tern

Report & Accounts

For the year ended
31 December 2019

We partner with entrepreneurial management teams with disruptive ideas and accelerate their success and value creation for our shareholders.

We work with and invest in founders who are passionate about creating groundbreaking IoT technologies which transform the healthcare, manufacturing and security sectors.

We provide Seed and Series A capital to companies which can demonstrate market validation and have clear competitive advantages in the UK and Europe. We champion entrepreneurial spirit, providing hands-on support and expertise which adds value, creates new international opportunities and helps overcome challenges for the benefit of all stakeholders.

The size of our initial investment ranges from **£250,000** to **£5 million**, but most often between **£1 million** and **£2 million**.

Leadership

Founded in 2013, London headquartered Tern PLC is an AIM listed investment company which backs bold entrepreneurs who have a vision to drive change through IoT technology.

Our team includes former Founders, CEOs and Chief Risk Officers of successful technology companies who have domain expertise covering a range of different areas including crypto, distributed systems to industrial controls, security and financial services.

We have a strong track record of creating new commercial opportunities in Silicon Valley. Our network provides companies with access to a broad ecosystem of potential partners which can be leveraged to accelerate market penetration and innovation.

Go-to-Market Expertise

Our unique approach empowers entrepreneurs to globalise and grow their companies at a rapid pace. As well as providing capital, we partner with companies and actively support product, pricing and global strategies to drive revenue growth.

One Team and a World of Opportunity

Tern has a deep domain expertise and insight into our industries of focus which we channel into every investment we make. We are investors, operators, technologists and entrepreneurs. By combining deep sector knowledge, a collaborative team structure, and the broad perspective scale brings, we show up early, dive deep and make things happen.
We draw on the diversity of our experiences to help the companies we invest in get bigger faster, whether that involves building out teams, mentoring their CEOs or making introductions to potential commercial partners.

We are building a premier technology investment company by fueling the growth of disruptive enterprise technology companies to generate returns for our shareholders.

People are the driving force behind every successful business, including ours.

Company Information

DIRECTORS	Ian Ritchie Albert Sisto Sarah Payne Bruce Leith Alan Howarth Matthew Scherba (appointed on 30 March 2020)
SECRETARY	Sarah Payne
REGISTERED OFFICE	27/28 Eastcastle Street London W1W 8DH
COMPANY'S REGISTERED NUMBER	5131386
AUDITOR	Nexia Smith & Williamson 25 Moorgate London EC2R 6AY
NOMINATED ADVISER AND JOINT BROKER	Allenby Capital Limited 5 St. Helen's Place London EC3A 6AB
JOINT BROKER	Whitman Howard Limited 1-3 Mount Street London W1K 3NB
REGISTRARS	Share Registrars Limited The Courtyard 17 West Street Farnham Surrey GU9 7DR
BANKERS	Handelsbanken 5th Floor 13 Charles II Street London SW1Y 4QU
CORPORATE LAWYERS	Reed Smith The Broadgate Tower 20 Primrose Street London EC2A 2RS

Highlights of 2019

- Further validation of business model through a successful Series A fundraise for FundamentalVR and a move from a services to a product business for InVMA
- Notable commercial successes in portfolio including new strategic customer contracts for all principal portfolio companies
- Year-on-year turnover of principal portfolio companies from 2018 to 2019 increased by 27% (2017 to 2018: 58%)
- 31% year-on-year increase in employees within principal portfolio companies from 2018 to 2019 (2017 to 2018: 52%)
- Additional capital raised of £3.25 million before expenses with £2.5 million of this put to work in existing portfolio companies to enable growth and generate outside interest

Net asset growth of 13%, including portfolio value increase of 20%

31 December	**2019 £'000**	2018 £'000	2017 £'000
Total Assets	**19,065**	17,009	11,069
Net Assets	**18,913**	16,752	10,581
(Loss)/profit after tax	**(781)**	(313)	(1,690)

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Chairman’s Introduction

For the year ended 31 December 2019

“We are proud to provide our shareholders with exposure to exciting high-growth IoT companies”

I am delighted to report the progress that we made during 2019 in growing the effectiveness and value of our portfolio of companies in the Internet of Things (“IoT”) sector. Our mission is to identify, invest in and support entrepreneurial companies to develop IoT solutions which improve productivity, connectivity and security, leading to demonstrably increased performance for their various customers.

Tern completed two successful equity fundraisings during the period. At the portfolio company level, fresh capital from financial and trade investors was secured by Fundamental in its Series A round. We also continued to support each of our principal portfolio companies with follow-on funding and are pleased to report good progress from them all.

Our success is due to the effectiveness of our executives and during this year I was delighted to welcome Matthew Scherba to our team. Matthew has first-class experience as a technology investment executive and adds considerably to our team’s ability to identify opportunities and to support our existing portfolio. I would like to take this opportunity to thank all of our executives for their hard work over the year.

The recent restrictions imposed in the wake of the COVID-19 pandemic has brought fresh challenges to our portfolio companies and we have been careful to maintain their effectiveness while also ensuring the wellbeing of all employees. A weekly conference call with all the CEOs from our principal portfolio companies and Tern Directors has created valuable opportunities to provide advice, support and partnerships which are forming positive and constructive outcomes.

This is an exciting time for venture capital, and we remain proud to enable access for our shareholders to share in the opportunities and value offered by exciting high-growth IoT companies.

Ian Ritchie
Chairman

CEO's Statement

For the year ended 31 December 2019

"2019 was a year of business model validation. Leveraging the foundations built in 2018"

Introduction

2019 was a year in which we began to execute fully on our transformed business model, leveraging the work accomplished by the Company in 2018. We made material progress on the goals that we set out for Tern and our principal portfolio companies. As always, we set out right from the start to help our portfolio companies to build significant businesses in big markets where there is a clear demand for their services. By investing early in businesses, there is an opportunity to build NAV and NAV per share materially over a number of years. During the year, a key achievement was FundamentalVR's ability to capitalise on the work and capital delivered in 2018, by closing a Series A financing round at a valuation which represented a 27% uplift on the investment of £1.9 million made by the Company in FundamentalVR in May and October 2018.

Tern invests in technology companies in the Internet of Things (IoT) space across the categories of healthcare, security, networking and data analytics. We have moved from taking large stakes in these exciting companies to now establishing positions of influence of 25% or more at the seed, early stage Series A and Series A investment rounds. We back intrepid entrepreneurs who are seeking to change the future through the products and technologies they have and are developing with our early funding; providing active involvement and support to succeed at becoming a global force.

We do this, as early investors, by thoroughly understanding the companies in which we invest. Our bottom-up investment process requires rigorous due diligence on companies and market analysis. We meet with company management, competitors and suppliers while conducting a deep dive into the underlying business fundamentals to establish our investment thesis based on ensuring the quality of a company.

As part of our process we look to answer three key questions before making a commitment, to determine the scalability and sustainability of the company's competitive advantage and how it can be monetised to achieve rapid growth:

- Does the company have a disruptive technology or is it insulated from disruptive change?
- Can the company rapidly demonstrate financial strength with low capital intensity and high returns on invested capital with downstream high margins and strong cash conversion?
- What, if any, are the environmental or secondary consequences created by the company, or governance and accounting risks that could alter our investment thesis?

We believe that this improved approach to investing early with a chance to steer their strategy and product focus provides for an efficient use of our capital and resources that will result in higher returns for our shareholders at the time of realisation. Building on this momentum we are looking to add exciting new investments and create additional value from our existing ones in the year ahead.

