardless of the change of control, or if the Company gives or was entitled to give the Executive Board member effective extraordinary notice of termination for good cause within the meaning of section 626 of the German Civil Code (BGB).

Supervisory Board remuneration

The remuneration of the Supervisory Board is governed by Article 15 of Brockhaus Capital Management AG's Articles of Association. It is based on the duties and responsibilities of the members of the Supervisory Board. Supervisory Board members who are only members of the Supervisory Board for part of the fiscal year or who are chair or deputy chair of the Supervisory Board receive a lower fixed remuneration on a time-proportionate basis. The Company additionally reimburses each Supervisory Board member for the value added tax payable on their remuneration, to the extent that it is invoiced. In addition to reimbursement of their expenses, the members of the Supervisory Board each received the following remuneration in fiscal year 2020.

€ thousand	2020	2019
Dr. Ottmar Belker (Chair)	60	60
Michael Schuster (Deputy Chair)	38	30
Andreas Peiker	30	30
Martin Bestmann (since 26 Feb. 2020)	25	–
Dr. Cornelius Liedtke (since 14 Sept. 2020)	9	–
Total	**161**	**120**

The fixed remuneration paid to the members of the Supervisory Board in fiscal year 2020 came to a total of €161 thousand (previous year: €120 thousand), plus value added tax of €21 thousand (previous year: €17 thousand).

During the period of his membership of the Supervisory Board, Mr. Bestmann also made available to the Company his expertise as a businessman and industry expert in the software/ IT sector in the course of three due diligence examinations to evaluate potential acquisitions. Mr. Bestmann invoiced the Company a consulting fee of €33 thousand net for this work, which the Company paid in full. The Supervisory Board was informed of the engagement of and invoicing by Mr. Bestmann as a software expert in the course of three due diligence examinations and approved this in accordance with section 114(1) of the German Stock Corporation Act, with Mr. Bestmann abstaining from the vote.

Advances and loans granted to members of the Executive and Supervisory Boards

The company did not grant any advances or loans to members of the Executive and Supervisory Boards in the reporting period.

Corporate Governance Statement

For fiscal year 2020, the Company is exercising the option to make the corporate governance statement pursuant to sections 289f and 315d of the German Commercial Code (HGB) publicly accessible on its website. The corporate governance statement is publicly accessible on the Company's website (www.bcm-ag.com) at Investors, Corporate Governance.

The declaration of compliance with the German Corporate Governance Code by the Executive Board and the Supervisory Board of Brockhaus Capital Management AG pursuant to section 161 of the German Stock Corporation Act (AktG) is publicly accessible on the Company's website (www.bcm-ag.com) at Investors, Corporate Governance.

Related party transactions

Please refer to Note 39 to the consolidated financial statements for information on related party transactions.

Events after 31 December 2020

Please refer to Note 40 to the consolidated financial statements for disclosures on significant events after 31 December 2020.

Consolidated financial statements

Consolidated statement of comprehensive income

€ thousand	Note	2020	2019
Revenue	9	**51,581**	**16,561**
Increase/ (decrease) in finished goods and work in progress		(113)	211
Other own work capitalized	10	869	769
Total output		**52,336**	**17,541**
Cost of materials	11	(13,782)	(4,299)
Gross profit		**38,555**	**13,242**
Personnel expenses excluding share-based payments	12	(19,287)	(6,624)
Personnel expenses from share-based payments	36	(242)	(180)
Other operating expenses	13	(12,042)	(5,558)
Impairment loss on trade receivables	22	(147)	(2)
Other operating income	14	1,494	390
Depreciation of property, plant and equipment and amortization of intangible assets	15	(1,665)	(820)
Amortization of intangible assets identified in initial consolidation	15	(7,708)	(2,714)
Finance costs		(3,890)	(1,179)
Finance income		95	56
Financial result	16	(3,795)	(1,124)
Earnings before tax		**(4,838)**	**(3,387)**
Income tax expense	17	(1,921)	(436)
Profit or loss		**(6,759)**	**(3,823)**
of which attributable to BCM AG shareholders		(6,729)	(3,823)
of which attributable to non-controlling interests		(30)	–
Foreign currency translation adjustments*		(1,615)	(90)
Total comprehensive income		**(8,374)**	**(3,913)**
of which attributable to BCM AG shareholders		(8,345)	(3,913)
of which attributable to non-controlling interests		(29)	–
Weighted average number of shares outstanding		8,341,577	2,905,836
Earnings per share** (€)	18	(0.81)	(1.32)

* Other comprehensive income that may be reclassified to profit or loss in subsequent periods

** Basic earnings per share is equal to diluted earnings per share.

Consolidated statement of financial position

€ thousand	Note	31 Dec. 2020	31 Dec. 2019
Assets			
Property, plant and equipment	19	11,715	11,322
Intangible assets and goodwill	20	152,733	160,585
Deferred tax assets	17	563	982
Non-current assets		**165,011**	**172,888**
Inventories	21	9,710	10,676
Trade receivables	22	7,235	5,850
Other assets	23	394	655
Prepayments		525	489
Cash and cash equivalents	24	123,544	17,171
Current assets		**141,408**	**34,840**
Total equity and liabilities		**306,419**	**207,728**

€ thousand	Note	31 Dec. 2020	31 Dec. 2019
Equity and liabilities			
Subscribed capital	25	10,387	6,642
Capital reserves	26	227,688	118,727
Other reserves	27	256	97
Currency translation differences		(1,705)	(90)
Net accumulated losses		(13,188)	(6,459)
Equity attributable to BCM AG shareholders		223,438	118,917
Non-controlling interests		(1)	–
Equity		**223,437**	**118,917**
Non-current financial liabilities	28	48,118	55,889
Other provisions	31	2,048	490
Deferred tax liabilities	17	16,296	18,556
Non-current liabilities		**66,461**	**74,935**
Current tax liabilities		2,831	736
Current financial liabilities	28	6,143	5,435
Trade payables	29	1,488	2,450
Other current liabilities	30	4,852	4,466
Contract liabilities	9	1,055	665
Other provisions	31	151	125
Current liabilities		**16,521**	**13,876**
Liabilities		**82,982**	**88,811**
Total equity and liabilities		**306,419**	**207,728**

Consolidated statement of changes in equity

€ thousand	Note	Subscribed capital	Capital increase not yet registered	Capital reserves	Other reserves	Currency translation differences	Net accumulated losses	Equity attributable to BCM AG shareholders	Non-controlling interests	Equity
1 Jan. 2020		**6,642**	**–**	**118,727**	**97**	**(90)**	**(6,459)**	**118,917**	**–**	**118,917**
Transactions with shareholders										
Capital increases	25	3,745	–	116,077	–	–	–	119,822	–	119,822
Cost of capital increases		–	–	(7,116)	–	–	–	(7,116)	–	(7,116)
Profit or loss		–	–	–	–	–	(6,729)	(6,729)	(30)	(6,759)
Other comprehensive income		–	–	–	–	(1,615)	–	(1,615)	1	(1,614)
Equity-settled share-based payment transactions	36.1	–	–	–	159	–	–	159	–	159
Formation of subsidiaries with non-controlling interests		–	–	–	–	–	–	–	28	28
31 Dec. 2020		**10,387**	**–**	**227,688**	**256**	**(1,705)**	**(13,188)**	**223,438**	**(1)**	**223,437**
1 Jan. 2019		**4,152**	**3,000**	**42,078**	**–**	**–**	**(2,636)**	**46,594**	**–**	**46,594**
Transactions with shareholders										
Capital increases	25	2,390	–	74,018	–	–	–	76,409	–	76,409
Cost of capital increases		–	–	(269)	–	–	–	(269)	–	(269)
Entry of capital increase in commercial register		100	(3,000)	2,900	–	–	–	–	–	–
Profit or loss		–	–	–	–	–	(3,823)	(3,823)	–	(3,823)
Other comprehensive income		–	–	–	–	(90)	–	(90)	–	(90)
Equity-settled share-based payment transactions	36.1	–	–	–	97	–	–	97	–	97
31 Dec. 2019		**6,642**	**–**	**118,727**	**97**	**(90)**	**(6,459)**	**118,917**	**–**	**118,917**

Consolidated statement of cash flows

€ thousand	Note	2020	2019
Profit or loss		(6,759)	(3,823)
(Income taxes paid)/ income tax refunds		(1,268)	(1,735)
Income tax expense/ (income tax income)	17	1,921	436
Expenses for equity-settled share-based payment transactions	36.1	242	97
Depreciation, amortization and impairment losses	15	9,373	3,534
Financial result	16	3,795	1,124
Gain/ (loss) on sale of property, plant and equipment		39	(50)
Other non-cash expenses/ (income)		(378)	3
(Increase)/ decrease in inventories, trade receivables and other assets not attributable to investing or financing activities		(1,129)	495
Increase/ (decrease) in trade payables and other liabilities not attributable to investing or financing activities		(157)	1,215
Increase/ (decrease) in other provisions	31	6	131
Cash flow from operating activities		**5,686**	**1,426**
Payments to acquire property, plant and equipment	19	(954)	(919)
Proceeds from sale of property, plant and equipment		25	137
Payments to acquire intangible assets	20	(95)	(26)
Capitalized development costs	10	(392)	(443)
Acquisition of subsidiaries, net of cash acquired		–	(86,043)
Interest received		10	1
Cash flow from investing activities		**(1,406)**	**(87,293)**
Proceeds from loans raised		–	17,193
Repayment of loans and other financial liabilities	28	(7,553)	(1,673)
Repayment of lease liabilities	28	(539)	(337)
Interest paid		(2,301)	(232)
Proceeds from issuance of shares	25	119,822	56,784
Cost of capital increases		(7,116)	(269)
Cash flow from financing activities		**102,312**	**71,466**
Change in cash and cash equivalents		**106,592**	**(14,401)**
Effect of exchange rate changes on cash and cash equivalents		(219)	(6)
Cash and cash equivalents* at beginning of period	24	17,171	31,578
Cash and cash equivalents* at end of period	24	123,544	17,171

* Cash and cash equivalents correspond to the cash and cash equivalents reported in the statement of financial position.

Notes to the consolidated financial statements

I. General information, methods and policies

1. Information on the Group

The registered office of Brockhaus Capital Management AG (**BCM AG,** the **Company**, or the **parent company**, together with its subsidiaries **BCM Group** or the **Group**) is in Nextower, Thurn-und-Taxis-Platz 6, 60313 Frankfurt am Main, Germany, and the Company is registered in the commercial register at the Local Court in Frankfurt am Main under commercial register number HRB 109637. The Company was created by changing the legal form of Eagle Fonds Verwaltungs- und Treuhand GmbH, with its registered office in Frankfurt am Main (Frankfurt am Main District Court, commercial register file number HRB 78705) and its entry in the commercial register on 19 September 2017.

The Company's purpose is to form companies and acquire, hold, manage and support investments in companies over the long term and, as the case may be, to sell such investments and to provide services relating to the aforementioned, such as support for sales, marketing, finance and general organizational and management matters and to acquire funding. The Company's purpose also includes performing business activities by a managing holding entity of investees and providing services for these entities (group services), granting loans to investees, to the extent that this does not require official approval and developing and implementing new business concepts for investees and third parties, as well as providing services and advisory services to companies, especially with regard to business strategy, business concepts, capital resources, funding options and capital investments (management consulting), to the extent this does not require official approval. The Company's purpose within the scope of the business strategy also includes investing free cash available to the Company that has not yet been committed to investments. Among things, this includes investing in listed securities, such as shares, participation certificates, other mezzanine instruments, debt securities, funds, certificates or derivatives. The Company's objective for its investees is long-term support and value growth.

2. Impact of the COVID-19 pandemic

Business performance in the reporting period was impacted significantly by the effects of the COVID-19 pandemic. BCM Group took this situation into account in the judgments and assumptions made when preparing the accompanying consolidated financial statements.

Revenue

In the Security Technologies segment, the COVID-19 pandemic led to the postponement of some major projects and this resulted in lower revenue in the pro forma perspective. This was partly offset by continuous growth in the basic business with smaller customers. It is not possible to quantify the amount of revenue lost as a result of the pandemic sufficiently precisely. By contrast, revenue in the "test rigs" product group in the Environmental Technologies segment grew from €415 thousand in the prior-year comparative period to €5,270 thousand. We are assuming a direct link to the pandemic for this increase, which is attributable largely to the sale of devices for testing the filter efficiency of respiratory masks.

Government assistance

The Group used government assistance programs granted in countries affected by the pandemic (e.g., short-time working allowances) to a minor extent only. However, in the reporting period, the Group did apply for refunds of advance tax payments already made, which led to temporary positive liquidity effects. These had been returned to the tax authorities by the reporting date. In the U.S.A., the Group used the Paycheck Protection Program (PPP) established under the Coronavirus Aid, Relief and Economic Security (CARES) Act to obtain a loan of USD 249 thousand. As the company had complied with the requirements imposed by the program by August 2020, this federal loan was forgiven in the reporting period. The corresponding liability was consequently reversed in profit or loss. The Group received a total of USD 75 thousand under various local support programs in Singapore.

Government assistance recognized in profit or loss

€ thousand	2020	2019
Loan forgiveness (PPP loan)	218	–
Singapore support program	66	–
Income from government assistance	**284**	**–**
Short-time working allowance	40	–
Reduction in personnel expense	**40**	**–**

Goodwill

As an indefinite-lived intangible asset, goodwill is tested annually for impairment. It is also tested for impairment if there are indications that its carrying amount may be impaired (triggering events). During the reporting period, the Group performed a qualitative analysis of each of its cash-generating units (**CGUs**) to determine if there were such indications. There were no such indications for the Palas CGU, in particular because new products for testing respiratory masks launched in the market in the reporting period have opened up considerable business potential. There were also no indications for the IHSE CGU. Although IHSE recorded a decline in revenue in the reporting period, this was due almost exclusively to project postponements, which is why there is an assumption that this will not have any significant influence either on overall cash flow in the five-year detailed planning period or on the subsequent long-term cash flow growth rate. The CGUs were tested for impairment as of the reporting date in line with the annual cycle. Neither of the two CGUs was impaired. Please refer to Note 20 for further information.

Credit risk

The Group did not record any defaults at key accounts due to COVID-19, nor does it expect any significant increase in credit risk in future. The Group therefore did not make any material changes to its estimate of expected losses for trade receivables.

Deferred tax assets

Deferred tax assets were tested for impairment. No additional write-downs were recognized as a result.

3. Accounting policies

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU and supplementary requirements of section 315e(1) of the German Commercial Code (HGB). IFRS comprise the effective International Accounting Standards (IASs), International Financial Reporting Standards (IFRS) and the Interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC).

4. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis. This does not apply to certain items that were recognized at the revalued amount or fair value at the reporting date. Corresponding explanations are provided in the relevant accounting policies.

Historical cost is generally based on the fair value of the consideration paid in exchange for the asset. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This applies irrespective of whether the price was directly observable or was estimated using a measurement method.

The consolidated financial statements comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the consolidated financial statements. The consolidated financial statements correspond to the classification requirements in IAS 1. The items of the consolidated statement of comprehensive income and the statement of financial position are aggregated to enhance clarity and disaggregated and explained in the notes.

The accounting policies, explanations and further disclosures are applied consistently. An exemption to this principle is the new accounting policies presented in Note 5.18.

Presentation in the statement of financial position distinguishes between current and non-current assets and liabilities. Assets and liabilities are classified as current if they are due or will be settled within twelve months of the reporting date. The statement of comprehensive income is prepared to determine profit or loss and total comprehensive income.

In accordance with IAS 1.106 et seq. the statement of changes in equity presents changes in each component of equity within the reporting period and in the previous reporting period.

Under IAS 7, the statement of cash flows records cash flows to present information on changes in the Company's cash and cash equivalents. Cash flows are classified into operating activities, investing activities and financing activities. The total cash change in these three activities corresponds to the change in cash and cash equivalents. The statement of cash flows is prepared using the indirect method for the presentation of cash flows from operating activities and the direct method for the presentation of cash flows from investing and financing activities.

The Company's fiscal year is the calendar year. These consolidated financial statements relate to the fiscal year from 1 January 2020 to 31 December 2020 (**reporting period**). The **reporting date** is 31 December. Additionally, comparative information is presented for the previous fiscal year from 1 January 2019 to 31 December 2019 (**previous year** or **prior-period**). The **prior-year reporting date** is 31 December 2019.