Operating Review

Significant progress was made in many areas of our business in 2019 and the adoption rate of IoT products and technologies continues to accelerate. During 2019, we supported our principal portfolio companies and their mission of value creation with our financial and active involvement. This support was reflected in the net asset value per share of our portfolio remaining broadly stable at 7.0p (FY19: 7.1p) which included a 20% increase in the absolute portfolio value. Our total operating costs during 2019 remained comparable to 2018 at £1.3 million (2018: £1.3 million). The administration costs increased by £0.2 million, which was offset by an equivalent reduction in other expenses. The majority of the administration cost increase was due to an increase in Directors' fees and professional fees from advisors based in the USA. Directors fees have increased to bring them more in line with the average in the market and to enable effective recruitment. The majority of the other expenses were the result of the Company exploring an opportunity to substantially expand its portfolio through a strategic initiative. However, after careful due diligence and with the

CEO's Statement

For the year ended 31 December 2019

support of our advisors, the Board decided not to pursue the opportunity any further.

During 2019, our principal portfolio companies continued to leverage the gains made in 2018 and to develop new opportunities for accelerating their growth. Progress was made by our principal portfolio companies in securing new customers and market partnerships that has led to their expansion, as demonstrated via our key metric, the delta in aggregate revenues and headcount year over year. We believe that these are indicators of market acceptance and the future growth potential of our principal portfolio companies. The Directors continuously weigh the possible returns of our potential new investment opportunities in accordance with the circumstances and opportunities that could be created by committing our resources to a new investment (or additional funds to an existing investment). By doing so, we attempt to validate if the continued progress by our portfolio companies is creating lasting value that can create attractive returns for our shareholders.

The Directors of Tern are also pleased by the efficient use of capital by our principal portfolio companies in the monies spent to date to build their products and brands, which we believe is competitive to their peer groups in respect of reaching similar stages of development. During 2019, Tern raised an additional £3.25 million before expenses of which £2.5 million was re-invested into existing portfolio companies via equity or loan note instruments to support their continued progress. This progress produced an aggregate turnover by our principal portfolio companies for the year ended 31 December 2019 which was 27% ahead of the turnover achieved in 2018. The percentage increase would have been higher had there not been the impact of commercial orders that were expected to be signed during Q4 2019 being delayed, in many cases, because our principal portfolio companies continued to negotiate to achieve better outcomes. Some of these transactions were announced in late 2019 and others were announced in early 2020, contributing to a strong start to the year for these businesses, with others being anticipated to follow. The Directors believe the 31% increase in aggregate employees across the principal portfolio companies in 2019, compared to 2018, will provide a strong foundation for continued revenue growth and market share expansion in 2020.

Tern is focused on carefully expanding its portfolio by selecting the most innovative and promising companies from the wide array of opportunities that we meet, which we believe can become category leaders in the IoT markets they target. In the year ahead, we are planning to expand our sourcing geography beyond the UK into Europe. This should increase the number and quality of opportunities that we consider and also mitigate the potential volatility in the capital markets as the final Brexit outcomes are determined. We are searching for investments in disruptive early-stage IoT companies, which have developed market changing technologies for the healthcare and industrial IoT markets. These are markets that have already received significant investment and that are looking for new ways to enhance outcomes and increase productivity. For example, the IoT healthcare market size is projected to reach US$534.3 billion by 2025 expanding at a CAGR of 20% between 2019 and 2025, according to a report by Grand View Research, Inc. (March 2019). The global Industrial Internet of Things (IIoT) market is expected to reach a value of US$922.62 billion by 2025, according to a Million Insights report (March 2019).

By opening up to new markets, we believe we will also broaden the potential to syndicate follow on funding rounds with a broader set of financial and strategic investors. This should de-risk our position by the syndication of the later rounds with a blend of strategic and financial investors who add their resources to facilitate the scale up of the portfolio company's business. Our investment committee also believes that important environmental, social and governance (ESG) factors are integral to assessing the quality of a company and thus become an important part of our investment process. Today, for example, our portfolio companies are helping to address these challenges by improving health care outcomes and the ability to help measure and reduce carbon-based energy consumption.

We have a deep respect for the entrepreneur and the company building process and throughout 2019 we saw progress, growth and industry recognition for our principal portfolio companies. Our financial priorities continue to be concentrated on accelerating the progress of our principal portfolio companies' commercial success; value creation; robust realisations and the addition of new investments by:

- Investing in and creating businesses which have market validation and competitive advantages;
- Providing hands-on support to achieve value creation and making introductions which help our companies achieve scale and a presence in the USA;
- Strengthening management and boards where appropriate;
- Syndication of post-seed round investments in our companies, focusing on relevant strategic and financial investors, to provide validation, and additional growth capital that de-risks the path to commercial success and monetisation; and
- Exploring innovative ways to expand the synergistic benefits of our portfolio.

CEO's Statement
For the year ended 31 December 2019

Providing a greater opportunity to create and return value to our shareholders is our primary objective and we remain committed to expanding our portfolio during 2020 with companies that leverage our strong positioning in the IoT space. Our deal flow remains strong and this critical goal will be our focus for 2020 and beyond to fuel the growth of our NAV per share and to increase the opportunities to generate realisations and returns for our shareholders.

Investments and Portfolio Update

Throughout the year Tern has invested in the teams, technology and product development and brand building of our principal portfolio companies. We believe that we have further scaled our principal portfolio companies with our investment support, introductions to strategic partners and, in the case of FundamentalVR, crystallising new sources of capital from the syndication of a follow-on funding round. Through this strategy we have enabled our principal portfolio companies access to the capital they need to grow and scale up their business.

Device Authority

56.8% holding; Invested since 2014

$3.3 million convertible loan

At Device Authority the company has expanded and refined its go-to-market partners resulting in a growth in product sales and active customer engagements. Using this active partner base, the company is developing a sales and support model that has improved its ability to scale and add to growth. Also, the focus on healthcare (Medical IoT: MIoT), high value manufacturing/production (Industrial IoT: IIoT) and most recently, the connected car (Automotive IoT: AIoT) has created efficiencies in product development processes and created opportunities for follow-on business. A significant investment by Device Authority in 2019 was to enhance its ability to penetrate the large enterprise markets with its Microsoft Azure IoT central connector. This key enhancement to Device Authority's KeyScaler product is designed to leverage the investment in IoT deployments by Microsoft Azure's large customer base by providing an end-to-end service offering in the cloud with enhanced security. We believe that this product alignment with Microsoft represents an important new segment for Device Authority's growth and continued leadership in the IoT security market.

FundamentalVR

26.9% holding; Invested since May 2018

FundamentalVR is an example of Tern finding a disruptive opportunity, investing early in order to help shape their business model and making an investment at a reasonable value and share of the business. On 30 October 2019, within seventeen months of our initial investment, FundamentalVR secured a £4.3 million Series A fundraise, including a £0.5 million convertible loan note conversion by Tern, at a post-money valuation of £11.3 million. We believe that this represents a validation of the Tern investment strategy. This syndicated transaction represents an increase in fair value within a year from Tern's most recent investment, introducing strategic and financial investors to our portfolio company and reducing the risk profile of Tern's investment to its shareholders. FundamentalVR's Virtual Reality Haptic Simulation platform technology is now being used by an array of customer groups including medical device companies, pharmaceutical companies and medical centres.

InVMA

50% holding; Invested since September 2017

£50k convertible loan

We are also pleased with the transformation of InVMA. During 2019 the company enhanced its business model from being strictly an engineering design and services company to a product company with a very experienced services component. This enhanced business model is the culmination of Tern's original investment thesis for InVMA which involved changing its market value model from a services company, which the Directors believe are generally valued on a one times revenue basis, to a product company, which the Directors believe are generally valued on a multiple of revenues. Now, with its first product AssetMinder, it has the opportunity for revenue and customer growth that is emanating from a cash flow neutral base. In January 2020, InVMA announced that it had secured an initial order to provide its AssetMinder solution to a global, multi-billion Euro supplier of products to the global industrial and construction markets. This was a critical endorsement of the product and the work done by InVMA's management.

Wyld Networks

100% holding; Invested since 2016

£0.9 million loan note

Wyld Networks is a portfolio company that is the result of our rollup of flexiOps, Amiho Technology and Wyld Research. During 2019, assets costing less than £45,000 were added to the existing business of Wyld Networks and we supported the business with additional operating capital of £0.7 million, via a cash flow loan. Combining the various related products and technologies into one business, Wyld Networks, we believe that we have created a compelling proposition in the IoT network communications industry. During 2019 we recruited a seasoned senior executive into the business to lead the company as CEO.

The company currently has its products operating in over 300,000 smart meters and with its mesh platform has now established a unique and value enhanced product suite, delivering secure intelligent mesh solutions empowering resilient Consumer, Enterprise and potenital IoT networks to create value. Wyld Network's technology is unique in that it creates a wireless network which connects smartphones to smartphones as well as smartphones to IoT devices in a mesh architecture. It establishes a resilient and low-latency mesh network without the need to route all the traffic through the traditional hierarchical mobile infrastructure. This creates potential multiple revenue generating and cost reducing use cases in Events, Retail, Transportation, Healthcare and Smart Buildings. As a proof point, during 2019, Wyld Networks entered into an agreement with several companies, notably Delta-T Devices in the Agritech vertical and Develco in the smart metering vertical. Also, Wyld Networks was awarded a £121,000 grant by Innovate UK to collaborate on a new mass production technology, SmartDrop, for Archipelago Technology Group Ltd. An important milestone for the business.

Subsequently in early 2020, Wyld patented its technology and signed an additional three contracts, most notably with one of the world's largest Satellite operators to co-design, develop and market a software solution to enable direct sensor to satellite connectivity using LoraWan as the wireless protocol. This is unique and has the potential to dramatically enhance the business case and return on investment for the provision of satellite IoT solutions.

Outlook and Summary - Building on our progress

During the year, we executed on our strategic objectives and key performance indicators outlined in the 2018 annual report and at our AGM. As we progress in 2020, we are better positioned to build on our successes of 2019 and strive to achieve additional third-party validation of the value created in our investments, that was and is driven by the management teams who lead our portfolio companies. At Tern, we have expanded our team and resources to help drive continued progress and improved results as we work to secure the best opportunities for our value creation model.

We believe our unique and differentiated platform empowers entrepreneurs to build and grow their companies to achieve commercial success. It starts with a partnership that has deep domain expertise and years of operating experience. We help our entrepreneurs leverage our global reach, with access to our networks of businesses and contacts that can be catalysts for scale.

The IoT market opportunity is continuing to gather strength and momentum and we are positioned at the forefront of the wave. We entered 2020 well positioned to leverage this opportunity and are focused on executing our strategy for creating long-tern sustainable value creation for our shareholders.

COVID-19 Update

Companies around the world are faced with unprecedented challenges to keep essential operations moving forward amid the coronavirus pandemic. Economic recovery can only follow the recovery of public health which is the focus of every government. At Tern we have focused on the safety of our employees and the employees of our portfolio companies and we have also taken additional steps to be prepared when emphasis shifts to social well-being.

We recently conducted a fundraise of £0.8 million which at the time of writing means we do not need to furlough Tern staff but as a precautionary measure the Board have taken 20% salary reductions to protect our balance sheet. The team is also set up to work effectively from home. We have established a weekly situation video conference with the CEOs of our principal portfolio companies to provide support, advice and share recent experiences. Our portfolio companies have taken similar actions to each other, including furloughing some employees, salary reductions across the business and applying for government support where relevant.

As technology businesses, our portfolio is fortunately facing less severe challenges during the current crisis and are operating and meeting the needs of their customers and prospects by applying their technologies where appropriate to help in the support of the fight to restore public health and safety. There will be an ongoing need for technology to support continuing social distancing measures as the lockdown eases.

The risks associated with COVID-19 are considered further in principal business risks and uncertainties.

We remain optimistic about our portfolio businesses and are working to ensure they will be positioned for growth when the economy begins its recovery.

Our progress this year was driven by the management teams of our principal portfolio companies. I would like to thank them all for their unrelenting belief and commitment to their businesses and drive to make them the leaders in their respective industry segments. With the continued support of our team, our Board, our advisors and our shareholders we remain focused on accelerating the growth generated in 2019.

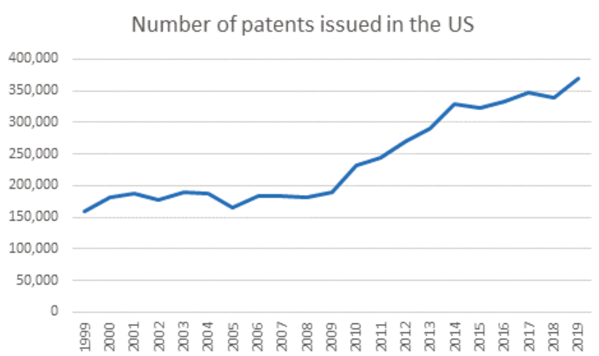
Albert Sisto
CEO

Our Markets

Adoption of IoT is increasing. Now is the time for scalable solutions which enhance service delivery, increase security and facilitate the delivery of real-time data.

Overview

Technology Innovation in today's world is moving faster than our imaginations can keep up with. This is particularly true in the IoT markets. Last year's breakthrough technology becomes the basis for tomorrow's disruptive product; a product that has the potential to transform a market into one previously unimaginable. This has always been the case, but it is now accelerating with increased production adoption. The number of patent and trademark applications is a key measure of the rate of innovation. The chart below from the US Patent and Trademark Office (USPTO), shows the increasing number of applications over the past 20 years, demonstrating the speed at which new ideas are being created to expand markets and create new ones.



Source: United States Patent and Trademark Office 2019 Performance and Accountability Report

This rate of innovation extends into our target IoT market and is further driven by increased IoT market maturity and adoption. This supports our investment thesis of investing in transformational technologies run by innovative teams that we believe will change what the world will look like in the next five to seven years. We look for opportunities where new technology-driven ideas are positioned for rapid growth to disrupt global markets and where there is strong potential for a successful exit.

Innovation that can be integrated into commercial scalable platforms for global market adoption remains central to our investment strategy. Our team has an in-depth understanding of the fundamentals of technologies such as artificial intelligence, machine learning, blockchain, and quantum computing and how these innovations can be applied to our targeted market segments of IoT Security, Healthcare, Networking and Data Analytics.

It is now becoming widely accepted that the fundamentals of the overall IoT market are in place to facilitate rapid global adoption. We continue to believe that breakthrough technology that changes how markets are served, or underpins new capabilities, will be the pervasive game-changing ingredient in businesses that will become global market leaders.

Our view that the fundamentals of the IoT market are now in place to facilitate rapid adoption, is now becoming more widely accepted by both analysts and private sector organisations through adoption. We continue to believe that immersive technology underpinned by future networks, will be the pervasive game-changing ingredients of businesses that will become globally adopted.

Growth of the IoT

The worldwide number of IoT-connected devices is projected to increase to 43 billion by 2023, an almost threefold increase from 2018.[1] Gartner has forecast that the enterprise and automotive Internet of Things (IoT) market will grow to 5.8 billion endpoints in 2020, which is a 21% increase from 4.8 billion endpoints in 2019 (up 22% from 2018)[1].