The consolidated financial statements are presented in euros, which is the Company's functional currency. The amounts disclosed are therefore rounded to the nearest euro (**€**), thousands of euros (**€ thousand**), or millions of euros (**€m**) in line with standard commercial practice. Due to this rounding method, the individual amounts reported do not always add up precisely to the totals presented. Negative amounts are presented in parentheses and zero amounts are denoted as a dash (-).

The Executive Board prepared these consolidated financial statements as of 30 March 2021 and approved them for publication.

5. Accounting policies

Recognition and measurement is based on the going concern assumption. When preparing the financial statements, assets and liabilities and income and expenses, are not offset unless explicitly required or permitted by a pronouncement.

5.1 Consolidation methods

Business combinations

Subsidiaries are consolidated using the acquisition method under IFRS 3. The cost of the business combination is allocated to the identifiable assets acquired and liabilities and contingent liabilities assumed at their fair values at the acquisition date. Any positive remaining difference is recognized as goodwill. Any negative remaining difference is recognized in profit and loss after reassessment. Transaction costs are expensed as incurred unless they relate to the issue of debt securities or equity instruments.

Any contingent consideration obligation is measured at the acquisition date fair value. If contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

Subsidiaries

Brockhaus Capital Management AG and all its controlled subsidiaries (majority interests) are included in the consolidated financial statements. Under IFRS 10, control exists when an investor has power over the investee and is exposed, or has rights, to variable returns and it is able to affect the amount of those variable returns through its power over the investee. There is a general presumption that ownership of a majority of voting rights results in control. To support this assumption, where the Group does not own a majority of voting rights or similar rights, it considers all relevant matters and circumstances in assessing whether it has control of this entity. This is the case, for instance, where the investor has a current ability to exercise control via potential voting rights or other contractual arrangements. The financial statements of subsidiaries are prepared as of the same reporting date as the financial statements of the parent company using uniform accounting policies.

The following Group entities were included in the consolidated financial statements as of 31 December 2020 by virtue of control:

- Palas Holding GmbH, Karlsruhe
- Palas GmbH Partikel- und Lasermeßtechnik, Karlsruhe
- Palas (Asia) Ltd., Hong Kong, China
- Palas Instruments (Shanghai) Co. Ltd., Shanghai, China
- IHSE AcquiCo GmbH, Oberteuringen
- IHSE Beteiligungs GmbH, Oberteuringen
- IHSE GmbH, Oberteuringen
- IHSE Immobilien GmbH, Oberteuringen
- IHSE USA LLC, Cranbury, NJ, U.S.A.
- IHSE GmbH Asia Pacific Pte Ltd, Singapore
- BCM Erste Beteiligungs GmbH, Frankfurt am Main
- BCM Zweite Beteiligungs GmbH, Frankfurt am Main

Subsidiaries are included in the consolidated financial statements from the date of acquisition, i.e., from the date the Group obtains control. They stop being consolidated when the parent loses control of the subsidiary. When the Group loses control of a subsidiary, it derecognizes the assets and liabilities and any related non-controlling interests and other components of equity. Any gain or loss is recognized at fair value.

All intragroup balances, transactions, income, expenses, as well as gains and losses resulting from intragroup transactions are eliminated in full.

The Group entered into a purchase commitment with existing owners in connection with the acquisition of Palas GmbH. To account for this commitment, the Group uses the anticipated acquisition method, which presents the acquisition as if the purchase option had already been exercised. This means that the shares underlying the purchase option are already deemed to be acquired as of the acquisition date. Consequently, no non-controlling interests are presented. Please refer to Note 28 for information about the financial liabilities recognized in this regard.

5.2 Foreign currency

The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency. Each entity within the Group determines its own functional currency. The items in the financial statements of individual entities are measured in that entity's functional currency. Transactions in foreign currencies are initially translated into the functional currency at the spot rate applicable on the transaction date. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the closing rate at each reporting date. Exchange differences are recognized in profit or loss. This does not apply to exchange differences related to foreign currency loans used to hedge a net investment in a foreign operation. Such exchange differences are recognized directly in equity and only reclassified to profit or loss for the period on the disposal of the net investment. Deferred taxes arising from such exchange differences are also recognized directly in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

- Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.
- Assets and liabilities of foreign operations are translated into euros at the closing rate. Income and expenses are translated at the exchange rate at the date of the transaction. For practical reasons, an average weighted exchange rate is used to translate exchange rates that do not fluctuate significantly. All resulting exchange differences are recorded in a separate component of equity. The accumulated amount of exchange differences relating to that foreign operation recognized in equity is reclassified to profit or loss on disposal of a foreign operation.

The following exchange rates were used for currency translation in the consolidated financial statements:

	Exchange rates 2020		Exchange rates 2019	
1 euro	Closing rate	Average	Closing rate	Average
CNY	8.022	7.871	–	–
HKD	9.514	8.852	–	–
USD	1.227	1.141	1.121	1.111

The IHSE GmbH Asia Pacific Pte Ltd subsidiary uses U.S. dollars as its functional currency, as material business relationships are settled in U.S. dollars.

5.3 Revenue from contracts with customers

Under IFRS 15, revenue is recognized using a principle-based five-step model that is applied to all contracts.

> Step 1: The contract with the customer is first identified.
> Step 2: The separate performance obligations in the contract are identified.
> Step 3: The transaction price is determined and IFRS 15 contains requirements dealing explicitly with the treatment of variable consideration, financing components, payments to customers and non-monetary exchanges.
> Step 4: The transaction price is allocated to each performance obligation. This is based on the standalone selling prices of each performance obligation.
> Step 5: Finally, revenue is recognized when the performance obligation is satisfied by the Group. A condition for this is the transfer of control of the goods or service to the customer.

When entering into a contract, it is necessary to determine whether the revenue resulting from the contract is to be recognized at a point in time or over time. In the first instance, certain criteria are applied to clarify whether control of the performance obligation is transferred over time. If this is not the case, revenue is recognized at the point in time when control is transferred to the customer. By contrast, if control is transferred over time, revenue may only be recognized over time if the stage of completion can be reliably determined using input or output methods.

Revenue recognition

Revenue is measured on the basis of the consideration specified in a contract with a customer. The Group recognizes revenue when it transfers control of a good or service to a customer. The table below provides information on the type and the point in time at which performance obligations from contracts with customers are satisfied and the associated revenue recognition policies.

Type of product/ service	Type and time of performance obligation and material payment terms	Revenue recognition under IFRS 15
Sale of measuring devices and KVM devices or KVM systems	Based on the standardized contractual and supply terms and conditions, customers obtain control when the products leave the company's premises (ex works) or were accepted by them there (transfer of risks and rewards). In some cases, control also passes on the basis of other Incoterms (e.g., DDP *Delivery Duty Paid*). The invoices are generated as of the date of transfer of risk, based on the underlying Incoterms. Invoices are generally payable within 14 to 30 days. For significant key accounts, longer payment terms (30–60 days, in exceptional cases up to 90 days) are granted in some cases. Price reductions and cash discounts are generally granted for these devices/ systems. The contracts do not permit the customer to return the purchased products. Advance payments or partial advance payments for part of the total purchase price are agreed for large volume orders, new customers, or customers who are not covered by credit insurance.	Revenue is recognized when control is transferred. Revenue is recognized net of price reductions and cash discounts. Advance payments received are recognized under contract liabilities.
Production and sale of test rigs	Palas builds test rigs for customers. The test rigs generally comprise standard measuring devices. Advance payments are typically agreed. Production time depends on the complexity. For standard test rigs, the production time is generally not more than six months. In rare cases, the production time can involve a longer time period.	Standard test rigs: Revenue is recognized after delivery of the test rigs (transfer of control). Customized test rigs: Revenue for customized test rigs is recognized over time using the cost-to-cost method. The associated costs are recognized in profit or loss as incurred. Advance payments received are recognized under contract liabilities.
Repair of devices	The Group provides repair services for devices as required.	Revenue is recognized at a point of time after the service has been rendered.
Sale of software configurations for test rigs (for additional analyses)	The Group sells software for test rigs that enables extended analyses. This software can either be acquired at the same time as the test rig or subsequently. This relates to standard software and there is no customized development.	Revenue is recognized on transfer of the software to the customer.
Revenue from extended warranties	In some instances subsidiaries provide separate extended warranty services to their customers (distinct service to the customers).	Revenue is recognized over the period in which the warranty services are provided. Advance payments received for warranty services still to be rendered are recognized as contract liabilities.

The Group generates revenue from the sale of standard measuring devices and related system solutions in the Environmental Technologies operating segment. In the Security Technologies operating segment, the Group generates revenue from the sale of KVM devices and KVM systems. Revenue from product sales is recognized at the time of transfer of the significant risks and rewards of ownership of the goods sold to the buyer if it is reasonably certain that the economic benefits from the sale will flow to the Group. The amount of revenue recognized is based on the fair value of the consideration received or receivable, less any cash discounts and rebates. The Group grants certain wholesalers (also referred to as sales partners or distributors) rebates or price discounts that are factored into the process of revenue recognition.

Contracts with customers do not stipulate the right to return the goods within a certain period of time. Goods returns are only permitted due to defects within the regular warranty period.

The Group generally receives short-term advances from its customers. As a practical expedient, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between when it transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

The Group generally issues a two-year warranty for general repairs of defects that existed at the date of the sale, as required by law. These warranties are recognized in accordance with IAS 37 Provisions (Note 31).

5.4 Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as soon as the related service has been rendered. A liability must be recognized for the amount expected to be paid if the Group currently has a legal or constructive obligation to pay that amount on the basis of work performed by an employee and the obligation can be reliably estimated.

Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits or when the Group recognizes costs for a restructuring. Benefits are discounted if they are not expected to be settled wholly within twelve months of the reporting date.

Equity-settled share-based payments

The Group has a stock option program enabling it to issue rights to purchase shares of the parent company to Executive Board members and employees of the Company and to managing directors and employees of subsidiaries.

The total amount to be recognized as expense for employee services received is determined by reference to the fair value of the share-based payment at the grant date. The fair value of stock options is determined using a Monte Carlo simulation, taking the long-term performance targets into account. The fair value determined at the grant date is recognized as expense on a straight-line basis over the vesting period (the period during which all the specified vesting conditions must be satisfied). The offsetting entry is recorded in equity. The vesting period generally starts on the grant date of the stock options. However, the expense can be recognized at an earlier date if the employee starts rendering services before the formal approval of issuance of the options.

The Group recognizes the remuneration expense from the start of the period when the services are rendered even if the issue date is later than the start of employment. The expense for share-based payment is based on the estimated fair value of the stock options as of the grant date in the period between when the services start being rendered and the grant date. As soon as the grant date is known, the estimated fair value is adjusted to ensure that the expense is prospectively recognized based on the actual fair value at the grant date of the equity instruments granted.

No expense is recognized for share allocations that cannot vest, with the exception of equity-settled share-based payment plans where vesting is dependent on a market condition or a non-vesting condition. These equity instruments are treated as being exercisable regardless of whether a market condition or non-vesting condition applies, provided all other service or employment conditions are satisfied.

Based on the non-market-based vesting conditions, the Company estimates the number of options and shares that are expected to be exercisable at the end of each reporting period. Possible changes compared with the original estimates are recognized in profit or loss with a corresponding offsetting entry in equity.

If the contractual terms of an equity-settled payment arrangement are modified, expenses are recognized, as a minimum, at the fair value of the equity instruments granted at the grant date, unless those equity instruments cannot vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at the grant date. The Group also recognizes the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee. These are measured at the date of the modification.

Expenses arising in connection with an equity-settled payment arrangement are recognized as personnel expenses.

Cash-settled share-based payments

In the case of cash-settled share-based payment arrangements, the Group recognizes a provision for the services rendered by employees. The Group measures the fair value of the liability at each reporting date and again at the settlement date. Changes in the entitlement are recognized in personnel expenses in the amount of the portion attributable to the grant date fair value over the vesting period. The remaining change in the entitlement is reported in the financial result.

5.5 Finance income and costs

Interest income and expense is recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments over the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial asset or financial liability. To calculate interest income and expense, the effective interest rate is applied to the gross carrying amount of the financial asset (if it is not credit-impaired) or to the amortized cost of the financial liability. By contrast, for financial assets that become credit-impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, calculation of interest income returns to a gross basis.

5.6 Government grants

Government grants are recognized if there is reasonable assurance that the grants will be made and the entity complies with the conditions attached to them. Expense-related grants are recognized as income over the period required to offset them against the corresponding expenses for which the grants are intended. Grants for an asset reduce the carrying amount of the asset. Government grants were awarded for research and development projects. There are no unfulfilled conditions or contingencies attached to these grants.

5.7 Current and deferred income taxes

The tax expense for a period comprises current and deferred taxes. Taxes are recognized in profit or loss, unless they relate to transactions recognized in other comprehensive income or directly in equity. In such cases, taxes are recognized in other comprehensive income or directly in equity, respectively.

Current tax is measured as the amount expected to be reimbursed by, or paid to, the tax authorities. The amount is calculated on the basis of the tax rates and tax laws applicable as of the reporting date.

Deferred taxes are recognized, applying the liability method, for taxable temporary differences as of the reporting date between the carrying amount of an asset or liability in the statement of financial position and its tax base. Deferred taxes are recognized for all taxable temporary differences, with the exception of the following.

No deferred taxes are recognized from the initial recognition of

> goodwill or
> an asset or liability in a transaction that
> is not a business combination and
> at the time of the transaction, affects neither IFRS profit or loss nor taxable profit or loss.

No deferred taxes are recognized in respect of taxable temporary differences

> that relate to investments in subsidiaries, associates and interests in joint ventures,
> if the timing of the reversal of temporary differences can be controlled and
> it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, unused tax loss carryforwards and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax loss carryforwards and tax credits can be utilized.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Previously unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured using the tax rates expected to apply to the period in which an asset is realized or a liability is settled. The amount is calculated on the basis of the tax rates (and tax laws) enacted as of the reporting date. The combined tax rate is 31% (previous year: 31%). Deferred tax assets and deferred tax liabilities are offset against one another if the Company has a legally enforceable claim to set off current tax assets against current tax liabilities and these amounts relate to income taxes levied on the same taxable entity by the same taxation authority.

5.8 Property, plant and equipment

Property, plant and equipment is recognized at cost less accumulated depreciation and accumulated impairment losses. The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is recognized in profit or loss. The residual values, useful lives and depreciation methods are reviewed at the end of each fiscal year and adjusted as necessary. Items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful life. The useful lives applied are as follows:

> Leasehold improvements: 10 years
> Office furniture: 10 to 13 years
> Other equipment, operating and office equipment: 3 to 10 years
> Technical equipment and machinery: 3 to 10 years

For the items of property, plant and equipment acquired in the course of acquisitions, the relevant applicable remaining useful life is determined based on the aforementioned useful lives and the useful life already lapsed at the date of acquisition.

Impairment testing and the recognition of impairment losses and reversals are performed using the approach for finite-lived intangible assets. Please refer to Note 5.9 for further information.

5.9 Intangible assets and goodwill

Goodwill arising from business combinations is measured at cost less accumulated impairment losses.

Expenditure for research activities is recognized in profit or loss as incurred. Development expenditure is capitalized only if development costs can be reliably measured, the product or process is technically and commercially feasible, future benefits are probable and the Group intends and has sufficient resources to be able to complete development and use or sell the asset. Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditures are capitalized only if they increase the future economic benefits of the asset to which they relate. All other expenditure, including expenditure on internally generated goodwill and trademarks, is recognized in profit or loss as incurred.

Goodwill is tested for impairment annually; other intangible assets with finite useful lives and items of property, plant and equipment are tested for impairment if there are specific indications of impairment. An impairment loss is recognized in profit or loss in the item “Depreciation of property, plant and equipment and amortization of intangible assets” in the statement of comprehensive income if an asset’s recoverable amount falls below its carrying amount. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. The recoverable amount is the higher of net realizable value and value in use. Net realizable value is equal to the recoverable amount less costs to sell arising from the sale of an asset on an arm’s length basis. Value in use is calculated based on the estimated cash flows from the use and disposal of an asset using the discounted cash flow method. The cash flows are derived from the long-term corporate planning, which takes account of historical developments and macroeconomic trends. The value in use of the relevant cash-generating unit (**CGU**) is used to test the recoverability of goodwill.