When looking at the relevance of adopting IoT, it is no longer viewed as optional, and is now on a rapid trajectory to becoming mainstream[2].

of adopters using analytics platforms using IoT data to improve business decision making
Adopters see IoT as central to digital strategy[2]

72% – adopters that say digital transformation is impossible without IoT

Adopters are also seeing ancillary benefits:

- improved collection of accurate data (48%)
- increased employee productivity (47%)
- better asset utilisation (41%)
- enhanced customer loyalty (39%)

1 https://www.uktech.news/news/gartner-forecats-20-increase-in-iot-market-by-2020-20190829
2 Vodafone Business – IoT Barometer 2019

Our Markets

Analyst forecasts are reinforced by the IoT market validation, where 74% of adopters say that within five years, those companies that haven't adopted the IoT will have fallen behind their competitors. There has been a significant acceleration of the number of companies adopting IoT, rising by over a third (34%) during 20192. The scale and importance of IoT projects has also increased, with growth being driven by significantly reduced barriers to entry, simplified integration and improved security to support large-scale deployments. As IoT deployments become fundamental to operations, reliance on the data, intelligence and service delivery will rapidly become business critical.

Geography

According to Gartner's IoT market forecasts[1], the 2020 IoT device revenue generation will total $389 billion globally and will be concentrated over three regions: North America, Greater China and Western Europe. According to the same market forecasts, these three regions will represent 75% of the IoT device revenue, with North America recording $120 billion, Greater China achieving $91 billion and Western Europe totaling $82 billion.

Our focus will remain predominately the UK market, but we will also explore other key regions in Europe with hot-beds of early-stage technology, that have the potential to reshape markets. This is particularly relevant in the healthcare sector, where the convergence of technology and growth drivers have been accentuated by the current global pandemic.

IoT Enablement Trends

For companies looking to become IoT enabled, the increasing availability of off-the-shelf IoT enablement platform solutions, cost effective transformation consulting services and combined connectivity options like Narrowband-IoT (NB-IoT) and LORA (long ranged) WAN are making implementation easier and faster. The forthcoming deployment of 5G networks will drive even greater adoption and many new opportunities.

Early IoT deployments started with relatively simple use cases, but are evolving into broader, better integrated and more sophisticated applications. Learning from initial deployments, combined with the data collected, has led to the understanding that the benefits far exceed the planned ROI. These also include the enablement of additional service models that can often result in new revenue opportunities, combined with increased customer engagement such as real-time monitoring and predictive analytics. Innovation adoption in certain market areas, including remote maintenance, telemedicine and personalised healthcare, is gaining momentum from early positive traction.

Both market and customer maturity will manifest into more sophisticated product and service offerings, shifting the competitive landscape. It is also likely that late adopters to IoT strategies may find their organisations increasingly uncompetitive, prompting them to acquire innovative technology businesses to maintain profitability and growth.

Big Data – Analytics Trends

With the proliferation of IoT devices, embedded sensors will become cheaper and more advanced, increasing the volume and value of data across the IoT technology stack. Initial IoT installations solved basic problems, with data being used internally. The economies of scale to date have been insufficient to provide significant cross sector insights.

Now, with increased availability and their resultant cost-effectiveness, we believe that IoT devices will enable large-scale monitoring and detection abilities, thereby creating opportunities for the rapid adoption and expansion of real-time analytics, machine learning and artificial intelligence (AI).

Important examples that leverage this broad access to applied data are applications involving Industry 4.0, Smart Cities, telemedicine, personalised health solutions, that will be further advanced by smart networking deployments. Network implementations that are secured by scalable IoT cyber solutions. Forward thinking organisations will take advantage of the opportunities for the additional revenue potential, and the strategic business model from monetising the resulting big data insights.

Cyber Security Trends

Global Market Research forecasts that the global IoT security market size was valued at $8.5 billion in 2018, growing to almost $74 billion by 2026, a CAGR of 31.2% from 2019 to 2026[3].

Security has been one of the biggest barriers to IoT adoption. Chief Information Security Officers ("CISO"s) have problematic and costly issues to deal with as they look to implement future-proof solutions that secure, monitor, manage and scale significant numbers of IoT devices. The need for data-centric security on IoT devices will increase as ransomware attacks, malware and phishing threats on IoT devices continue, accelerated by market growth in areas such as healthcare and Industry 4.0. IoT ecosystems require layers of defense, from edge devices whose data travel over multiple networks into data centres. Security is further complicated by the need for automated identity creation, remote access, peer-to-peer communications and the inclusion of multiple communication protocols to guarantee ecosystem resilience.

3 https://www.alliedmarketresearch.com/internet-of-things-IOT-security-market

Our Markets

However, as new IoT technologies mature, the mindset is changing with 84% of IoT adopters[1] saying that security is not a reason to reject innovation. As security becomes strategically built into new IoT based applications, deployments from the outset should have security elements built into devices at the time of manufacturing. By doing so, risks and labour costs will be significantly reduced creating opportunities for new deployments and market expansion. Additionally, companies will seek to employ automated IoT device life-cycle management and identity management solutions to achieve the scale needed by large-scale deployments in automotive, IIoT and medical device uses. Requirements created by the Covid-19 crisis, we believe, will result in increased remote monitoring and telemedicine innovations along with the companies and technologies to deliver them. This is a market segment where there will be ongoing opportunities for investment and value creation.

Connectivity and Networking Trends

There is no one-size-fits-all IoT protocol and IoT device communication of data remains a growing critical component to successful IoT deployment at scale.

IoT devices require secure, stable, and robust connectivity, built with simplicity of deployment to support the increasing dependency on wireless networks. Today, many IoT devices are located in remote areas with limited or no connectivity. Low cost network access is needed to send and receive reliable data without, for example, the need for power-intensive transmitters, that remain a significant barrier to adoption. Cellular networks, other than for GPS, are not optimal for low-cost IoT devices that only periodically transmit small amounts of data. We believe that the current adoption of standardised IoT communication protocols will be key to growth of the IoT market, with the following technologies fueling greater adoption and opportunity.

LoRaWAN (“Long Ranged Wide Area Network”)

LoRaWAN is a wide area network protocol specifically designed for supporting vast networks of low-power devices. For example, smart cities use this kind of protocol. LoRaWAN is low cost, low bandwidth (data rates between 0.3-50 kbps), and provides bi-directional communication. It has been primarily deployed in urban areas, where the range varies from 2 km to 5 km, but is increasingly being deployed in suburban areas, where the range is close to 15 km.

NB-IoT (“Narrowband-IoT”)

NB-IoT, also known as LTE Cat NB1, is a Low Power Wide Area (LPWA) network technology standard used to connect a wide range of smart sensors operating in the licensed spectrum of a wireless cellular network to ensure secure and reliable connectivity. It has been adopted by most major telecom providers, with costs expected to further rapidly decrease as demand increases.

The global NB-IoT market size is expected to reach over $6 billion by 2025, with a CAGR of 34.9% between 2019 to 2025 (Grand View Research, Inc, July 2019). It is a lower cost solution that provides a low bandwidth capability to service the growing demand for two-way data technologies to secure, track and monitor global assets and people across digital health and smart city applications. We believe that demand is expected to aggressively grow, especially with requirements for low power, broader coverage that can extend to indoor and underground.

Telemedicine/Personalised Healthcare Trends

IoT communications and IoT healthcare technology is converging, creating a personalised health tracking requirement with medical applications, creating telemedicine opportunities that transform GP/hospital interactions, while reducing costs and improving care and outcomes. Telemedicine is the use of technology that enables remote healthcare. Recent events have created a global awareness of the need for digital health devices primarily focused on the healthcare sub-segments of diagnostics, urgent care and remote patient monitoring. The delivery of these new solutions will provide new insights that engage patients in ways that were not previously possible.