Amortization

Intangible assets are amortized on a straight-line basis over their estimated useful lives. Amortization charges are generally recognized in profit or loss. Goodwill is not amortized. The useful lives applied are as follows:

> Patents and trademarks: 10 years
> Capitalized development costs: 5 years
> Software: 3 years
> Licenses and other rights: 3 to 10 years
> Basic technologies: 5 to 8 years
> Customer base: 10 to 15 years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

5.10 Inventories

Inventories of raw materials, consumables and supplies are recognized at the lower of average purchase prices and realizable values. Raw materials, consumables and supplies are not written down below cost if the finished goods in which they will be incorporated are expected to be sold at least at cost. Finished goods and work in progress are recognized at the lower of cost or net realizable value using individual calculations which are based on the current cost accounting. In addition to directly attributable material and production costs, cost includes an appropriate share of material and production overheads, as well as amortization and depreciation expenses attributable to production and production-related administrative expenses. General administrative costs and borrowing costs are not capitalized.

5.11 Financial instruments

Classification at initial recognition and the subsequent measurement of financial assets depend on an entity's business model for managing its financial instruments and on the characteristics of the contractual cash flows of the financial instruments.

The Group's business model for the management of its financial instruments reflects how the entity manages its financial assets to generate cash flows. Depending on the business model, cash flows are realized through the collection of contractual cash flows ("hold to collect" business model), the sale of financial assets ("for sale" business model) or both ("hold to collect and for sale" business model).

In order to classify and measure a financial asset as at "amortized cost" or "fair value through other comprehensive income," the cash flows must comprise "solely payments of principal and interest" (SPPI) on the principal amount outstanding. This assessment is called an "SPPI test" and is conducted at the level of the individual financial instrument.

Initial recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. If the timing of the trade date and the settlement date can diverge, the settlement date is used for initial recognition. Financial instruments are initially measured at fair value. Transaction costs are generally included.

As of the reporting date, the Group only has primary financial instruments and financial liabilities in the "amortized cost" category that are allocated to the "hold to collect" business model.

The Group has entered into interest rate cap contracts. Please refer to Note 33.2 for further information on interest rate risk.

Subsequent measurement

Financial instruments at amortized cost are primary financial instruments that generate solely payments of principal and interest (cash flow characteristics) and are held to collect contractual cash flows (business model test). The Group's financial instruments at amortized cost comprise trade receivables and payables, other financial assets and liabilities, cash and cash equivalents, as well as bank loans and other loans. After initial recognition, such financial instruments are measured at amortized cost using the effective interest method, net of any impairment losses. The calculation of amortized cost takes into account any premium or discount upon acquisition as well as fees or transaction costs that are an integral component of the effective interest rate. The carrying amount of current financial assets and financial liabilities represents an appropriate approximation of fair value.

Impairment

Impairment losses on financial assets measured at amortized cost are recognized on the basis of expected credit losses (ECL). ECLs are based on the difference between the contractually due cash flows and all cash flows that the Group expects to obtain, discounted using the approximate value of the original effective interest rate. Expected cash flows comprise cash flows from the sale of collateral held or other credit enhancements that are an integral component of the loan agreement. A three-stage model is used for the allocation of impairment loss allowances:

Stage 1: Expected credit losses over the next twelve months

Stage 1 includes all contracts which have not experienced a significant increase in credit risk since initial recognition. This typically includes new contracts and those with payments due in less than 31 days. Expected credit losses that are attributable to a potential default within the next twelve months are recognized in this stage.

Stage 2: Lifetime expected credit losses – not credit-impaired

If a financial asset experiences a significant increase in credit risk but it is not credit-impaired, it is allocated to Stage 2. A simplified approach is used for trade receivables under which these receivables are already allocated to Stage 2 upon initial recognition. The assessment to determine whether a financial asset has experienced a significant increase in credit risk is based on an assessment of probability of default conducted at least quarterly. This takes account of external rating information and internal information on the credit quality of the financial asset. Expected credit losses over the lifetime of the financial assets are recognized as a loss allowance.

Stage 3: Lifetime expected credit losses – credit-impaired

If a financial asset is credit-impaired or in default, it is allocated to Stage 3. Expected credit losses over the lifetime of the financial assets are recognized as a loss allowance. Objective evidence that a financial asset is credit-impaired or in default includes being past due for 91 days or more and further internal and external information indicating that the Group is not able to collect the full amount of outstanding contractual cash flows, taking into account any credit enhancements.

A financial asset is derecognized if there is no realistic expectation of recovering contractual cash flows. Effective interest income is determined based on the gross carrying amount in Stages 1 and 2. As soon as a financial asset is credit-impaired and allocated to Stage 3, effective interest income is calculated based on the net carrying amount (gross carrying amount less loss allowance). Expected credit losses are calculated based on global probabilities of default. Impairment losses are recognized in profit or loss. Please refer to Note 33.2 for information on the Group's credit risk.

Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights to the cash flows from the financial asset expire or when the contractual right to the cash flows from the financial asset is transferred and substantially all risks and rewards of ownership of the financial assets are transferred.

5.12 Subscribed capital

Ordinary shares

The costs directly attributable to the issuance of ordinary shares are recognized as a deduction from equity. Income taxes on equity transaction costs are recognized in accordance with IAS 12.

Share loan

Own shares held by the Company by means of an uncompensated share loan are not recognized as treasury shares as the Company is not entitled to rights arising from these shares. All of the shares held on loan were returned in the course of the reporting period, with the result that the Group did not hold any own shares at the reporting date. The Company did not receive an income or incur any expenses or obtain other economic benefits or incur other economic disadvantages from the shares held on loan.

5.13 Provisions

Provisions are determined by discounting the expected future payment obligations at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Warranties

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

5.14 Leases

A lease is an agreement for the right to use an asset (underlying asset) for an agreed period of time against payment. As a lessee, the Group recognizes all leases of right-of-use assets and liabilities for assumed payment financial obligations at their present value in the statement of financial position. Lease liabilities comprise the following lease payments:

> fixed payments less lease incentives to be provided by the lessor,
> variable lease payments that depend on an index or a rate,
> expected payments under residual value guarantees,
> the exercise price of a purchase option if exercise of the option was assessed as reasonably certain and
> penalties for the termination of the lease if its term reflects exercise of an option to terminate the lease.

Lease payments are discounted using the interest rate implicit in the lease if this can be determined. In other cases, discounting uses the incremental borrowing rate.

Right-of-use assets are measured at cost and their composition is as follows:

> lease liability
> any lease payments made at or before the commencement date, less lease incentives received
> initial direct costs
> asset retirement obligations

Right-of-use assets are subsequently measured at amortized cost. Right-of-use assets are depreciated using the straight-line method over the term of the lease.

The Group makes use of the practical expedients for low-value underlying assets and short-term leases (less than twelve months) and the payments are recognized as an expense. The lease accounting requirements explained above are not applied to leases of intangible assets. The Group exercises the option not to separate the components in the case of agreements that include lease components and non-lease components.

In some cases, especially for leases of real estate, leases may include extension options and termination options. To determine the lease terms, all circumstances and conditions are considered that offer an economic incentive to exercise extension options or not to exercise termination options. Term modifications arising from the exercise or non-exercise of such options are only considered in the lease term if they are reasonably certain.

When the Group is the lessor in an operating lease, it recognizes the leased item as asset in property, plant and equipment at amortized cost. The lease payments received in the period are reported in revenue.

5.15 Fair value measurement

Assets and liabilities are measured at fair value upon initial recognition and for subsequent measurement.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

> in the principal market for the asset or liability, or
> in the absence of a principal market, in the most advantageous market for the asset or liability.

The Group must have access to the principal or most advantageous market. The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability. It is assumed in this context market participants act in their economic best interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate for the relevant circumstances and for which sufficient data is available to measure fair value. This involves maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities whose fair value is determined or presented in the financial statements are classified using the fair value hierarchy described below, based on the lowest level input that is significant to the entire measurement of fair value:

> Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
> Level 2: valuation techniques for which the lowest level input that is significant to the entire measurement of fair value is directly or indirectly observable in the market
> Level 3: valuation techniques for which the lowest level input that is significant to the entire measurement of fair value is not observable in the market

For assets and liabilities that are recorded on a recurring basis in the financial statements, the Group identifies whether reclassification between the hierarchy levels has occurred by examining the classification (based on the lowest level input that is significant to the entire measurement of fair value) at the end of each reporting period.

In order to satisfy the fair value disclosure requirements, the Group has defined groups of assets and liabilities based on their nature, characteristics and risks as well as the levels of the fair value hierarchy explained above.

5.16 Other financial obligations

Other financial obligations are not recorded in the statement of financial position. They arise if there is a legal or constructive external obligation for the Group at the reporting date. They are measured at fair value on initial recognition. Existing rental and lease commitments are accounted for in accordance with IFRS 16. Exceptions represent rental and lease commitments outside of the scope of IFRS 16. Contingent liabilities are measured at their settlement value.

5.17 Summary of the measurement policies

Provided there are no impairment losses, the Group's measurement policies are summarized and in simplified form as follows:

Statement of financial position item	Measurement
Assets	
Intangible assets	
with finite useful lives	Amortized cost
with indefinite useful lives	Impairment-only approach
Property, plant and equipment (including right-of-use assets)	Amortized cost
Trade receivables	Amortized cost
Inventories	Lower of cost and net realizable value
Cash and cash equivalents	Amortized cost
Accrued expenses	Amortized cost
Other financial assets	Amortized cost
Other non-financial assets	Amortized cost
Deferred tax assets	Measured (without discounting) at the tax rates that apply in the period when the asset is realized or a liability is settled

Statement of financial position item	Measurement
Liabilities	
Liabilities to banks	Amortized cost
Deferred tax liabilities	Measured (without discounting) at the tax rates that apply in the period when the asset is realized or a liability is settled
Income tax liabilities	Expected payment to tax authorities that is based on tax rates that apply at the reporting date or shortly thereafter
Trade payables	Amortized cost
Deferred income	Amortized cost
Other provisions	Expected discounted amount that will result in an outflow of resources
Other financial liabilities (including lease liabilities)	Amortized cost

5.18 New and amended standards

The accounting policies applied in the consolidated financial statements are generally the same as the policies applied in the previous year. New and amended standards adopted by the EU and effective for periods beginning on or after 1 January 2020 did not materially affect the Group's results of operations, net assets and financial position.

There are no new or amended standards that could materially affect future financial statements of the Group.

6. Use of judgments, estimates and assumptions

Judgments that affect the amounts in the financial statements are necessary in some instances to apply accounting policies. In addition, for the preparation of the financial statements, forward-looking assumptions and estimates must be made that may have an impact on the carrying amounts of items in the statement of financial position as well as the amount for income and expenses. Actual amounts may differ from these estimates. The most important forward-looking assumptions and other sources of estimation uncertainty that may require future material adjustments are explained below.

6.1 Judgments

Development costs

Development costs are capitalized in accordance with the described accounting policy. Initial capitalization of costs is based on the Group's assessment that technical and economic feasibility has been demonstrated. For instance, technical feasibility is assessed using the development of prototypes or feasibility studies. Economic feasibility is assessed using project planning, which includes the necessary material costs and personnel expenses and their financing.

6.2 Estimates and assumptions

The most important forward-looking assumptions and other major sources of estimation uncertainty on the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are explained below.

Equity-settled share-based payments

The Group has analyzed the conditions for its share-based payments in order to determine the appropriate classification in accordance with IFRS 2. The stock options issued are subject to conditions determining how the stock options may be exercised by the beneficiaries. The Group has identified two settlement scenarios based on this analysis. One scenario would be viewed as full cash settlement, the other scenario as full settlement using equity instruments. In light of the Executive Board's intention to settle by issuing new shares, the Group concluded that it does not have a present obligation to settle in cash and will settle the share-based payment arrangement using equity instruments. This assessment by management is made again at each reporting date. For further information, please refer to Note 36.1.

Within the Group, expenses arising from granting stock options of the Company to employees are measured at the fair value of these equity instruments at the grant date. In order to estimate the fair value of share-based payments, it is necessary to determine the most suitable valuation technique. The Group uses a Monte Carlo simulation for this purpose. This depends on the grant conditions. For this estimation, it is also necessary to determine suitable inputs for this valuation technique, in particular the expected volatility derived from comparable listed companies and BCM AG and the expected term of the option, the dividend yield and the risk-free interest rate. The assumptions and techniques used to estimate fair value are presented in Note 36.1.

Cash-settled share-based payments

In the case of cash-settled share-based payment arrangements, the Group recognizes a provision for the services rendered by employees. The Group measures the fair value of the liability at each reporting date and again at the settlement date. Changes in the entitlement are recognized in personnel expenses in the amount of the portion attributable to the grant date fair value over the vesting period. The remaining change in the entitlement is reported in the financial result.

The component attributable to personnel expenses is measured at fair value at the grant date. In order to estimate the fair value of share-based payments, it is necessary to determine the most suitable valuation technique. The Group uses the Black-Scholes model for this purpose. This depends on the grant conditions. For this estimation, it is also necessary to determine suitable inputs for this valuation technique, in particular the expected volatility derived from comparable listed companies and BCM AG and the expected term, the dividend yield and the risk-free interest rate. The assumptions and techniques used to estimate fair value are presented in Note 36.2.

Deferred taxes

Deferred tax assets for unused tax loss carry forwards are currently not recorded in the Group. No deferred taxes were recognized for these matters as future positive taxable earnings were not sufficiently concrete at the date of preparing the financial statements. This assumption is reviewed by management on each reporting date.

Business combinations

Business combinations are accounted for using the acquisition method. At initial recognition, goodwill from a business combination is measured at cost, which is calculated as the excess of the cost of the acquisition over the fair value of the acquired identifiable assets, liabilities and contingent liabilities. Costs incurred for the business combination are recognized as expenses and presented in other operating expenses.

The determination of the respective fair value of the acquired assets and liabilities on the acquisition date is subject to significant estimation uncertainty. For the identification of intangible assets, depending on the type of the intangible asset and the complexity of determining fair value, either opinions of external valuation experts are drawn upon or the fair value is determined in-house using an appropriate valuation method for the respective intangible asset, the basis of which is typically used for the forecast of overall expected future generated cash and cash equivalents. These measurements are closely related to management's assumptions and estimates made regarding the future development of the respective assets and the discount rate to be applied.

Goodwill impairment test
A cash-generating unit is impaired if its carrying amount exceeds its recoverable amount. The recoverable amount of a cash-generating unit is the higher of its fair value less costs to sell and its value in use. A discounted cash flow method is used to calculate value in use. Cash flows are derived from the financial budgets for the next five years. Recoverable amount depends on the discount rate used in the discounted cash flow method as well as on the expected future cash inflows and the growth rate used for extrapolation purposes. These estimates significantly influence value in use. The basic assumptions used to determine recoverable amount for the various cash-generating units are presented and explained in more detail in Note 20.

Provisions
A provision is recognized when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation (Notes 5.13 and 31). Such estimates are subject to significant uncertainty.

II. Notes to the statement of comprehensive income

7. Alternative performance measures

In addition to the information disclosed in the consolidated statement of comprehensive income, management uses additional performance measures to manage the Group. These comprise the **pro forma consolidated statement of comprehensive income** and **adjusted alternative performance measures**.

Pro forma consolidated statement of comprehensive income

In the prior-year period, IHSE's income and expenses were only included for December in the consolidated statement of comprehensive income because control was only obtained in December 2019. As the informative value of the consolidated statement of comprehensive income for the 2019 prior-year period is limited, particularly its suitability for deriving projections, the Executive Board analyses earnings figures on a pro forma basis. This presents the Group's statement of comprehensive income as if IHSE had already been acquired as of January 1, 2019.

To calculate the prior-year period pro forma income and expenses, management assumed that the preliminary fair value adjustments made as at date of acquisition of IHSE would also have applied if the acquisition had taken place on 1 January 2019, that the post-acquisition financing structure would already have existed at the beginning of the year and that costs of the acquisition would not have been incurred in the comparative period.