Significant barriers to large scale adoption remain, including clinical approvals, data privacy and security, clinical system integration, reimbursement, communications and battery life expectancy. However, we expect this market to rapidly develop as the global population continues to grow and live longer and healthcare costs rise. Market forecasts support our expectations, as the telemedicine market is forecast to grow by a CAGR of 19.3% from 2019 to 2026 to reach a global market size of $175.5bn by 2026 (Global Market Insights, April 2020).

The treatment of chronic diseases represents 90% of the $3.5 trillion of US annual healthcare expenditure, according to the Centers for Disease Control and Prevention. We believe that this cost can be reduced significantly by disruptive technologies that offer more automated chronic disease products using big data and AI insights. We will continue to investigate and pursue opportunities in this area. Additionally, the convergence of activity-based and medical-grade tracking with big data and AI will provide clinicians and insurers with previously unavailable insights on how to manage and treat patients using proven incentivised programmes that significantly

Our Markets

reduce costs while improving patient outcomes. These insights also enable new revenue channels for treatment of more difficult areas with novel new products.

Healthcare payers are increasingly driving healthcare organisations to digital therapeutics and big data solutions, which manage expensive procedures and medication to better understand how to reduce costs. As a result, hospitals, clinics and care facilities have started to trial and adopt telemedicine and more personalised, convenient care, protocols underpinned by data-driven AI and real-time communications. This is with the goal of improving diagnosis procedures and maintaining continuous monitoring to create personalised patient treatments. This is a significant transition in the delivery of digital healthcare reimbursement models, linked to data-driven clinical decisions, that result in improved patient outcomes.

We believe that the pace of technology-driven adoption of digital healthcare will accelerate further as a result of Covid-19, creating opportunities in this sector for growth that are synergistic with our current portfolio assets. The M&A activity in the segment is also reflecting the importance of this area of technology convergence with a number of recent acquisitive transactions by large pharma and medical device companies of innovative startup companies, for example Medtronics recent acquisition of Digital Surgery.

Smart Factory – Industry 4.0 Trends

Digitally connected systems enable operational teams to take advantage of new sets of capability, such as digital twins and condition monitoring, where devices can be modeled and failures can be anticipated. The IoT is what has made these breakthroughs cost-effective to implement. Simply, a digital twin is a virtual model of a process, product or service. This pairing of the virtual and physical worlds allows analysis of data and monitoring of systems to head off problems before they even occur, to prevent downtime, limit inventories of spare components, develop new opportunities and even plan for the future by using simulations. These capabilities help to boost a business' value instead of acting as a drag on a company's bottom line. Factors that boost asset longevity and uptime, reduce unnecessary expenditure and downtime, thereby adding to the value that captive manufacturing or vertical integration bring to an enterprise.

The digital transformation technologies and the companies that create them for the IIoT market are a key market segment that we are focused on and we continue to investigate synergies with our existing portfolio companies.

Outlook

In 2017 we set out to focus our portfolio building activities in key areas of the IoT. Our continued pursuit of new and exciting companies has strengthened our original premise and expanded our field of vision on the opportunities they present to us to create value. We remain resolved to refining our strategies and growing our Net Asset Value as we expand our position as a leading investment company in this exciting and expanding IoT market segment.

IoT is changing the ways in which businesses, governments, and consumers interact with the physical world. The IoT has emerged as the third wave of innovation of the Internet and is beginning to shape the future of many industries by connecting devices, people, environments, virtual objects and generating an unprecedented amount of data that will change the future.

Investment Strategy

For the year ended 31 December 2019

Access to a World of Opportunity

Tern provides AIM market investors with exposure to visionary technology businesses, with high growth potential, that want to radically disrupt global markets. We tactically invest in IoT entrepreneurs, providing support and advice which connects the dots between vision, technology product and market.

We source deals from a combination of partnerships and start-up networks as well as through events, investor relationships and market awareness campaigns. We lead early-stage investment rounds, providing exciting companies with the capital, expertise and professional contacts to accelerate their development and growth potential.

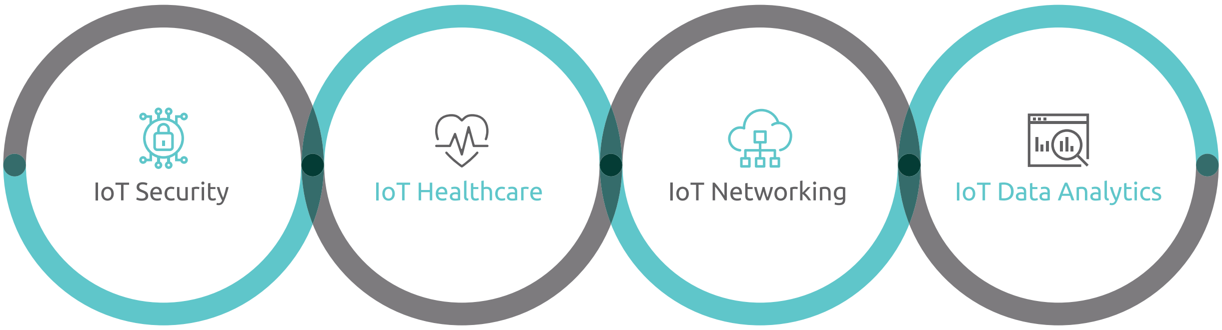
Our seed to series A investments enable us to identify early-stage disruptive technology, driven by outstanding founders. We actively work with them to catalyse their growth potential. We recognise the diversity of skills and capabilities in every management team, and actively support entrepreneurs to suit their specific requirements so that they may achieve their ambitious goals.

We invest in growth technology companies in the UK but are expanding our geographical remit to areas such as Scandinavia and the Netherlands, leveraging both the potential benefits, and mitigating the risks, associated with Brexit. Our strategy reflects the dynamic nature of growth companies, in a constantly evolving global market, and continues to adapt to find the best commercial and capital solutions aligned to our portfolio companies' requirements.

In Key Industries

Across our portfolio, visionary entrepreneurs are at the helm of current and future industry leading companies, fueling the development of technologies and products that will help keep the UK at the forefront of innovation. Our portfolio companies have access to our network of successful business leaders in each of our targeted markets to bring tremendous category insight and connections to a deeper network of expertise.

In Key Technologies



We are building a premier technology investment company, by helping drive the growth of disruptive IoT technology companies, assisting to build market leaders across a wide set of market opportunities.

Building value over time

We provide more than just capital. In addition to taking an active board seat, our operational model leverages our Directors' global entrepreneurial experience, strategic insight and network to help businesses overcome the challenges to growth.

Investment Strategy

For the year ended 31 December 2019

STAGES	INFRASTUCTURE	GROWTH	REALISE
Finance, Governance & Strategy	Establish financial controls, annual budget, key governance documents and plans.	Finalise strategy, business model and plan. Establish margin targets, SAAS models and pricing. Prepare for investment pitch deck.	Promote effective governance with CFO and Chairman. Identify exit opportunities. Complete.
Product & Technology	Drive product development plans, devops and MVP definitions. Clarity on IP strategies, complete product business plan	Secure key supply relationships, finalise MVP definition and testing plan. Deliver market ready product.	Define product roadmap with key customer involvement and deliver a release 2.0 of product.
Sales & Marketing	Test product market fit. Secure customer development partner and build commercial model and GTM plan.	Build global sales and marketing plans. Identify light house customers and refine GTM plan. Obtain industry analyst support.	Drive customer trials to completion. Full sale push and complete reseller and partner co-marketing agreements.
People & Organisation	Review organisation, ensure key people contracts and help build reward plans for team.	Enhance the business with CEO coaching. Identify competency gaps and support hiring.	Complete board structure and senior management team organisation

Investment Strategy

For the year ended 31 December 2019

Global Network

Our extensive network allows us to make product, commercial, partner and financial introductions, that help knock down barriers and shorten the curve to product market fit, growth and next round funding. We maintain strong links with investors and corporates in the USA, Europe and into Asia. We also facilitate the cross pollination of technology and customers internally within our portfolio.

Capital

We provide entrepreneurs with the necessary capital, while instilling the necessary capital controls, so that they can focus on their core business. We are patient investors, with an aim of mitigating risks, while maximising the value of our investments for our shareholders. We take an operational view that allows our portfolio companies to realise their full potential to acquisition or IPO.

Criteria

We invest in visionary founders with drive and imagination, who lead motivated teams with disruptive technology products, scalable business models and experienced management teams that are pragmatic with the ability to tactically execute on a global scale.

Geography

We are Pan-European, predominantly investing in early-stage IoT and AI companies in the UK. Operating from London and Silicon Valley, we have a single investment thesis to support the UK and Europe's robust technology community to create responsible and sustainable global companies.

Sectors

We focus on B2B companies in the IoT segments of security, healthcare, networking and data analytics with a particular emphasis on companies that provide device enablement products and use intelligence/machine learning, with brilliant entrepreneurs who have a proven track record in developing businesses.

Future developments

Tern has undertaken a series of initiatives to position the Company for lasting success in its focused market sectors, as explained in the CEO’s Statement. We continue to build a portfolio of investments and a pipeline of investment opportunities in fast growing IoT and AI markets with an emphasis on companies delivering responsible and scalable solutions for healthcare, security, networking and data analytics with global market potential.

The Board has given consideration to the impact of Brexit on the investment portfolio and has concluded that it does not envisage a material impact on performance given the majority of opportunities for the portfolio are in the UK and the USA. Brexit impact has also been considered within the principal business risks and uncertainties set out later in this section.

The Board has given consideration to the impact of COVID-19 and its view is set out in the CEO Statement and principal business risks and uncertainties.

Investing Policy

Tern’s investment policy is to invest principally, but not exclusively, in the information technology sector within Europe. The Directors believe that the Company can invest in and acquire information technology businesses, improve them by a combination of new management and investment and realise the value created which will be returned to shareholders. The Company may be either an active investor and acquire control of a single company or it may acquire non-controlling shareholdings. Once a target has been identified, additional funds may need to be raised by the Company to complete a transaction.

The Directors see IT as having considerable growth potential for the foreseeable future and many of the prospects they have identified are in this sector. The Company has invested in six investee companies, four of which comprise the principal portfolio companies and the Directors believe there are further opportunities to invest in and acquire established IT businesses which have good technology, marquee customers and could better exploit their assets with the injection of experienced management and new funds with the intention of creating value for shareholders.

Although the main focus of the investment policy has been on the exploitation of IT businesses, which the Directors intend to continue; this will not preclude the Company from considering investment in suitable projects in other sectors where the Directors believe that there are high-growth opportunities.

Investment Strategy

For the year ended 31 December 2019

The Directors believe the main driver of success for the Company is the expertise that can be provided by the Directors to the management involved in its investee companies and the value creation that the team of people is capable of realising. The Company is, and intends to continue to be, an active investor. Accordingly, it has sought and may seek in future investments, representation on the board of investee companies.

The new capital available to the Company will be used to support and assist its investee companies to grow, where appropriate, and used to locate, evaluate and select investment opportunities that offer satisfactory potential capital returns for shareholders. The Company may require further funds in order to invest further in its principal portfolio companies and take up these opportunities. It is the intention of the Directors to undertake further fundraising, if such an opportunity should arise. The Company's investments may take the form of equity, debt or convertible instruments. Investments may be made in all types of assets falling within the remit of the Investing Policy and there will be no investment restrictions.

The Directors may consider it appropriate to take an equity interest in any proposed investment which may range from a minority position to 100 percent ownership. Proposed investments may be made in either quoted or unquoted companies and structured as a direct acquisition, joint venture or as a direct interest in a project.

The Company has made investments and will seek further investment opportunities which can be developed through the investment of capital or where part of or all of the consideration could be satisfied by the issue of new Ordinary Shares or other securities in the Company. The investments the Company has made and any new opportunities have, or would generally have, some or all of the following characteristics, namely:

- a majority of their revenue derived from IT or the use of IT, and strongly positioned to benefit from market growth;
- a trading history which reflects past profitability or potential for significant capital growth going forward; and
- where all or part of the consideration could be satisfied by the issue of new Ordinary Shares or other securities in the Company.

The Company will identify and assess potential investment targets and where it believes further investigation is required, intends to appoint appropriately qualified advisers to assist.

The Company proposes to carry out a comprehensive and thorough project review process in which all material aspects of any potential investment will be subject to rigorous due diligence, as appropriate. It is likely that the Company's financial resources will be invested in a small number of projects or investments.

Financial Review

> We ended the year with a strong balance sheet position: £1 million of cash, no debt and an increasingly diversified portfolio of investments worth £17.9 million

The year ended 31 December 2019 has been another year of activity and progress, with two equity fundraises for the Company and our portfolio companies continuing to scale, including a successful Series A fundraise for one.

New equity capital of £1.5 million was raised in April 2019 to strengthen the balance sheet and to provide negotiating strength to protect and maintain long term influential interests in our portfolio companies. This was evidenced in the Series A raise by FundamentalVR. In October 2019, a further £1.75 million was raised to continue that momentum. With a strong balance sheet, the Company has been able to maintain its influential holding at existing portfolio companies and progress pipeline opportunities with a credible position.

The Company's investment holdings have increased from £14.9 million at 31 December 2018 to £17.9 million at 31 December 2019, reflecting a 20% increase on the previous year. The investment valuation includes additional investment of £2.5 million across all four principal portfolio companies and fair value growth of £0.3 million. This comprises a £0.9 million fair value gain and a £0.6 million exchange rate loss due to the strengthening of sterling.

The fair value gain, excluding exchange rate movements, is comprised of a £0.6 million uplift at FundamentalVR due to the successful Series A fundraise in October 2019 and a £0.3 million uplift at Device Authority as further convertible loan note issues strengthen the Company's holding.

Net assets have increased by 13% to £18.9 million (£16.8 million at 31 December 2018) and include a strong cash balance of £1 million. There is no debt on the balance sheet.

Cash and cash equivalents decreased by £0.9 million in the year, ending the year at £1m (2018: £1.9 million). This was due to £1.3 million cash used in operations, offset by a net increase in cash of £0.4 million, which reflected a net £2.9 million raised through two equity fundraises less £2.5 million reinvested in existing portfolio companies.

Income Statement and Statement of Comprehensive Income

Revenue from portfolio companies increased by 18% to £124,766 (31 December 2018: £106,117). The Company does not charge high monitoring or Board fees to ensure capital is not deducted at source and is instead reinvested in the portfolio companies to drive value creation. Total investment income has reduced by £0.5 million to £0.4m (2018: £0.9m) compared to 2018. This has been driven by foreign exchange losses on the revaluation of the investment portfolio. Device Authority is valued in US dollars and the pound strengthened during 2019 resulting in a £0.6 million exchange rate loss. This compared to a £0.4 million exchange rate gain in 2018 as the pound weakened that year. The loss in 2019 was offset by the fair value gain on FundamentalVR of £0.6m and fair value gain on Device Authority of £0.3m.