Pro forma consolidated statement of comprehensive income

€ thousand	2020	2019
Revenue	**51,581**	**54,290**
Increase/ (decrease) in finished goods and work in progress	(113)	(22)
Other own work capitalized	869	769
Total output	**52,336**	**55,037**
Cost of materials	(13,782)	(15,167)
Gross profit	**38,555**	**39,870**
Gross profit margin	74.7%	73.4%
Personnel expenses excluding share-based payments	(19,287)	(15,515)
Personnel expenses from share-based payments	(242)	(180)
Other operating expenses	(12,042)	(8,800)
Impairment loss on trade receivables	(147)	(2)
Other operating income	1,494	612
EBITDA	**8,331**	**15,985**
Adjusted EBITDA	**12,270**	**16,166**
Adjusted EBITDA margin	23.8%	29.8%
Depreciation of property, plant and equipment and amortization of intangible assets	(1,665)	(1,454)
Amortization of intangible assets identified in initial consolidation	(7,708)	(8,633)
Finance costs	(3,890)	(2,444)
Finance income	95	62
Financial result	(3,795)	(2,381)
Earnings before tax	**(4,838)**	**3,518**
Income tax expense	(1,921)	(2,204)
Profit or loss	**(6,759)**	**1,314**
of which attributable to BCM AG shareholders	(6,729)	1,314
of which attributable to non-controlling interests	(30)	–

Adjusted alternative performance measures

The Group discloses adjusted earnings before interest and taxes (**adjusted EBIT**) and adjusted earnings before interest, taxes, depreciation and amortization (**adjusted EBITDA**). The percentage ratio of these indicators to revenue is calculated as the respective margin (**adjusted EBITDA margin** and **adjusted EBIT margin**). **Adjusted earnings per share** are additionally disclosed. Together with **revenue**, management uses these performance measures to manage the Company and considers them to be significant for an understanding of the Group's financial performance. The alternative performance measures are not defined in IFRS and the Group's definitions are potentially not comparable with similarly designated performance indicators of other companies.

Management eliminates expenses from **share-based payments** under IFRS 2.51(a) from the performance indicators relevant for managing the Company. The reason for this is that these are not attributable economically to the Company, but to its shareholders. The issuance of options and shares does not represent an outflow of resources for the Group. Consequently, management eliminates the relevant expenses from share-based payments for the analysis of the Group's financial performance. Please refer to Note 36 for further information.

The earnings figures for analyzing the Group's performance are also adjusted for the **cost of acquisition of subsidiaries** under IFRS 3.53. Such costs are only incurred initially for purchases of companies. In terms of BCM AG's business model, these costs are therefore of a recurring nature, but amount to zero in each case assuming no change in the scope of consolidation. Further, in the opinion of Group management, such expenses would have to be recognized as acquisition costs required to be capitalized for acquisitions from a conventional perspective and would therefore not constitute expenses.

When new shares were issued in the course of BCM AG going public, a portion of the related costs was accounted for as a direct deduction from capital reserves and were therefore not recognized as an expense in profit or loss. The requirements for direct recognition of such expenses in equity are governed by IAS 32.37. Costs that do not satisfy these criteria are recognized in profit or loss. Due to the extraordinary nature of such costs, the Group eliminates these expensed **costs of equity transactions** from the adjusted earnings figures.

Equally, amortization expenses of and impairment losses on intangible assets identified in the course of purchase price allocation for acquisitions (**PPA amortization expenses**) are eliminated from underlying the IFRS figures for the purposes of value-enhancing management of the Company. These amortization expenses relate to accounting entries at the level of capital consolidation, so they are independent of the financial figures of the individual Group companies. They are not found in any of the single-entity annual financial statements of the Group companies. These expenses are recognized solely at the level of consolidation. They are non-cash expenses and not relevant for the Group's ability to pay dividends and no replacement investment spending will also be incurred for them in future cash flows. The considerably lower earnings according to IFRS due to the PPA amortization expenses result solely from the fact that an M&A transaction took place. The financial performance presented is thus considerably poorer solely because of the capital consolidation. It is also possible that a subsidiary will develop considerably more favorably than projected, but it is still necessary to recognize substantial PPA amortization expenses in the consolidated financial statements. As income from the **reversal of deferred tax liabilities** on PPA amortization expenses is recognized in the consolidated statement of comprehensive income, this is consequently also eliminated in the corresponding amount for determining the post-tax performance indicators.

As non-controlling interests are not shown owing to the application of the anticipated acquisition method, financial liabilities and provisions for the remaining 30% of Palas's shares are recognized in the Group's statement of financial position. The increase in such liabilities and provisions is recognized partly in personnel expenses as share-based payments and partly in the financial result. The Group therefore eliminates the **financial result from the NCI put** attributable to this issue when calculating adjusted earnings.

IFRS require all figures to be consolidated, meaning the presentation of all income and expenses of all majority interests from the date that control is obtained as if the Group were a single entity. As a consequence, only a portion of the business volume of acquisitions completed in the course of a fiscal year is presented in the consolidated statement of comprehensive income. To enhance the quality of information provided to users of these financial statements, the performance measures are additionally presented on a **pro forma** basis. Under the pro forma approach, expenses and income from subsidiaries acquired in a reporting period are consolidated from the beginning of the reporting period in which the relevant acquisition took place. IHSE was therefore included in the pro forma consolidated statement of comprehensive income for the period beginning on 1 January 2019. In some instances, management's estimates are also taken into consideration in this regard.

Calculation of adjusted EBITDA

	From date when control obtained		Pro forma
€ thousand	2020	2019	2019
Earnings before tax	**(4,838)**	**(3,387)**	**3,518**
Financial result	3,795	1,124	2,381
Depreciation, amortization and impairment losses	9,373	3,534	10,086
EBITDA	**8,331**	**1,270**	**15,985**
Share-based payments	242	180	180
Cost of acquisition of subsidiaries	(169)	1,320	–
Cost of equity transactions	3,865	–	–
Adjusted EBITDA	**12,270**	**2,770**	**16,166**
Adjusted EBITDA margin	*23.8%*	*16.7%*	*29.8%*

Calculation of adjusted EBIT

	From date when control obtained		Pro forma
€ thousand	2020	2019	2019
Earnings before tax	**(4,838)**	**(3,387)**	**3,518**
Financial result	3,795	1,124	2,381
EBIT	**(1,043)**	**(2,264)**	**5,899**
PPA amortization	7,708	2,714	8,633
Share-based payments	242	180	180
Cost of acquisition of subsidiaries	(169)	1,320	–
Cost of equity transactions	3,865	–	–
Adjusted EBIT	**10,604**	**1,950**	**14,713**
Adjusted EBIT margin	*20.6%*	*11.8%*	*27.1%*

Calculation of adjusted earnings and adjusted earnings per share

	From date when control obtained		Pro forma
€ thousand	2020	2019	2019
Profit or loss	**(6,759)**	**(3,823)**	**1,314**
Share-based payments	242	180	180
Financial result from NCI put	1,614	354	354
Cost of acquisition of subsidiaries	(169)	1,320	–
Cost of equity transactions	3,865	–	–
PPA amortization	7,708	2,714	8,633
Deferred taxes attributable thereto	(2,096)	(772)	(2,375)
Adjusted earnings	**4,406**	**(28)**	**8,106**
of which: BCM AG shareholders	4,436	(28)	8,106
of which: non-controlling interests	(30)	–	–
Number of shares outstanding	8,341,577	2,905,836	6,195,579
Adjusted earnings per share (€)	**0.53**	**(0.01)**	**1.31**

In the comparative period, the cost of acquisition of subsidiaries included accrued real estate transfer tax, among other items. Following further communication with the tax authorities, the estimated tax burden was reduced and income of €169 thousand was recognized on this basis in profit or loss for the period under review. This income was eliminated from the calculation of adjusted alternative performance measures.

A cash contribution capital increase and a contribution in kind capital increase were implemented in December 2019 to finance the acquisition of IHSE. Own shares from the share loan (Note 25.1) were retransferred as a result of the issuance of BCM AG shares. The effects of these transactions on the number of shares outstanding are reflected in the pro forma perspective.

8. Operating segments

The Group currently comprises two strategic divisions, which constitute the Group's reportable segments. The segments offer different products and services and are separately administrated since they operate in different markets and therefore require different technology and marketing strategies. BCM AG's Executive Board reviews internal management reports for each segment on a monthly basis.

The **Environmental Technologies** operating segment comprises companies that develop, manufacture and distribute fine dust and nanoparticle measurement devices, aerosol spectrometers and generators, as well as filter test rigs.

The **Security Technologies** operating segment comprises companies that develop, manufacture and distribute high-performance devices for switching and extending computer signals. Since this segment consists of IHSE, whose income and expenses in the reporting period were only required to be included in the consolidated financial statements in December 2019, the informative value of the prior-year amounts presented is limited.

The operating activities of the Group as well as their segment reporting substantially depends on further company acquisitions. There may therefore be substantial adjustments to both the definition of segments as well as the figures reported on a regular basis in the future. Please refer to Note 9 for information on the allocation of revenue to the groups of products and services. Segment performance measures are reported on the basis of the management accounting, which largely corresponds to IFRS. Non-current assets are located almost exclusively in Germany.

Key performance indicator by business segment

	Reportable segments											
	Environmental Technologies		Security Technologies		Total		Central Functions		Consolidation		Total	
€ thousand	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Revenue	18,114	13,835	33,543	2,726	51,657	16,561	–	–	(76)	–	51,581	16,561
Gross profit	13,874	10,875	24,680	2,367	38,555	13,242	–	–	–	–	38,555	13,242
Adjusted EBITDA	**6,283**	**4,999**	**11,778**	**767**	**18,061**	**5,766**	**(5,793)**	**(2,997)**	**–**	**–**	**12,270**	**2,770**
Share-based payments											(242)	(180)
Cost of acquisition of subsidiaries											169	(1,320)
Cost of equity transactions											(3,865)	–
EBITDA											8,331	1,270
Trade working capital*	4,637	3,527	11,292	11,010	15,929	14,538	(472)	(462)	–	–	15,457	14,075
Cash and cash equivalents	5,442	3,407	9,486	6,583	14,927	9,990	108,616	7,181	–	–	123,544	17,171
Financial liabilities	16,381	17,382	40,749	43,795	57,130	61,176	314	148	(3,184)	–	54,261	61,324
Revenue by region												
EMEA	**14,228**	**9,461**	**19,186**	**598**	**33,414**	**10,058**	**–**	**–**	**(76)**	**–**	**33,338**	**10,058**
Germany	6,874	4,175	6,152	215	13,027	4,390	–	–	(76)	–	12,950	4,390
Netherlands	6	–	4,789	–	4,794	–	–	–	–	–	4,794	–
United Kingdom	912	1,220	406	–	1,318	1,220	–	–	–	–	1,318	1,220
France	1,769	1,323	2,004	14	3,773	1,337	–	–	–	–	3,773	1,337
Italy	486	260	449	–	935	260	–	–	–	–	935	260
Other	4,180	2,483	5,386	369	9,567	2,852	–	–	–	–	9,567	2,852
Americas	**1,952**	**2,496**	**9,237**	**2,030**	**11,189**	**4,527**	**–**	**–**	**–**	**–**	**11,189**	**4,527**
U.S.A.	1,693	2,397	9,214	2,030	10,907	4,427	–	–	–	–	10,907	4,427
Other	259	99	23	–	282	99	–	–	–	–	282	99
APAC	**1,934**	**1,878**	**5,120**	**98**	**7,054**	**1,976**	**–**	**–**	**–**	**–**	**7,054**	**1,976**
China	589	556	2,942	70	3,532	626	–	–	–	–	3,532	626
Other	1,345	1,322	2,178	28	3,522	1,350	–	–	–	–	3,522	1,350
Total	**18,114**	**13,835**	**33,543**	**2,726**	**51,657**	**16,561**	**–**	**–**	**(76)**	**–**	**51,581**	**16,561**

* Trade working capital comprises inventories and trade receivables, less trade payables.

Pro forma operating segments

	Reportable segments											
	Environmental Technologies		Security Technologies		Total		Central Functions		Consolidation		Total	
€ thousand	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Revenue	18,114	13,835	33,543	40,455	51,657	54,290	–	–	(76)	–	51,581	54,290
Gross profit	13,874	10,875	24,680	28,995	38,555	39,870	–	–	–	–	38,555	39,870
Adjusted EBITDA	**6,283**	**4,999**	**11,778**	**14,164**	**18,061**	**19,163**	**(5,793)**	**(2,997)**	**–**	**–**	**12,270**	**16,166**
Share-based payments											(242)	(180)
Cost of acquisition of subsidiaries											169	–
Cost of equity transactions											(3,865)	–
EBITDA											8,331	15,985
Trade working capital*	4,637	3,527	11,292	11,010	15,929	14,538	(472)	(462)	–	–	15,457	14,075
Cash and cash equivalents	5,442	3,407	9,486	6,583	14,927	9,990	108,616	7,181	–	–	123,544	17,171
Financial liabilities	16,381	17,382	40,749	43,795	57,130	61,176	314	148	(3,184)	–	54,261	61,324
Revenue by region												
EMEA	**14,228**	**9,461**	**19,186**	**17,912**	**33,414**	**27,373**	**–**	**–**	**(76)**	**–**	**33,338**	**27,373**
Germany	6,874	4,175	6,152	3,940	13,027	8,115	–	–	(76)	–	12,950	8,115
Netherlands	6	–	4,789	6,360	4,794	6,360	–	–	–	–	4,794	6,360
United Kingdom	912	1,220	406	908	1,318	2,128	–	–	–	–	1,318	2,128
France	1,769	1,323	2,004	1,033	3,773	2,356	–	–	–	–	3,773	2,356
Italy	486	260	449	640	935	900	–	–	–	–	935	900
Other	4,180	2,483	5,386	5,031	9,567	7,514	–	–	–	–	9,567	7,514
Americas	**1,952**	**2,496**	**9,237**	**14,485**	**11,189**	**16,981**	**–**	**–**	**–**	**–**	**11,189**	**16,981**
U.S.A.	1,693	2,397	9,214	14,476	10,907	16,873	–	–	–	–	10,907	16,873
Other	259	99	23	9	282	108	–	–	–	–	282	108
APAC	**1,934**	**1,878**	**5,120**	**8,058**	**7,054**	**9,936**	**–**	**–**	**–**	**–**	**7,054**	**9,936**
China	589	556	2,942	6,866	3,532	7,422	–	–	–	–	3,532	7,422
Other	1,345	1,322	2,178	1,192	3,522	2,514	–	–	–	–	3,522	2,514
Total	**18,114**	**13,835**	**33,543**	**40,455**	**51,657**	**54,290**	**–**	**–**	**(76)**	**–**	**51,581**	**54,290**

* Trade working capital comprises inventories and trade receivables, less trade payables.

9. Revenue

The Group generates revenue mostly from the sale of measuring devices and test rigs in the Environmental Technologies operating segment and from the sale of KVM devices and KVM systems in the Security Technologies operating segment. The adjacent table classifies the Group's revenue from contracts with customers (IFRS 15) by the most important product and service lines and the timing of revenue recognition. For information on primary geographical markets, please refer to Note 8. No customer accounted for more than 10% of the Group's revenue in the reporting period.

Income from short-term leases of devices

In addition to revenue from contracts with customers under IFRS 15, the Group also reports income from short-term leases of devices under IFRS 16. Those income components are shown as separate line items in the following overview.

Contract balances

The following table shows receivables and contractual liabilities under contracts with customers:

€ thousand	31 Dec. 2020	31 Dec. 2019
Trade receivables	7,235	5,850
Contract liabilities	(1,055)	(665)

Contract liabilities include advance payments from customers that are expected to be collected in the form of revenue within 12 months of the reporting date. Advance payments are of short-term nature. Advance payments of €697 thousand are attributable to test rigs and other measuring devices. Advance payments of €358 thousand were made by customers for extended warranty agreements. The amount of €665 thousand contained in contract liabilities at the 31 December 2019 prior-year reporting date was recognized as revenue in the reporting period.

Disaggregation of revenue

	Environmental Technologies		Security Technologies		Group	
€ thousand	2020	2019	2020	2019	2020	2019
External customers						
Products sold	21,580	17,497	39,202	2,572	60,782	20,069
Services rendered	861	238	207	284	1,067	522
External gross revenue	**22,441**	**17,736**	**39,409**	**2,855**	**61,849**	**20,591**
Sales allowances	(4,392)	(3,958)	(5,942)	(129)	(10,333)	(4,087)
Revenue from contracts with customers	**18,049**	**13,778**	**33,467**	**2,726**	**51,516**	**16,504**
Short-term leases of devices	65	58	–	–	65	58
Revenue	**18,114**	**13,836**	**33,467**	**2,726**	**51,581**	**16,561**
Timing of revenue recognition						
Point in time	16,743	13,540	33,260	2,442	50,004	15,982
Over time	1,306	238	207	284	1,512	522
Revenue from contracts with customers	**18,049**	**13,778**	**33,467**	**2,726**	**51,516**	**16,504**
Short-term leases of devices	65	58	–	–	65	58
Revenue	**18,114**	**13,836**	**33,467**	**2,726**	**51,581**	**16,561**

10. Own work capitalized

Of own work capitalized of €392 thousand (previous year: €443 thousand) is attributable to development costs required to be capitalized under IAS 38. These development costs relate in particular to investments in the development of sensory measurement instruments.

The remaining €477 thousand results chiefly from internally produced demonstration devices that are provided without charge to customers on a temporary basis for marketing purposes (previous year: €326 thousand).

11. Cost of materials

Cost of materials is disaggregated as follows:

€ thousand	2020	2019
Cost of raw materials, consumables and supplies and purchased merchandise	13,377	3,741
Cost of purchased services	405	558
Cost of materials	**13,782**	**4,299**

12. Personnel expenses

Personnel expenses break down as follows:

€ thousand	2020	2019
Wages and salaries	17,210	5,839
Social security and post-employment benefit costs	2,077	785
Personnel expenses excluding share-based payments	**19,287**	**6,624**
Share-based payments	242	180
Personnel expenses	**19,529**	**6,803**

Please refer to Note 36 for further information on share-based payment arrangements.

13. Other operating expenses

Other operating expenses break down as follows:

€ thousand	2020	2019
Costs of initial listing	3,865	–
Advertising and travel expenses	1,738	605
Due diligence costs	995	228
Insurance and contributions	953	143
Other legal and consulting fees	854	458
Preparation and audit of financial statements	816	430
Foreign exchange losses	343	164
IT costs	244	100
Supervisory Board remuneration	185	143
Expenses for leases of low-value assets	109	136
Other lease expenses (incidental costs, service components)	60	59
Incidental transaction costs	50	128
Expenses for short-term leases	16	2
Costs from M&A transactions	–	1,320
Other costs	1,813	1,643
Other operating expenses	**12,042**	**5,558**

The costs of M&A transactions in the prior-year period resulted mainly from the real estate transfer tax, legal advice and due diligence for the purchase of IHSE. By contrast, the due diligence costs relate to the detailed examination of potential acquisitions that were either terminated in the reporting period or are still in progress as of the reporting date.

14. Other operating income

Other operating income is disaggregated as follows:

€ thousand	2020	2019
Currency translation gains	437	30
Prior-period income	271	143
Loan forgiveness (PPP loan)	218	–
Investment grants under IAS 20	195	120
Vehicle benefits in kind	161	65
Singapore support programs	66	–
Miscellaneous other operating income	147	33
Other operating income	**1,494**	**390**

Please refer to Note 2 for further information on loan forgiveness (PPP loans) the Singapore support programs.

15. Depreciation, amortization and impairment losses

Depreciation, amortization and impairment losses comprise depreciation of property, plant and equipment and amortization of intangible assets amounting to €9,373 thousand (previous year: €3,534 thousand). €1,665 thousand (previous year: €820 thousand) of this amount relates to depreciation of property, plant and equipment, right-of-use assets from leases and amortization of intangible assets not identified in the course of the purchase price allocation for the acquisition of subsidiaries. Depreciation of right-of-use assets from leases amounts to €544 thousand (previous year: €338 thousand).

Amortization of intangible assets identified in the course of acquisitions of subsidiaries are also included. These amounts are attributable to capitalized intangible assets as follows:

€ thousand	2020	2019
Basic technologies	3,400	925
Customer base	2,468	648
Trademarks	1,020	241
Order backlog	820	900
Total	**7,708**	**2,714**

16. Financial result

Finance costs are composed of the following items:

€ thousand	2020	2019
Interest on financial liabilities at amortized cost	1,945	807
Negative interest on bank balances	299	–
Interest on lease liabilities	31	19
Unwinding of discount on NCI put liability	119	109
Remeasurement of NCI put provision	1,496	245
Finance costs	**3,890**	**1,179**

In the comparative period, the Group reported expenses for negative interest on bank balances of €103 thousand in other operating expenses. These expenses were reclassified to the financial result in the reporting period.

Please refer to Note 38 for further information on the NCI put.

Finance income of €95 thousand (previous year: €56 thousand) largely comprises modification income from an interest rate reduction on a bank loan arising in the reporting period.

17. Income tax expense

Income taxes recorded in profit or loss for the period break down as follows:

€ thousand	2020	2019
Current tax expense		
Current year	3,558	1,292
Deferred tax income		
Reversal of temporary differences	(1,637)	(856)
Total	**1,921**	**436**

Change in deferred taxes

Deferred tax liabilities at the level of individual items of the statement of financial position are shown in the following overview:

€ thousand	1 January	Acquired through business combinations	Recognized in profit or loss	Net exchange differences	31 December Net	31 December Deferred tax assets	31 December Deferred tax liabilities
2020							
Goodwill	542	–	(46)	(44)	452	452	–
Other intangible assets	(18,556)	–	2,004	256	(16,296)	–	(16,296)
Property, plant and equipment	–	–	11	–	11	11	–
Inventories	440	–	(350)	–	90	90	–
Trade payables	–	–	18	(8)	10	10	–
Tax assets (liabilities) before offsetting					**(15,733)**	**563**	**(16,296)**
Offsetting of taxes					–	–	–
Tax assets (liabilities), net					**(15,733)**	**563**	**(16,296)**
2019							
Goodwill	–	542	0	–	542	542	–
Other intangible assets	(3,415)	(15,838)	697	–	(18,556)	–	(18,556)
Property, plant and equipment	–	–	–	–	–	–	–
Inventories	–	281	159	–	440	440	–
Trade payables	–	–	–	–	–	–	–
Tax assets (liabilities) before offsetting					**(17,574)**	**982**	**(18,556)**
Offsetting of taxes					–	–	–
Tax assets (liabilities), net					**(17,574)**	**982**	**(18,556)**

The deferred tax liabilities of €16,296 thousand relate almost entirely to the customer bases, basic technologies and trademarks identified in the course of purchase price allocation for the Palas and IHSE acquisitions (PPA assets) and will be reversed through profit or loss (but with no effect on cash flow) in the future as these PPA assets are amortized. There will be no cash outflows.

Reconciliation of effective tax rate

The differences between the expected income tax expense based on the calculated tax rate and the actual income tax expense can be seen in the following table. The applied tax rate is based on the German Group income tax rate. The German Group tax rate comprises the corporate income tax rate of 15% (previous year: 15%), plus the solidarity surcharge of 5.5% (previous year: 5.5%) and a trade tax rate of 15.1% (previous year: 15.1%). The tax rate for trade tax is determined by the average trade tax multiplier of 430% (previous year: 430%).

Deferred taxes for the assets identified at IHSE were recognized based on the tax rates of 17% to 28%. Deferred taxes for the assets identified at Palas were recognized based on the tax rate of 31% (previous year: 31%).

Income tax reconciliation

€ thousand	2020	% of earnings	2019	% of earnings
Earnings before tax	**(4,838)**		**(3,387)**	
Tax based on German tax rate of the entity	**1,494**	**31%**	**1,046**	**31%**
Tax-exempt income	89	2%	113	3%
Tax rate effects	(69)	(1%)	(22)	(1%)
Permanent differences	(524)	(11%)	(219)	(6%)
Non-deductible operating expenses	(34)	(1%)	(320)	(9%)
Losses in the current year for which no deferred tax asset was recognized	(2,883)	(60%)	(1,034)	(31%)
Recognition of tax effects of previously unrecognized tax loss carryforwards	10	0%	–	–
Prior-period (taxable profit)/ tax loss	(4)	(0%)	–	–
Income tax expense	**(1,921)**	**(40%)**	**(436)**	**(13%)**

Unrecognized deferred tax assets

Group entities have tax loss carryforwards of €22,755 thousand at the reporting date (previous year: €6,886 thousand). This would result in a tax effect of €7,263 thousand (previous year: €2,182 thousand). No deferred taxes were recognized for these matters as future positive taxable earnings were not sufficiently concrete at the date of preparing the financial statements. This assumption is reviewed by management on each reporting date.

18. Earnings per share

The following table presents the calculation of earnings per share, based on the profit or loss attributable to the shareholders of BCM AG.

	2020	2019
Profit or loss for the period in € thousand	(6,729)	(3,823)
Weighted average number of shares outstanding	8,341,577	2,905,836
Earnings per share (€)	**(0.81)**	**(1.32)**

Adjusted pro forma earnings per share are shown in the following table. Please refer to Note 7 for further information.

Adjusted pro forma	2020	2019
Profit or loss for the period in € thousand	4,436	8,106
Weighted average number of shares outstanding	8,341,577	6,195,579
Earnings per share (€)	**0.53**	**1.31**

III. Notes to the statement of financial position

19. Property, plant and equipment

€ thousand	Land and buildings	Technical equipment and machinery	Operating and office equipment	Prepayments, construction in progress	Total
Acquisition cost					
1 Jan. 2019	**–**	**541**	**277**	**–**	**818**
Acquisitions through business combinations	8,084	493	718	–	9,296
Additions	–	719	203	–	922
Disposals	–	(137)	(0)	–	(137)
Net exchange differences	–	–	0	–	0
31 Dec. 2019	**8,084**	**1,616**	**1,199**	**–**	**10,899**
Additions	1	639	305	10	954
Disposals	–	(179)	(17)	–	(195)
Net exchange differences	–	–	(12)	–	(12)
31 Dec. 2020	**8,085**	**2,076**	**1,475**	**10**	**11,646**
Accumulated depreciation					
1 Jan. 2019	**–**	**13**	**8**	**–**	**20**
Depreciation and impairment losses	18	232	117	–	366
Disposals	–	(50)	–	–	(50)
Net exchange differences	–	–	0	–	0
31 Dec. 2019	**18**	**195**	**125**	**–**	**337**
Depreciation and impairment losses	215	350	403	–	968
Disposals	–	(114)	(16)	–	(131)
Net exchange differences	–	(0)	(10)	–	(10)
31 Dec. 2020	**233**	**430**	**501**	**–**	**1,164**
Right-of-use assets at 1 Jan. 2019	–	–	–	–	–
Right-of-use assets at 31 Dec. 2019	518	242	–	–	760
Right-of-use assets at 31 Dec. 2020	**893**	**341**	**–**	**–**	**1,233**
Carrying amounts					
1 Jan. 2019	–	528	269	–	797
31 Dec. 2019	8,584	1,664	1,074	–	11,322
31 Dec. 2020	**8,744**	**1,986**	**974**	**10**	**11,715**

There were no indicators of any need to charge impairment losses on property, plant and equipment in the reporting period. Please refer to Note 28 for information on pledges of items of non-current assets as collateral for liabilities.

Please refer to Note 37 for further information on right-of-use assets under leases.

20. Intangible assets and goodwill

Intangible assets changed as follows in the reporting period:

€ thousand	Goodwill	Development expenses	Other intangible assets: IT licenses, software, website	Other intangible assets: Prepayments	Other intangible assets: Trademarks	Other intangible assets: Basic technologies	Other intangible assets: Customer base	Total
Acquisition cost								
1 Jan. 2019	**22,001**	**351**	**55**	**–**	**1,700**	**3,500**	**4,800**	**32,407**
Acquisitions through business combinations	69,357	–	130	77	8,500	21,600	30,100	129,764
Additions	–	443	16	10	–	–	–	469
Disposals	–	–	(3)	–	–	–	–	(3)
31 Dec. 2019	**91,358**	**794**	**197**	**87**	**10,200**	**25,100**	**34,900**	**162,636**
Additions	–	392	95	–	–	–	–	487
Disposals	–	–	–	–	–	–	–	–
Reclassifications	–	–	87	(87)	–	–	–	–
Net exchange differences	–	–	–	–	–	–	(1,378)	(1,378)
31 Dec. 2020	**91,358**	**1,186**	**379**	**–**	**10,200**	**25,100**	**33,522**	**161,746**
Accumulated amortization								
1 Jan. 2019	**–**	**4**	**8**	**–**	**14**	**58**	**40**	**124**
Amortization and impairment losses	–	80	35	–	241	925	648	1,930
Disposals	–	–	(2)	–	–	–	–	(2)
31 Dec. 2019	**–**	**84**	**41**	**–**	**255**	**983**	**688**	**2,050**
Amortization and impairment losses	–	78	75	–	1,020	3,400	2,468	7,041
Disposals	–	–	–	–	–	–	–	–
Net exchange differences	–	–	(0)	–	–	–	(81)	(81)
31 Dec. 2020	**–**	**163**	**117**	**–**	**1,275**	**4,383**	**3,074**	**9,012**
Carrying amounts								
1 Jan. 2019	22,001	347	47	–	1,686	3,442	4,760	32,283
31 Dec. 2019	91,358	710	157	87	9,945	24,117	34,212	160,585
31 Dec. 2020	**91,358**	**1,024**	**262**	**–**	**8,925**	**20,717**	**30,448**	**152,733**

The useful lives of other amortized intangible assets by category is as follows:

- IT, software, licenses, website: 3 years
- Trademarks: 10 years
- Basic technologies: 5 to 8 years
- Customer base: 10 to 15 years.

Capitalized development expenses are amortized on a straight line basis over five years when the development is complete and series production has started.

The annual impairment test of goodwill was conducted as of 31 December 2020. The value in use of the relevant cash-generating unit (**CGU**) is used to test the recoverability of goodwill. The "Palas" CGU refers to Palas the "IHSE" CGU refers to IHSE.

Long-term corporate planning in each case extends to the end of the detailed planning period of five years after the reporting date. The significant assumptions to which the long-term corporate planning is sensitive in both cases are growth in new business and the purchase price of materials. These developments were assessed and identified based on past experience, publicly available data and by using the existing sales pipeline and management's assessment of future sales market conditions. Cash flows are discounted using risk-appropriate (pre-tax) discount rates on the reporting date. The cost of capital rates used for discounting are based on the risk-free rate and on a market risk premium. In addition, the beta factor, borrowing costs and the capital structure are taken into account; these were derived individually for the CGUs based on an appropriate peer group. The revenue growth rates for the relevant markets were used as the basis for determining cash flows. The assumptions made are subject to a certain sensitivity.

Goodwill of €22,001 thousand acquired in the course of the purchase of Palas GmbH in December 2018 was allocated to the "Palas" CGU for impairment testing. The assumptions used to determine the recoverability of goodwill are shown in the following table:

	31 Dec. 2020	31 Dec. 2019
Determination of recoverable amount	Value in use	Value in use
Discount rate	6.99%	8.62%
Pre-tax discount rate	7.11%	9.04%
Sustainable growth rate	1.5%	1.0%
Forecast EBITDA growth rate (average for the next five years)	21%	15%

The difference between the recoverable amount of the "Palas" CGU and the carrying amount is positive. For this reason, there was no impairment of the "Palas" CGU as of the reporting date.

Goodwill of €69,357 thousand acquired in the course of the acquisition of IHSE in December 2019 was allocated to the "IHSE" CGU for impairment testing. The assumptions used to determine the recoverability of goodwill are shown in the following table:

	31 Dec. 2020	31 Dec. 2019
Determination of recoverable amount	Value in use	Value in use
Discount rate	8.36%	9.03%
Pre-tax discount rate	8.49%	9.70%
Sustainable growth rate	1.5%	1.0%
Forecast EBITDA growth rate (average for the next five years)	18.1%	11%

The difference between the recoverable amount of the "IHSE" CGU and the carrying amount is positive. For this reason, there was no impairment of the "IHSE" CGU unit as of the reporting date.

21. Inventories

Inventories are composed of the following items:

	31 Dec. 2020	31 Dec. 2019
Raw materials and consumables	5,299	5,324
Work in progress	2,556	2,364
Finished goods	1,855	2,163
Order backlog	–	825
Inventories	**9,710**	**10,676**

All inventories are used to secure liabilities. Please refer to Note 28 for further information.