Overheads overall were maintained at £1.3 million in 2019. This included a £0.2 million increase in administration costs compared to 2018, due to an increase in Directors' and consultants' fees offset in part by a reduction in recurring legal costs. Directors' fees continue to rise slowly to bring them more in line with more representative market rates and to allow for successful recruitment, whilst maintaining prudence and affordable levels for the Company. Increases in consultants' fees reflect additional advice and support from consultants based in the US.

Other expenses include one-off costs incurred early in 2019 due to the Company exploring an opportunity to rapidly expand its portfolio via a strategic initiative. Although the transaction would have added a significant number of companies to the portfolio thereby increasing the NAV and diversifying the risk profile of the portfolio the decision was taken, with the support of our advisors, not to proceed on this occasion. These costs were offset by a £148,173 reduction in the share based payment charge and the absence, in the current year, of the prior year convertible loan note cost of £165,000.

Financial Review

Events after the end of the reporting period

On 13 January 2020, it was announced that InVMA had secured an initial order commitment worth £817,000 over a two-year period to provide its AssetMinder® solution to a global, multi-billion Euro revenue supplier to the industrial and construction sectors.

On 3 March 2020 it was announced that Docusign Inc had announced its intent to acquire Seal for $188 million in cash. The proceeds to Tern from this sale are expected to be broadly in line with the Company's valuation of its investment.

On 9 March 2020, it was announced that the Company had raised approximately £0.8 million before expenses through a subscription of 13,333,331 new ordinary shares of 0.02p each at a price of 6p per new ordinary share.

Key performance indicators

The Company's principal activity is that of investing in companies. Accordingly, the Company's financial Key Performance Indicators (KPIs) are focused on return on investment: increasing portfolio company value, delivering consistent investee company turnover growth and focusing on year-on-year net asset growth. The Company also monitors non-financial KPIs, the primary focus being on increase in employee numbers at the portfolio companies which is an indicator of growth to support commercial success. These indicators are monitored closely by the Board and the details of performance against these are given below.

The return on investments:

Unrealised fair value:

- Device Authority (£12.7 million valuation): the valuation has increased due to additional investment in the Company via convertible loans, plus an increase in fair value given the preferential terms issued to Tern and other equity holders on these convertible loans. This fair value gain has been offset against FX loss when converting the investment to GBP;
- InVMA (£1 million valuation): The equity value of InVMA remains unchanged. The investment is valued at fair value which has been based upon the most recent fundraise in September 2017. This valuation has been assessed as reasonable, taking into consideration the current performance of the company. During the year, a convertible loan note of £50,000 was issued, the value of which has been incorporated into the fair value;
- Wyld Networks Limited (£0.9 million valuation): the equity valuation remains unchanged, the value of the cash flow loan issued to the company has been incorporated into the fair value;
- FundamentalVR (£3 million valuation): The investment is held at fair value where the price of the most recent valuation has been taken into account, incorporating a £0.6 million fair value uplift;
- Push Technology (£34,205 valuation): the investment is valued at fair value and the price of the most recent valuation is taken into account. The value is unchanged from 2018.
- Seal Software Group (£0.1 million): the US dollar fair value has been revalued in line with IFRS to a level consistent with recent fund raisings, with a strengthening of the pound sterling resulting in a small decrease in its pound sterling valuation; and
- These investee companies are early stage businesses in emerging markets where there is a lack of comparative businesses available on which to provide a comparable valuation and therefore value has been based on an assessment of numerous factors: the underlying value of the Device Authority patent portfolio, the multiples achieved in comparable markets on recent transactions, and an assessment by the Board on the strength of the sales pipeline and achievability of the 2020 sales forecast.

The net assets of the Company at 31 December 2019 were £18,913,077 (2018: £16,751,773). The net asset value per ordinary share as at 31 December 2019 was 7.0p (2018: 7.1p).

Investee company turnover growth: the year-over-year growth in the aggregate revenue of our principal portfolio companies increased by 27% from calendar year 2018 to 2019 (58% from calendar year 2017 to calendar year 2018) which provides an indication of growth in the overall portfolio. The annual growth was adversely affected by some delays in commercial orders that were expected during the final quarter of 2019. Some of these transactions were announced in late 2019 and early 2020 and others are anticipated to follow, contributing to a strong start to 2020.

The Company has non-financial KPIs which are also monitored regularly by the Board. The non-financial KPIs are focused around the investee company employee number growth in our portfolio companies. We believe these factors help serve as leading indicators of the future performance and our impact on our stakeholders:

Principal portfolio company employee number growth increased by 31% from calendar year 2018 to calendar year 2019 (52% from calendar year 2017 to calendar year 2018), highlighting a continuing growth in the portfolio overall and particularly in the final six months which saw employee number growth escalate from 9% in the six months to 30 June 2019 to 31% for the year ended 31 December 2019.

Sarah Payne
CFO

Business Risks

For the year ended 31 December 2019

Financial risk management objectives and policies

The Company's policy in respect of financial instruments and risk profile is set out in Note 2 to the financial statements.

Principal business risks and uncertainties

The management of the business and the nature of the Company's strategy are subject to a number of risks. The Directors have set out below the principal risks facing the business. Where possible, processes are in place to monitor and mitigate such risks. The Company operates a system of internal control and risk management in order to provide assurance that the Board is managing risk whilst achieving its business objectives with the assistance of the Audit Committee. The Executive Directors meet at least monthly to review ongoing trading performance for both the Company and the portfolio companies, discuss budgets, forecasts, opportunities and new risks associated with ongoing trading. The Board regularly reviews operating and strategic risks and the effectiveness of the Company's risk management and related control systems, with the assistance of its committees. No system can fully eliminate risk and therefore, the understanding of operational risk is central to the management process.

Identifying, evaluating and managing the principal risks and uncertainties facing the Company is an integral part of the way the business operates. The Company has policies and procedures in place throughout its operations, embedded within the management structure and as part of the normal operating processes. A formal risk register is maintained and reviewed by the Board at least quarterly, with key risks identified, discussed and mitigation agreed. Market and economic conditions are recognised as one of the principal risks in the current trading environment. This risk is mitigated by the close monitoring of trading conditions and the performance of the Company's investment portfolio. The Company is affected by a number of risks and uncertainties, not all of which are wholly within its control as they relate to the wider macroeconomic and legislative environment within which the Company operates. To enable shareholders to appreciate what the business considers are the main operational risks, they are briefly outlined below:

Risk		Potential Impact	Mitigation Strategy
Investment Risk	An investment fails to perform as anticipated: • Investee companies may operate in highly competitive markets with rapid technological change. • Investee companies may be in early stages of commercial development and so generation of significant revenues is difficult to predict or guarantee. • Investment company management is performing under par.	Investments may require additional finance. There may be a difficulty in creating maximum value in a timely fashion or difficulty in realising the investment. The value of the Company's holding may fall.	The Company undergoes rigorous due diligence before proceeding with an investment. The Company actively takes an influential role in the strategic direction of its investments and regularly monitors performance. A Company Director holds a Non-Executive Board position on all investment company boards where the Company has a significant (>10%) holding. The Company's strategy has been formulated by the management team with a strong track record of generating gains from early stage companies within the technology sector.
	The Company is unable to maintain its holding when the investee company requires significant additional funding.	The Company is unable to maintain an influential position and has reduced influence over the strategic direction and timing of any realisation event.	The Company maintains a sufficient cash balance to enable follow on investment where required.
	The portfolio is dominated by one or two investments.	If one dominant investment fails it may have a disproportionate impact on the Company.	The Company is building a portfolio of investments to insulate itself against poor performance of any single investment.