In the course of purchase price allocation for the acquisition of shares in IHSE in the prior-year period, an existing order backlog (€900 thousand) was identified as of the acquisition date; this comprised binding orders for the next twelve months.

No impairment losses or reversals of impairment losses were recognized in profit or loss in the reporting period.

22. Trade receivables

Trade receivables amount to €7,235 thousand (previous year: €5,850 thousand). They include current lease receivables of €1 thousand (previous year: €1 thousand). An impairment loss is expected when certain issues arise, such as late payment over time or the initiation of enforcement measures are in place. The following table shows changes in impairment losses relating to trade receivables:

€ thousand	31 Dec. 2020	31 Dec. 2019
Opening balance	**450**	**14**
Impairment losses acquired in business combination	–	443
Derecognized receivables	–	(9)
Remeasurement of impairment losses	147	2
Exchange differences	(14)	–
Impairment losses on trade receivables	**583**	**450**

23. Other assets

Other assets amount to €394 thousand (previous year: €655 thousand) and relate primarily to claims for VAT refunds and security deposits paid.

24. Cash and cash equivalents

Cash and cash equivalents consist of the following items:

€ thousand	31 Dec. 2020	31 Dec. 2019
Bank balances	123,540	17,168
Cash in hand	4	3
Cash and cash equivalents in statement of financial position	**123,544**	**17,171**
Overdraft facilities used for cash management	–	–
Cash and cash equivalents shown in the statement of cash flows	**123,544**	**17,171**

Bank balances bear floating rate interest on short-term call deposits. The carrying amount of these assets corresponds to their fair value.

25. Subscribed capital

BCM AG's share capital as of 31 December 2020 amounts to €10,386,808 (previous year: €6,642,372) and is composed 10,386,808 registered shares, each with a notional value of €1.00 per share.

The Company initially increased its equity by €150,686, from €6,642,372 to €6,793,058, when the capital increase was entered in the commercial register on 20 February 2020. The capital increase was linked to the acquisition of IHSE in December 2019 and a subsequent reinvestment tranche. The shares were issued at a price of €32.00 per share, generating cash funds of €4,822 thousand for the Company.

The share capital was further increased when BCM AG's shares were listed for the first time in the Prime Standard (subsegment of the regulated market with additional post-admission obligations) of the Frankfurt Stock Exchange on 14 July 2020. A private placement of new shares was implemented in the run-up to going public. BCM AG's share capital was increased by €3,125,000, from €6,793,058 to €9,918,058, on entry of this capital increase in the commercial register on 10 July 2020. The new shares were issued at a price of €32.00 per share, as a result of which additional cash funds of €100,000 thousand (before transaction costs) were generated for BCM Group.

Exercise in full of the greenshoe option in the wake of the initial listing further increased the share capital by €468,750 to €10,386,808. This capital increase was entered in the commercial register on 21 July 2020. The new shares were also issued at a price of €32.00 per share, generating an additional €15,000 thousand (before transaction costs) for BCM Group.

The classification of and changes in equity during the reporting period are presented in the consolidated statement of changes in equity.

The distribution of the shares among the shareholders as of the reporting date was as follows.

Shareholder	% interest
Marco Brockhaus	22.4%
Kayne Anderson Rudnick Investment Management LLC	8.7%
DWS Investment GmbH	7.2%
ABACON Invest GmbH	6.0%
ACUSTICA Zweite Verwaltungs GmbH	5.1%
Janus Henderson Group plc	4.2%
ORGENTEC Holding GmbH	3.9%
VESTA GmbH	3.3%
Dr. Liedtke Vermögensverwaltung GmbH	3.0%
Other free float	36.2%
Total	**100.0%**

25.1 Share loans

The Company's founding team transferred a total of 1,674,000 BCM shares to BCM AG on the transfer date 21 December 2017 by way of an uncompensated share loan (**loan shares**) with all associated rights and obligations (**Share Loan I**) and instructed KAS-Bank N.V., Frankfurt am Main, on the transfer date to transfer the loan shares to the Company's custody account with Deutsche Bank AG, Frankfurt am Main.

The loan shares were successively retransferred to the members of the founding team in accordance with the contractual ratio of 1:2 to newly issued shares created in the course of capital increases. The purpose of this arrangement was to limit to one third the share of voting and profit participation rights of the founding team. The share loan was contractually structured in such a way that it ended in full when a total of 5,000,000 new shares were issued to investors outside the founding team and the total share capital of the Company was thus €7,500,000.

At the beginning of the reporting period on 1 January 2020, 428,814 shares were still held by BCM AG as part of Share Loan I. Of the 150,686 new shares issued in the course of the capital increase on 20 February 2020, 70,969 shares were subscribed by members of the founding team. In order to maintain a proportion of 1/3 of voting and dividend rights attributable to the founding team, these 70,969 shares were transferred to the Company by way of a further uncompensated securities loan (**Share Loan II**). As a result of the issue of 79,717 new shares to external investors, 39,858 shares from Share Loan I were returned to the members of the founding team. Therefore, during the reporting period, the Company temporarily held 459,925 own shares by way of the share loans (of which 388,956 in Share Loan I and 70,969 in Share Loan II).

As a result of these capital increases in the course of the Company's initial listing in July 2020, the total 459,925 of the Company's own shares held on loan were returned in full to the founding team. Of these 459,925 shares, 388,956 related to Share Loan I and 70,969 shares to Share Loan II. Both share loans thus ended in full. The Company was not entitled at any time to the rights conveyed by the shares held under the share loans. Disapplied rights related, among others, to profit participation rights, voting rights and preemptive rights to subscribe for new share issuances in the course of capital increases.

25.2 Authorized and contingent capital

On 15 December 2017, the Annual General Meeting authorized the Executive Board, with the consent of the Supervisory Board, to increase the share capital on one or more occasions until 14 December 2022, in exchange for cash and/ or contributions in kind up to a total of €2,076,000, with the option to exclude shareholders' preemptive rights (**Authorized Capital 2017/I**). By resolution of the Executive Board and the consent of the Supervisory Board dated 21 December 2018, the share capital of the Company was increased by €100,000 to €4,242,000 against a contribution in kind by means of the partial utilization of Authorized Capital 2017/I in exchange for the issuance of 100,000 new shares. The contribution in kind consisted of shares of Palas Holding GmbH. By resolution of the Supervisory Board as of 15 April 2019 and entry into the commercial register as of 7 June 2019, the Company increased its share capital by €41,667 to € 4,293,667. The new shares were issued through partial utilization of Authorized Capital 2017/I at a price of €30.00 per share, with funds of €1,250 thousand accruing to the Company.

At the Company's Annual General Meeting on 27 June 2019, the shareholders authorized the Executive Board, with the consent of the Supervisory Board, to increase the share capital by up to €212,500 against cash or non-cash contributions, with the option to exclude shareholders' preemptive rights (**Authorized Capital 2019/I**). Additionally, the share capital was contingently increased by up to €425,200 (**Contingent Capital 2019/I**). The contingent capital serves to grant rights to holders of share warrants from the stock option program. Please refer to Note 36.1 for further information.

On 12 December 2019, a in kind capital increase of a further €613,274 to €6,642,372 was carried out from Authorized Capital 2017/I, in the course of which new shares were issued at a price of €32.00 per share. Shares were issued in exchange for the contribution of shares of IHSE Holding GmbH to BCM AG. The cash equivalent of the contributed shares was €19,625 thousand.

The €150,686 thousand capital increase to €6,793,058 on 20 February 2020 also utilized Authorized Capital 2017/I. As a result, the remaining amount of Authorized Capital 2017/I was €1,170,373 and Authorized Capital 2019/I was unchanged at the full amount of €212.500.

On 17 June 2020, the Annual General Meeting authorized the Executive Board, with the consent of the Supervisory Board, to increase the share capital on one or more occasions until 16 June 2025, in exchange for cash and/or contributions in kind up to a total of €2,013,656, with the option to exclude shareholders' preemptive rights (**Authorized Capital 2020/I**).

On 9 July 2020, the Annual General Meeting authorized the Executive Board, with the consent of the Supervisory Board, to increase the share capital on one or more occasions until 8 July 2025, in exchange for cash and/or contributions in kind up to a total of €4,959,029, with the option to exclude shareholders' preemptive rights (**Authorized Capital 2020/II**). At the same time, the remaining Authorized Capital 2017/I, 2019/I and 2020/I were revoked. Additionally, the share capital was contingently increased by up to €2,000,000 (**Contingent Capital 2020/I**). In connection with the creation of Contingent Capital 2020/I, the Executive Board was authorized, with the consent of the Supervisory Board, to issue bonds with warrants and/ or convertible bonds in a maximum total amount of €75,000,000.

26. Capital reserves

The capital reserve includes the premiums arising from the issue of shares, less costs for the capital increases and distributable capital reserves. Please refer to Note 25 for information on capital increases implemented in the reporting period.

27. Other reserves

Other reserves include the accumulated personnel expenses from equity-settled share-based payments under IFRS 2. Please refer to Note 36.1 for further information.

28. Financial liabilities

Financial liabilities are composed of the following items:

	Non-current		Current		Total	
€ thousand	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019
Senior loans	40,249	44,631	5,127	4,952	45,376	49,583
Real estate loans	5,796	6,380	384	60	6,180	6,440
Lease liabilities	621	347	632	423	1,253	770
NCI put liability	1,451	1,332	–	–	1,451	1,332
Other financial liabilities	–	3,199	–	–	–	3,199
Total financial liabilities	**48,118**	**55,889**	**6,143**	**5,435**	**54,261**	**61,324**

Senior loans | The senior loans were taken out at the time of the acquisition of Palas and IHSE. They serve the proportionate debt financing of the purchase prices of the interests in the M&A transactions. The senior loans are fully secured by the assignment of non-current and current assets as collateral.

Real estate loans | The real estate loans relate to construction finance for IHSE's headquarters in Oberteuringen on Lake Constance. They are fully secured by land charges.

Lease liabilities | Lease liabilities represent the recognized present values of future lease payments discounted to the reporting date. Financial liabilities arising from leases in the amount of €539 thousand were repaid and €31 thousand was paid as interest expense for leasing in the reporting period. Future cash flows at the reporting date amounted to €1,347 thousand. Potential further future cash outflows were not recognized as lease liabilities as it is not reasonably certain that the leases will be extended or terminated. Disclosures on right-of-use assets from leases can be found in Note 37.

NCI put liability | In the course of implementing the acquisition of Palas in the short fiscal year 2018, the Group entered into an obligation to the remaining shareholder manager to acquire their 30% share at a later date and applies the anticipated acquisition method to the accounting for this liability. Under this method, the acquisition is presented as if the other shareholder had already exercised their purchase option. This means that the shares underlying the option are already deemed to be acquired as of the acquisition date. Consequently, there are no non-controlling interests in the Group in relation to Palas Holding GmbH. A portion of the obligation arising from this option is recorded as a financial liability in the consolidated statement of financial position. The liability is recognized at amortized cost and changes in its value are recognized in profit or loss. Please refer to Note 38 for further information.

Other financial liabilities | Other financial liabilities at the prior-year reporting date included an unsecured vendor loan that was granted in relation to the acquisition of Palas. This vendor loan was repaid in full in the reporting period.

Information on the extent to which the Group is exposed to interest, rate and liquidity risks can be found in Note 33.2.

Reconciliation of changes in liabilities to cash flows from financing activities

€ thousand	Liabilities to banks	Other financial liabilities	Lease liabilities	NCI put liability	Total
1 Jan. 2020	**56,023**	**3,199**	**770**	**1,332**	**61,324**
Loans and other borrowed funds raised	–	–	–	–	–
Repayment of lease liabilities	–	–	(539)	–	(539)
Repayment of loans and other borrowed funds	(4,553)	(3,000)	–	–	(7,553)
Interest paid	(1,673)	(299)	(31)	–	(2,003)
Total change in cash flows from financing activities	**(6,226)**	**(3,299)**	**(569)**	**–**	**(10,094)**
New leases according to IFRS 16	–	–	1,021	–	1,021
Interest income	(86)	–	–	–	(86)
Interest expense	1,845	100	31	119	2,095
31 Dec. 2020	**51,556**	**–**	**1,253**	**1,451**	**54,261**
1 Jan. 2019	**12,744**	**3,012**	**–**	**1,223**	**16,979**
Loans and other borrowed funds raised	17,193	–	–	–	17,193
Repayment of lease liabilities	–	–	(337)	–	(337)
Repayment of loans and other borrowed funds	(542)	(1,131)	–	–	(1,673)
Interest paid	(222)	–	(10)	–	(232)
Total change in cash flows from financing activities	**16,429**	**(1,131)**	**(347)**	**–**	**14,951**
New leases according to IFRS 16	–	–	849	–	849
Changes due to the acquisition of subsidiaries	26,187	1,131	249	–	27,567
Interest expense	663	187	19	109	978
31 Dec. 2019	**56,023**	**3,199**	**770**	**1,332**	**61,324**

29. Trade payables

Trade payables amounted to €1,488 thousand (previous year: €2,450 thousand). Information on the Group's liquidity risks relating to trade payables can be found in Note 33.2.

30. Other current liabilities

Other current liabilities amounted to €4,852 thousand (previous year: €4,466 thousand) and relate primarily to outstanding invoices, personnel-related and other accruals and liabilities from taxes and duties.

31. Other provisions

Other provisions changed as follows:

€ thousand	Warranties	NCI put provision	Total
1 Jan. 2020	**287**	**327**	**614**
Provisions recognized	61	1,578	1,639
Provisions utilized	(55)	–	(55)
Provisions reversed	–	–	–
31 Dec. 2020	**293**	**1,905**	**2,198**
of which: non-current	142	1,905	2,048
of which: current	151	–	151
1 Jan. 2019	**84**	**–**	**84**
Acquisitions through business combinations	95	–	95
Provisions recognized	149	327	476
Provisions utilized	(41)	–	(41)
Provisions reversed	–	–	–
31 Dec. 2019	**287**	**327**	**614**
of which: non-current	163	327	490
of which: current	125	–	125

Please refer to Note 38 for information on the NCI put provision.

32. Contingent liabilities

Current and non-current assets have been assigned as security and land charges are in place as collateral for bank loans.

IV. Other disclosures

33. Financial instruments

33.1 Classification and fair values

The Group has financial instruments that are not measured at fair value in the statement of financial position. In the case of these instruments, the fair values do not differ significantly from the carrying amounts, as the interest receivables and interest payables either approximate current market rates or the instruments are short term.

The adjacent table shows the carrying amounts and fair values of financial assets and financial liabilities, including their level in the fair value hierarchy. It does not contain information on the fair value of financial assets and financial liabilities that are not measured at fair value if the carrying amount represents an appropriate approximation of the fair value.

Financial instruments not measured at fair value

Type	Valuation technique
Financial liability	Discounted cash flows: The measurement model takes account of the present value of the expected payments, discounted using the Group-specific current interest rate.

Carrying amounts and fair values

	Carrying amount			Fair value			
€ thousand	Financial assets at amortized cost	Other Financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 Dec. 2020							
Trade receivables	7,235	–	7,235				
Other receivables	394	–	394				
Cash and cash equivalents	123,544	–	123,544				
Assets not measured at fair value	**131,173**	**–**	**131,173**				
Secured bank loans	–	51,556	51,556	–	51,224	–	51,224
NCI put liability (Note 38)	–	1,451	1,451	–	–	1,451	1,451
Trade payables	–	1,488	1,488				
Financial liabilities not measured at fair value	**–**	**54,496**	**54,496**				
31 Dec. 2019							
Trade receivables	5,848	–	5,848				
Other receivables	655	–	655				
Lease receivables	1	–	1				
Cash and cash equivalents	17,171	–	17,171				
Assets not measured at fair value	**23,675**	**–**	**23,675**				
Secured bank loans	–	56,023	56,023	–	56,023	–	56,023
Unsecured loans	–	3,199	3,199	–	3,199	–	3,199
NCI put liability (Note 38)	–	1,332	1,332	–	–	1,332	1,332
Trade payables	–	2,450	2,450				
Financial liabilities not measured at fair value	**–**	**63,004**	**63,004**				

33.2 Financial risk management

The Company's Executive Board is responsible for developing and monitoring the risk management system. At the level of the subsidiaries, the managing directors are responsible for risk management. Appropriate processes for payables and receivables management, liquidity planning, monthly reporting, etc., are implemented at Palas and IHSE.

The Executive Board defines the principles and goals of the Group's financial management. The primary goals are to safeguard liquidity and limit financial risks. Despite the current low interest rate level, our goal is therefore not to enter into any risks from the investment of the Group's cash funds. To ensure this, these funds are held in bank accounts at domestic credit institutions until they are needed to finance acquisitions.

There are no plans to pay dividends until further notice under BCM Group's dividend policy. The aim is to invest existing cash funds to acquire high-margin, fast-growing technology companies.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk essentially arises from trade and other receivables. The carrying amounts of financial assets represent the maximum exposure to credit risk. The Group had cash and cash equivalents of €123,544 thousand at 31 December 2020 (previous year: €17,171 thousand). This amount thus represents the maximum exposure to credit risk relating to these assets. The Executive Board continuously monitors the financial situation of the banks where credit balances are held.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, the Executive Board also considers the characteristics of the overall customer base, including the credit risk of the industry and countries in which customers operate, as these factors can also have an influence on credit risk. Detailed disclosures on the concentration of revenue in certain areas can be found in Note 9.

The general economic conditions in Germany, in the eurozone and in Asia and America are actively observed. The Group limits its credit risk exposure from trade receivables by taking out trade credit insurance or by agreeing advance payments for larger orders.

To determine any necessary loss allowances, the Group has introduced a process that enables an assessment of expected losses on trade receivables. Please refer to Note 22 for further information.

The maximum exposure to credit risk from trade receivables on the reporting date is as follows. Trade credit insurance and letters of credit are deducted for trade receivables or taken into account as part of the loss given default.

€ thousand	31 Dec. 2020	31 Dec. 2019
Trade receivables	7,235	5,848
Secured by trade credit insurance and letters of credit	(293)	(748)
Maximum exposure to credit risk	**6,942**	**5,100**

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. A distinction is made between three categories of risk: currency risk, interest rate risk and other market risk.

Currency risk: BCM Group is exposed to a range of currency risks because of its global footprint. A distinction is made here between transaction and translation risk.

Transaction risks: Transaction risks arise due to exchange-rate related changes in value of primary financial instruments and entering into transactions with international counterparties that result in future cash flows in foreign currency that are not denominated in the functional currency of the entity in question. As part of financial risk management processes within Group management, currency risks are monitored and, where needed, managed by the finance departments of the relevant entities using appropriate mitigating measures. The objective of risk management is to limit to an acceptable level the effects of currency risk on future cash flows. Currency risk is partially mitigated by procuring goods and services in the relevant foreign currencies. Group entities are responsible for identifying, assessing and monitoring their transaction-related foreign currency risks.

Translation risk: Some group entities are outside of the eurozone. As the consolidated financial statements are prepared in euros, the Company translates the financial statements of these entities into euros, which can result in exchange rate-related differences. Hedging these differences is not the primary objective of currency risk management. A sensitivity analysis is performed for each currency that represents a significant risk to the Company, based on the following assumptions: All of the Group's monetary financial instruments that are not denominated in the functional currency of the relevant individual entities can be used in the sensitivity analysis. As a result, translation risks are not taken into account. The hypothetical effects on profit or loss and equity for each primary line item included in the sensitivity analysis are determined by comparing the carrying amount (measured using the closing rate) with the translation value obtained using a hypothetical exchange rate. If the EUR/USD exchange rate were 10% higher, earnings before tax would be €73 thousand (previous year: €48 thousand) lower. If the EUR/USD exchange rate were 10% lower, earnings before tax would be €89 thousand (previous year: €58 thousand) higher. The Group holds financial assets and financial liabilities solely in the functional currency.

Interest rate risk: Interest rate risk arises if the fair value of financial instruments fluctuates due to changes in market interest rates. To assess interest rate risk, financial instruments are classified into fixed- and variable-rate instruments under IAS 32. Interest rate risks arise in the case of floating-rate liabilities to banks. The loans taken out by the Group are subject in part to interest rates that are linked to changes in EURIBOR.

The Group has entered into interest rate cap contracts to mitigate risks from any future rise in EURIBOR. For a reference amount of €5,688 thousand, the positive fair value of the cap at the reporting date is €0 thousand The fair value of the interest rate hedge is discounted to the reporting date and the calculation is based on a generally accepted mathematical model (Bachelier model) and on market data available at the calculation date. There are currently no material interest rate risks.

Other market risks: There are no material other market risks in the Group.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Executive Board monitors the liquidity position and current and future expected outflows of funds as part of budget planning and ongoing financial control.

The Group has secured bank loans that include covenants. Any future breach of the covenants can lead to the loans being subject to early repayment. In line with the agreements, the covenants are systematically monitored by the Group and regularly reported to the Executive Board in order to ensure compliance with the loan agreements.

The contractual remaining terms of financial liabilities at the end of the reporting period, including estimated interest payments, are presented in the following. These are undiscounted gross amounts including contractual interest payments, though the effects of offsetting are not presented.

Contractual cash flows of primary financial instruments

		Contractual cash flows				
€ thousand	Present value	Total	up to 12 months	1-2 years	2-5 years	>5 years
31 Dec. 2020						
Senior loans	45,376	(52,122)	(6,649)	(6,299)	(24,712)	(14,461)
Real estate loans	6,180	(6,901)	(472)	(467)	(1,371)	(4,591)
Lease liabilities	1,253	(1,347)	(678)	(413)	(255)	–
NCI put liability	1,451	(1,875)	–	–	(1,875)	–
Trade payables	1,488	(1,488)	(1,488)	–	–	–
Total	**55,748**	**(63,733)**	**(9,287)**	**(7,180)**	**(28,214)**	**(19,052)**
31 Dec. 2019						
Senior loans	49,583	(58,098)	(6,519)	(5,955)	(18,532)	(27,092)
Real estate loans	6,440	(6,934)	(159)	(524)	(1,987)	(4,264)
Subordinated loans	3,199	(3,793)	(133)	(1,135)	(2,525)	–
Lease liabilities	770	(792)	(439)	(331)	(22)	–
NCI put liability	1,332	(1,875)	–	–	(1,875)	–
Trade payables	2,450	(2,450)	(2,450)	–	–	–
Total	**63,774**	**(73,942)**	**(9,700)**	**(7,945)**	**(24,942)**	**(31,356)**

34. List of subsidiaries

Effective 28 May 2020, Group entity Palas (Asia) Ltd. formed the new foreign subsidiary Palas (Asia) Ltd., whose registered office is in Hong Kong. It was therefore initially included in the scope of consolidation in the reporting period.

Effective 15 July 2020, Group entity Palas (Asia) Ltd. formed the new foreign subsidiary Palas Instruments (Shanghai) Co. Ltd., whose registered office is in Shanghai, China. It was therefore initially included in the scope of consolidation in the reporting period.

IHSE Holding GmbH was merged with IHSE AcquiCo GmbH on entry of the transaction in the commercial register on 10 August 2020. The purpose of the merger was to simplify the corporate structures that had evolved from past acquisitions, with the aim of reducing complexity and administrative costs.

In addition to the parent company, twelve indirect and direct subsidiaries are included in the consolidated financial statements. The table below shows the ownership interest, the equity at the reporting date and the profit or loss for the period of the consolidated entities.

The current legal interest in Palas Holding GmbH is 70%. For information on the remaining equity interest of 30%, please refer to Note 38 regarding the application of the anticipated acquisition method.

Subsidiaries

Entity	Registered office	Equity interest	Equity (IFRS)	Profit or loss (IFRS)
Palas Holding GmbH	Karlsruhe	100.00%	25,115	3,281
Palas GmbH Partikel- und Lasermeßtechnik	Karlsruhe	100.00%	6,263	220
Palas (Asia) Ltd.	Hong Kong, China	90.00%	118	(156)
Palas Instruments (Shanghai) Co. Ltd.	Shanghai, China	90.00%	110	(140)
IHSE AcquiCo GmbH	Oberteuringen	100.00%	101,695	6,985
IHSE Beteiligungs GmbH	Oberteuringen	100.00%	22,887	–
IHSE GmbH	Oberteuringen	100.00%	11,538	–
IHSE Immobilien GmbH	Oberteuringen	100.00%	1,987	37
IHSE USA LLC	Cranbury, NJ, U.S.A.	100.00%	2,722	1,379
IHSE GmbH Asia Pacific Pte Ltd	Singapore	100.00%	1,496	331
BCM Erste Beteiligungs GmbH	Frankfurt am Main	100.00%	25	(2)
BCM Zweite Beteiligungs GmbH	Frankfurt am Main	100.00%	25	(2)

35. Research and development expenses

The Group's research and development expenses were €2,054 thousand (previous year: €345 thousand) in the reporting period, of which €1,976 thousand (previous year: €265 thousand) was attributable to research expenses and development expenses not eligible for capitalization and €78 thousand (previous year: €80 thousand) was attributable to amortization of capitalized development expenses.

36. Share-based payments

The total expense for share-based payment transactions is disaggregated as follows.

€ thousand	2020	2019
Equity-settled	159	97
Cash-settled	83	83
Total	**242**	**180**

36.1 Equity-settled share-based payments

The Annual General Meeting resolved on 27 June 2019 to launch a stock option program for the Group's employees. The reason for establishing the stock option plan is that Group management assumes that this represents a suitable performance incentive for the beneficiaries by enhancing the value of the Group. In line with the stock option conditions, holders of exercisable options have the right to acquire shares at the share price at the grant date of the options. The options are subject to a vesting period of four years after issuance and expire if the beneficiary stops being an employee of the Group. 1/48 of the relevant allocated options vests monthly. Vesting of options is conditional on a long-term performance target, which requires a minimum 15% increase in the share price (including dividends) between the date of issuance of the options and the exercise date. They are settled in the form of new shares of the parent entity (equity instrument) against payment of the exercise price by the beneficiary. The Group is entitled, but not obligated, to pay a cash settlement to the beneficiaries instead of equity settlement.

The resolution of the Annual General Meeting authorized the Executive Board, with the consent of the Supervisory Board, to issue a total of 425,200 stock options from authorized capital. Changes in outstanding options in the reporting period were as follows:

	Number	Exercise price in €
Outstanding options at 1 Jan. 2020	77,500	30.00
In the reporting period...		
options granted	12,500	30.43
options forfeited	–	–
options exercised	–	–
options expired	(2,500)	30.00
Outstanding options at 31 Dec. 2020	90,000	30.06
Exercisable options at 31 Dec. 2020	–	–

* Weighted average exercise prices of stock options

All outstanding options at the reporting date have exercise prices between €30.00 and €32.00. The average weighted remaining term is 2.8 years.

Options are measured at the issue date using a Monte Carlo simulation. The parameters used to measure the options are shown in the following:

Measurement parameters	
Weighted average share price	€30.08
Weighted average exercise price	€30.06
Term of options	4 years
Expected volatility	19.5% – 25.8%
Expected dividend yield	0.0%
Risk-free rate	0.0%

A percentage rate of zero was defined for the dividend yield as the option conditions include an adjustment mechanism. This mechanism provides for a reduction in the exercise price in the amount of the dividends paid per share over the term of the option. Early exercise of options was not taken into account in the measurement as this is not generally anticipated. The expected volatility was determined using the historical volatility of the share prices of comparable companies. The expected volatility is based directly on historical volatility in this respect. To determine the fair value of options, the performance target of a 15% increase in the share price over the term of the options was considered as an additional feature by eliminating the option proceeds on simulated prices below the performance target in the Monte Carlo model.

36.2 Cash-settled share-based payments

A cash-settled share-based payment agreement was entered into that allows beneficiaries to participate in cash payments arising from an exit event in respect of their put options on shares from subsidiaries after a period of five years. The agreement requires the completion of a defined service period in future during which the service must be provided continuously.

20% of the shares of beneficiaries are earned in annual tranches and subsequently vest over a period of five years. The agreements stipulated an initial cliff vesting requirement of twelve months. In a bad leaver event, the Company is obligated to pay the lower of the cost of the share participation of the relevant beneficiary and the current market price of the shares at the time of this event. In the case of a good leaver event, in respect of the vested participation, the Company is obligated to pay the current market price of the pro rata participation of the relevant beneficiary and, in respect of the non-vested participation, the pro rata entry costs incurred for the non-vested participation. A bad leaver event is typically triggered when the employment agreement between the beneficiary and the subsidiary is terminated for good cause, or the beneficiary terminates the employment agreement without there being any good cause within the control of the group entity. A good leaver event is typically triggered when the employment agreement is terminated with due notice by the subsidiary. In respect of the amount of entry costs, the discounted amount is presented as a financial liability (see Note 28). The remaining entitlement of beneficiaries is recognized as a provision. This includes a component for the work performed, with the change for this being recognized in personnel expenses according to IFRS 2 and a component for the annual remeasurement of the Group's obligation, with the change for this being recognized in the financial result. The personnel expense component was calculated at the issue date of the put option using the Black-Scholes model. The parameters used to measure the options are shown in the following:

Measurement parameters	
Fair value at issue	€1,875 thousand
Exercise price	€1,875 thousand
Term	5 years
Expected volatility	25.0%
Expected dividend yield	0.0%
Risk-free rate	0.0%

A percentage rate of zero was defined for the dividend yield as dividend distributions by the entity concerned are highly unlikely over the term. Early exercise was not taken into account in the measurement as this is also highly unlikely. The expected volatility was determined using the historical volatility of the share prices of comparable companies. The expected volatility is based directly on historical volatility in this respect. No further material inputs were considered in the determination of fair value. Please refer to Note 38 for further information.

37. Leases

The Group leases land and buildings primarily as office space and as production and storage space. As of the reporting date, there were six leases for real estate with a remaining term of up to four years. Other leases have a remaining term of up to four years. Leases can include extension and termination options. The terms and conditions are negotiated individually and include a number of differing arrangements.

Right-of-use assets relating to leased real estate and vehicles are reported in property, plant and equipment (see Note 19). The following table shows right-of-use assets from leases that are reported in non-current assets.

Right-of-use assets

€ thousand	Land and buildings	Technical equipment and machinery	Total
Balance at 1 January 2020	518	242	760
Additions to right-of-use assets	835	186	1,021
Depreciation of right-of-use assets	(456)	(87)	(544)
Exchange differences	(4)	–	(4)
Balance at 31 December 2020	**893**	**341**	**1,233**
Balance at 1 January 2019	–	–	–
Amount recognized from initial application of IFRS 16	503	103	606
Acquisitions through business combinations	106	140	247
Additions	177	69	246
Depreciation and impairment losses	(268)	(70)	(338)
Balance at 31 December 2019	**518**	**242**	**760**

38. NCI put

On 6 December 2018, BCM AG acquired 70% of the shares of Palas Holding GmbH, with the remaining 30% held by Palas's managing shareholder. Under an option agreement, BCM AG has committed to the other shareholder to acquire their 30% interest at a later date. The option can, but does not have to be, exercised by the other shareholder in the course of 2024, with the exercise price depending on Palas's EBITDA and net financial liabilities in 2022 and 2023. The purchase price for the 30% interest may be paid in the form of BCM AG shares or in cash, at BCM AG's discretion. The Group applies the anticipated acquisition method to the 30% interest. Under this method, the acquisition is presented as if the other shareholder had already exercised their purchase option. This means that, since the acquisition date of the majority interest in 2018, the shares underlying the purchase option are already deemed to be acquired. Consequently, no non-controlling interests are presented in relation to Palas Holding GmbH. The obligation under the option is recognized in the consolidated statement of financial position partly as a provision and partly as a financial liability.

NCI put liability | The financial liability relates to the share of the purchase price of €1,875 thousand paid by the other shareholder for the shares they acquired as part of the acquisition. At each reporting date, the discounted present value of this amount is reported and the unwinding of the discounting is recognized in profit or loss in each reporting period.

NCI put provision | The provision relates to the vesting of a share-based payment component (see Note 36.2) and to the remeasurement of this obligation at each reporting date. In the first instance, the NCI put provision increases each year by the share-based payment component of €83 thousand. In addition, the potential entitlement of the other shareholder is remeasured at each reporting date, based on the assumption that the other shareholder would already be allowed to exercise the option. The difference between this claim and the obligation already recognized as a liability under the NCI put liability and the NCI put provision is added to the provision by way of a financing cost from remeasurement.

The following overview shows the effects of applying the anticipated acquisition method to the NCI put on the profit or loss, as well as on the consolidated statement of financial position.

Effects of the NCI put in the consolidated financial statements

€ thousand	2020	2019
Effects in statement of comprehensive income		
Personnel expenses from share-based payments	(83)	(83)
Finance cost from unwinding of the discounting	(119)	(109)
Finance cost from remeasurement	(1,496)	(245)
Effect on profit or loss	**(1,697)**	**(436)**
Effects in statement of financial position		
NCI put liability at 1 January	1,332	1,223
Unwinding of the discounting	119	109
NCI put liability at 31 December	**1,451**	**1,332**
NCI put provision at 1 January	327	–
Personnel expenses from share-based payments	83	83
Finance cost from remeasurement	1,496	245
NCI put provision at 31 December	**1,905**	**327**

39. Related party transactions

Related parties are considered to be entities and individuals who are able to control BCM Group or to exert significant influence on its financial and business policies. Such entities and individuals include key management within the Group and entities that are controlled by key management personnel or are under their significant influence.

Key management personnel

In respect of the Group, key management personnel include the members of the Executive Board and Supervisory Board of BCM AG and the managing directors of the subgroup parent companies (IHSE AcquiCo GmbH and Palas Holding GmbH).

Members of the Supervisory Board subscribed for a total of 4,063 new shares of the Company at a price of €32.00 per share in the course of the capital increases in the reporting period. The total volume was thus €130 thousand.

Members of the Executive Board subscribed for a total of 83,046 new shares of the Company at a price of €32.00 per share in the course of the capital increases in the reporting period. The total volume was thus €2,657 thousand.

Members of the management of subsidiaries subscribed for a total of 10,625 new shares of the Company at a price of €32.00 per share in the course of the capital increases in the reporting period. The total volume was thus €340 thousand.

As part of the retransfer in full of Share Loan I, BCM AG retransferred 17,153 shares of the Company to members of the Executive Board in the reporting period. Additionally, members of the Executive Board transferred 65,234 shares of the Company under Share Loan II in February 2020 on the basis of an uncompensated securities loan. Following the Company's initial listing, these shares from Share Loan II were also retransferred in full to the members of the Executive Board. The Company thus did not hold any of its own shares on loan as of the reporting date. Owing to the structuring of the legal function of the share loans, the volume of the transactions is presented with a value of zero. Please refer to Note 25.1 for further information.

One member of the Supervisory Board advised the Group as an industry expert in the software/ IT sector in the course of due diligence examinations to evaluate potential acquisitions.

Other related parties

Executive Board members hold positions in other entities in which they are able to control or significantly influence the financial and business policies of those entities. Some of those entities conducted transactions with BCM Group in the reporting period.

Brockhaus Private Equity GmbH, whose registered office is in Frankfurt, holds 2.4% of the voting rights in the Company at the reporting date and is controlled by members of the Executive Board of BCM AG. A service relationship existed with Brockhaus Private Equity GmbH in the reporting period. This service relationship arises from the recharging of costs paid in advance by Brockhaus Private Equity GmbH for BCM AG that represent expenditures of BCM AG. There was also a service relationship under a sublease agreement in the reporting period.

Falkenstein Heritage GmbH, whose registered office is in Wetzlar, holds 19.3% of the voting rights in the Company at the reporting date and is controlled by a member of the Executive Board of BCM AG.

Falkenstein Heritage GmbH and Brockhaus Private Equity GmbH are parties to Share Loan I and – as part of this – received their retransfers in full of a total of 385,932 shares of the Company in the reporting period. Owing to the structuring of the legal function of the share loan, the volume and of the transactions is presented with a value of zero. Please refer to Note 25.1 for further information.

	Value of transactions		Outstanding balances	
€ thousand	2020	2019	31 Dec. 2020	31 Dec. 2019
Key management personnel				
Issue of shares	3,127	5,224	–	–
Due diligence consulting	38	–	–	–
Other related parties				
Sublease	106	114	–	–
Cost recharges	3	1	3	–
Acquisition of subsidiaries	–	97,233	–	–

40. Events after the reporting period

There were no significant events after the reporting date.

41. Auditor's fees

The auditor's fees show the fees of KPMG AG Wirtschaftsprüfungsgesellschaft recognized as an expense for the services provided to Brockhaus Capital Management AG and to the consolidated subsidiaries. They are disaggregated as follows:

€ thousand	2020	2019
Financial statement audits	362	241
Other assurance services	428	7
Other services	21	28
Total	**811**	**276**

In fiscal year 2020, the financial statement audit services relate to the audit of the consolidated financial statements and the annual financial statements, as well as to all services required for the audits of the financial statements and the review of interim financial statements. Other assurance services in fiscal year 2020 contain the issuance of comfort letters, preparatory activities for such comfort letters, the review of pro forma financial information and the issuance of attestations. The other services in fiscal year 2020 relate to translation services. The fees not attributable to the audit of the consolidated financial statements or the annual financial statements relate primarily to the initial listing in the financial year.

42. Employees

The following overview shows the average number of employees in the Group:

Average number	2020	2019
Full-time	146	68
Part-time	48	25
Other	17	8
Total employees	**211**	**101**

The number of employees as of the reporting date was as follows:

Number	31 Dec. 2020	31 Dec. 2019
Full-time	158	137
Part-time	52	47
Other	21	17
Total employees	**231**	**201**

43. Governing bodies of the Company

The members of BCM AG's Executive Board are:

> Chairman of the Executive Board (CEO): Marco Brockhaus, Königstein im Taunus

> Member of the Executive Board (COO/ Legal Counsel): Dr. Marcel Wilhelm, Kronberg im Taunus

The Supervisory Board of BCM AG consists of six members, unless otherwise required by law and was composed of the following five members in the reporting period:

> Chairman: Dr. Othmar Belker, Managing Director of Murnauer Markenvertrieb GmbH, Kleinwallstadt

> Deputy Chairman: Michael Schuster, lawyer in private practice, Königstein im Taunus

> Member of the Supervisory Board: Andreas Peiker, entrepreneur, Königstein im Taunus

> Member of the Supervisory Board: Martin Bestmann, managing director of a consulting firm, Neunkirchen am Brand (since 26 February 2020)

> Member of the Supervisory Board: Dr. Cornelius Liedtke, entrepreneur and investor, Hamburg (since 14 September 2020)

A sixth member of the Supervisory Board was not appointed in the reporting period, with the result that one seat on the Supervisory Board was free as of the reporting date.

44. Total remuneration of members of governing bodies

The Chairman of the Supervisory Board receives annual fixed remuneration of €60 thousand, the Deputy Chairman receives €45 thousand and the other members of the Supervisory Board each receive annual fixed remuneration of €30 thousand. In addition, the members of the Supervisory Board are reimbursed for their out-of-pocket expenses and any value added tax payable on their remuneration. The remuneration of the Supervisory Board amounted to €161 thousand in the reporting period (previous year: €120 thousand).

The remuneration of members of the Executive Board amounted to €2,277 thousand in the reporting period (previous year: €883 thousand).

45. Appropriation of net profit

BCM AG's accumulated losses brought forward from the previous year, together with the net loss for the reporting period, are carried forward to new account. As of 31 December 2020, the parent entity reported net accumulated losses under German GAAP of €22,998 thousand.

Frankfurt am Main, 30 March 2021

Brockhaus Capital Management AG
The Executive Board

Marco Brockhaus Dr. Marcel Wilhelm

Responsibility statement

To the best of our knowledge and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the combined management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Frankfurt am Main, 30 March 2021

Brockhaus Capital Management AG
The Executive Board

Marco Brockhaus Dr. Marcel Wilhelm

Independent Auditor's Report

To Brockhaus Capital Management AG, Frankfurt am Main

Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report

Opinions

We have audited the consolidated financial statements of Brockhaus Capital Management AG, Frankfurt am Main, and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the management report of Brockhaus Capital Management AG and the Group (combined management report) for the financial year from 1 January to 31 December 2020.

In accordance with German legal requirements, we have not audited the content of those components of the combined management report specified in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

> the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB (Handelsgesetzbuch: German Commercial Code) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2020, and of its financial performance for the financial year from 1 January to 31 December 2020, and

> the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of those components of the combined management report specified in the "Other Information" section of the auditor's report.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and EU Audit Regulation No 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Impairment testing of goodwill for the IHSE cash-generating unit

Please refer to note I.5.9 of the notes to the consolidated financial statements for more information on the accounting policies applied. Disclosures on the amount of goodwill and the assumptions applied can be found under note III.20 to the consolidated financial statements. Explanatory notes on the business development of the IHSE cash-generating unit can be found in the combined management report in the "business performance" section.

THE FINANCIAL STATEMENT RISK

Goodwill in the amount of EUR 91.4 million is reported in the consolidated financial statements of Brockhaus Capital Management AG as at 31 December 2020. Goodwill represents approx. 30% of total assets and is therefore of major significance for the Group's financial position. The carrying amount of goodwill for the IHSE cash-generating unit amounted to EUR 69.4 million as at 31 December 2020, which represents approx. 23% of total assets.

Goodwill is tested for impairment annually at the level of the two cash-generating units, IHSE and Palas. If indications of potential impairment arise during the financial year, an event-driven goodwill impairment test is also carried out during the year. For the impairment test, the carrying amount is compared with the recoverable amount of each cash-generating unit. If the carrying amount exceeds the recoverable amount, an impairment loss is required. The recoverable amount is determined as value in use using a discounted cash flow method based on the expected cash flows of the cash-generating unit. The reporting date for the impairment test is 31 December 2020.

The COVID-19 pandemic had a negative impact on IHSE's revenue and earnings in financial year 2020. There is a risk that the expected future cash flows may continue to be affected by the pandemic.

Impairment testing of goodwill is complex and based on a range of assumptions that require judgement. These include the expected revenue and earnings performance of the IHSE cash-generating unit for the next five years, the assumed long-term growth rate and the discount rate used.

Based on the impairment tests conducted, the Company did not identify any need to recognise impairment losses.

There is the risk for the consolidated financial statements that any existing impairment affecting the IHSE cash-generating unit as at the reporting date has not been identified. There is also the risk that the related disclosures in the notes are not appropriate.

OUR AUDIT APPROACH

With the involvement of our valuation specialists, we assessed, among other things, the appropriateness of the discount rate applied to test the IHSE cash-generating unit for impairment. Furthermore, we discussed the expected revenue and earnings performance as well as the assumed long-term growth rates with those responsible for planning. We also reconciled this information with the budget prepared by management and approved by the Supervisory Board, as well as with the medium-term planning.

We also confirmed the accuracy of the Company's previous forecasts for the cash-generating unit by comparing the budgets of previous financial years with actual results and analysing deviations. We compared the assumptions and data underlying the discount rate – in particular the risk-free rate, the market risk premium and the beta factor – with own assumptions and publicly available information.

To ensure the computational accuracy of the valuation model used, we involved our valuation specialists to perform calculations in our own valuation model and compare the results with those of the Company. To this end, we also assessed whether the valuation methods are consistent with the applicable accounting policies. In order to take account of forecast uncertainty, we examined how changes in assumptions on revenue, the EBITDA margin and investments in perpetuity, as well as the long-term growth rate, affect value in use by calculating alternative scenarios and comparing them with the values stated by the Company (sensitivity analysis).

Finally, we assessed whether the disclosures in the notes regarding impairment of goodwill for the IHSE cash-generating unit are appropriate.

OUR OBSERVATIONS

The calculation method used for impairment testing of goodwill for the IHSE cash-generating unit is appropriate and in line with the accounting policies to be applied. The assumptions and data used to measure the IHSE cash-generating unit are appropriate.

The related disclosures in the notes are appropriate.

Other Information

Management and/or the Supervisory Board are/is responsible for the other information. The other information comprises the following components of the combined management report, whose content was not audited:

> the combined corporate governance statement for the Company and the Group referred to in the combined management report.

The other information also includes the remaining parts of the annual report.

The other information does not include the consolidated financial statements, the combined management report information audited for content and our auditor's report thereon.

Our opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

Management is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the Group's assets, liabilities, financial position, and financial performance. In addition, management is responsible for such internal control as they have determined 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, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. 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 and this combined management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report 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 these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with (German) law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on the Assurance in accordance with Section 317 (3b) HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Combined Management Report Prepared for Publication Purposes

We have performed assurance work in accordance with Section 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the combined management report (hereinafter the "ESEF documents") contained in the file that can be downloaded by the issuer from the electronic client portal with access protection, "57410a_188170(1).zip“ (SHA256-hash value: 90a7e8b9589483d6b93da4107041c0191c2eb4084c1c9c01cd9ec3 ed7a3a7d6a) and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the combined management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the combined management report contained in the above-mentioned electronic file and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying combined management report for the financial year from 1 January 2020 to 31 December 2020 contained in the "Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report" above.

We conducted our assurance work on the reproduction of the consolidated financial statements and the combined management report contained in the above-mentioned electronic file in accordance with Section 317 (3b) HGB and the Exposure Draft of the IDW Assurance Standard: Assurance in accordance with Section 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410). Accordingly, our responsibilities are further described below. Our audit firm has applied the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QS 1).

The Company's management is responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the combined management report in accordance with Section 328 (1) sentence 4 item 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) sentence 4 item 2 HGB.

In addition, the Company's management is responsible for the internal controls they consider necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The Company's management is also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and audited combined management report as well as other documents to be published to the operator of the German Federal Gazette (Bundesanzeiger).

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the assurance work. We also:

> Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
> Obtain an understanding of internal control relevant to the assurance of the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
> Evaluate the technical validity of the ESEF documents, i.e. whether the electronic file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815 on the technical specification for this electronic file.
> Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and the audited combined management report.
> Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor at the Annual General Meeting on 17 June 2020. We were engaged by the Supervisory Board on 17 December 2020. We have audited Brockhaus Capital Management AG since its initial public offering in 2020.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Markus Fox.

Frankfurt am Main, 31 March 2021

KPMG AG
Wirtschaftsprüfungsgesellschaft
(Original German version signed by:)

Fox	Kast
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Other information

Appropriation of net profit

The German GAAP net loss for the fiscal year of €16,150,540.81 of Brockhaus Capital Management AG is carried forward to new account together with the accumulated losses of €6,847,806.61 brought forward from the previous year.

Condensed Annual Financial Statements

The adjacent table shows the German GAAP condensed annual financial statements of Brockhaus Capital Management AG.

Income statement (German GAAP)

€ thousand	2020	2019
Other operating income	23	88
Personnel expenses	(3,622)	(1,583)
Amortization of intangible fixed assets and depreciation of tangible fixed assets	(16)	(12)
Other operating expenses	(12,781)	(1,855)
Interest and similar income	77	–
Interest and similar expenses	(0)	(30)
Earnings before tax	(16,319)	(3,392)
Other taxes	169	(410)
Net loss for the fiscal year	**(16,151)**	**(3,802)**

Balance sheet (German GAAP)

€ thousand	31 Dec. 2020	31 Dec. 2019
Intangible fixed assets	1	8
Tangible fixed assets	16	10
Long-term financial assets	117,205	113,966
Fixed assets	**117,222**	**113,984**
Receivables and other assets	–	129
Cash and bank balances	108,561	7,181
Current assets	**108,561**	**7,310**
Prepaid expenses	**99**	**50**
Assets	**225,883**	**121,344**
Subscribed capital	10,387	6,642
Capital reserves	236,021	119,943
Net accumulated losses	(22,998)	(6,848)
Equity	**223,409**	**119,738**
Provisions	**1,906**	**1,014**
Liabilities	**568**	**592**
Equity and liabilities	**225,883**	**121,344**

Financial calendar

15 May 2021	Quarterly Statement Q1 2020
16 June 2021	Annual General Meeting

Basis of reporting

The **reporting period** for this Annual Report is the period 1 January 2020 to 31 December 2020. The **reporting date** is 31 December 2020.

This Annual Report has been translated from German into English. In the case of any discrepancies between the two language versions, the German version takes precedence.

Rounding

The performance metrics appearing in this report have been rounded in line with standard commercial practice. Due to this rounding method, the individual amounts reported do not always add up precisely to the totals presented.

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Chair of the Supervisory Board: Dr. Othmar Belker

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