Business Risks

For the year ended 31 December 2019

Risk		Potential Impact	Mitigation Strategy
Reliance on key people	The Company is unable to retain key individuals or recruit high calibre team members.	Disruption for the Company or its investment companies as new individuals take time to gain an understanding of the investment company's strategy and requirements.	The Company offers a remuneration package designed to attract, motivate and retain key individuals. Key individuals in the portfolio companies are offered an attractive remuneration package and either shares or share option incentives.
Liquidity	The Company is unable to raise new funds due to a reduction in investor confidence or access to capital.	Reduction in ability to invest in new opportunities or ability to maintain holdings in existing investments. May have detrimental impact on Company's ability to fund operational costs.	The Company will maintain a sufficient cash balance to finance itself for a prudent period, or ensure it has access to funds.
Legal and regulatory risk	UK exit from European Union.	May impact on investors confidence and therefore risk access to capital. Detrimental impact on performance of investment companies with exposure to the European Union.	The Company monitors its working capital to ensure it has sufficient funds to maintain operations during any economic slow down.
Foreign exchange risk	The valuation of investments may be impacted by foreign exchange movements.	The value of the Company's holding falls.	The Company actively reviews the value of investments and will consider action on foreign exchange risk where relevant, following advice from advisors.
Increased competition	As the IoT sector becomes more mature, it will attract increased interest from entities competing with the Company for investment opportunities.	May have a detrimental impact on the Company's ability to execute investments at an acceptable cost.	The Company seeks to mitigate competition by having a diverse pipeline of opportunities and a proven track record of successful experiences with its portfolio companies. The management team has a strong track record of providing opportunities in the USA for UK companies which should remain attractive to potential investors.
Shareholder impact	As a public company listed on AIM, anyone can acquire shares in the Company.	The actions of shareholders are outside of the control of the Company but can impact on the Company by association.	The Board maintains regular interaction and communication with all its stakeholders and seeks to openly articulate its culture and strategy to shareholders at regular points through the year.
COVID-19	Economic impact of COVID-19 affects performance of the Company and its portfolio companies.	The Company is unable to access additional funds due to loss of consumer confidence. The portfolio companies are unable to access external investments. Closure or delay of customer business and revenue streams impacts on operational activities of the Company and its portfolio companies.	The Company will maintain a sufficient cash balance to finance itself for a prudent period, or ensure it has access to funds. As a technology focused business, the Company and its staff can operate effectively from home for a reasonable period of time. The portfolio companies will access Government support where required.

Business Risks

For the year ended 31 December 2019

Assessment of business risk

The Board regularly reviews operating and strategic risks, with the assistance of its committees. The Company's operating procedures include a system for reporting financial and non-financial information to the Board including:

- reports from management with a review of the business at each Board meeting, focusing on any new decisions/risks arising;
- reports on the performance of portfolio companies, this now includes a rotating monthly presentation by a portfolio company CEO at each Board meeting;
- reports on selection criteria of new investments and a discussion around pipeline and new opportunities;
- quarterly review of the risk register;
- consideration of issues relating to governance and compliance;
- reports from the sub-committees when they meet; and
- consideration of reports prepared by third parties.

Investment Report

For the year ended 31 December 2019

The Company's current investment portfolio consists of the following investments, all of which are unquoted and unaudited:

Principal Portfolio Companies

Device Authority Limited ("Device Authority")

Market segment: Internet of Things (IoT)

Fair value:	Cost: £6.8 million	Valuation: £12.7 million
Consists of:		
Equity ownership: 56.8% 'A' shares:	Cost: £4.3 million	Valuation: £5.9 million
Convertible loan:	Cost: £2.5 million	Valuation: £6.8 million

Valuation is based on a probability analysis of the potential outcomes relating to the conversion or redemption of the convertible loan note, translated at the exchange rate at the balance sheet date. The fair value was supported by an evaluation of a combination of factors, including the price of shares in the most recent fund raise (April 2016), a comparison to transaction multiples in comparable market sectors and an evaluation of sales pipeline and 2020 trading forecast.

Device Authority is a global leader in Identity and Access Management (IAM) for the Internet of Things ("IoT"); focused on medical / healthcare, industrial, automotive and smart connected devices. Device Authority's KeyScaler™ platform provides trust for IoT devices and the IoT ecosystem, to address the challenges of securing the IoT. KeyScaler™ uses breakthrough technology including patented Dynamic Device Key Generation (DDKG) and PKI Signature+ that delivers unrivalled simplicity and trust to IoT devices. This solution delivers automated device provisioning, authentication, credential management, policy based end-to-end data security/encryption and secure update delivery.

An example of its use case can be found in the healthcare industry which is in a state of digital transformation. Drug delivery systems, surgical robots, infusion pumps and medical records are now all connected. Knowing the identity of the user or device and protecting a patient's data are critical items requiring protection under a variety of laws. Also, the need to exchange data between the applications using these devices and systems, including updating the software running these systems, puts them at risk. Device Authority's KeyScaler™ platform is used by medical device manufacturers and the applications which use the devices to protect the data exchanged, by applying policy and encryption techniques to protect the information. Device Authority does this autonomously and at IoT scale providing a clear return on investment and a protection against human error.

In 2019, Device Authority continued to work with and develop product sales via its active partner base including Venafi, HID IdenTrust, Wipro, Tech Mahindra and City University of London. Device Authority has also further deepened its relationship with Microsoft, including a feature on their Channel 9 IoT show showcasing their Azure IoT Central Connector, which is the latest technology integration with Microsoft inside Device Authority's Security Suite. Early in the year Device Authority proved their credentials in the medical space by securing a medical contract with nCipher Security.

Device Authority also continued to build on its brand recognition which included publishing its Enterprise IoT security blueprint 2.0 to help educate Enterprises on how to improve their security posture in the connected world. Furthermore, Device Authority was recognised as a technology leader in the global IoT IAM market by Quadrant Knowledge Solutions. Device Authority also joined the Venafi Machine Identity Protection Development Fund.

Alongside the commercial success, Device Authority further strengthened the team, recruiting talent in both the US and the UK and introducing two new influential board members: Ramesh Kesanupalli, founder of Nok Nok Labs and Nicko van Someren, a technologist and entrepreneur who has extensive experience in the security industry.

For more information visit: www.deviceauthority.com.

InVMA Limited ("InVMA")

Market segment: Sensor based applications

Fair value:	Cost: £1 million	Valuation: £1 million
Consists of:		
Equity ownership: 50%	Cost: £1 million	Valuation: £1 million
Convertible loan:	Cost: £50,000	Valuation: £50,000

Valuation is based on a combination of factors including an assessment of sales pipeline and 2020 trading forecast.

InVMA helps industrial and manufacturing companies prosper by converging their physical assets with new transformational digital insights. They provide IoT software solutions, communications and consultancy to digitally transform their customers through predictive intelligence that automates manual processes, reduces operating costs, maximises uptime and enables the development of untapped revenue streams.

During 2019, InVMA focused on the transformation of its product, AssetMinder® which solves critical pain points for monitoring manufacturing processes, production platforms (e.g. oil), and networks of sensors providing predictive maintenance and performance data; providing alerts when pre-determined thresholds or rules have been met or broken. The focus on generating AssetMinder® product sales to drive value creation was evidenced in a material post year end contract. This was validation of a deliberate move from being a systems integrator to a product company, underpinning the value being created within the business.

During 2019, InVMA announced a number of key contract wins, which continue to establish the company as a key provider of IoT products and solutions:

- Implementation of Industry 4.0 projects with Heatsense Cables;
- Facilities Management IoT deployments with iaconnects; and
- Aerospace and Defence projects, securing an initial order worth £0.25 million during 2019, working alongside its partner ECA, a leading IT infrastructure specialist.

InVMA continued to develop and grow its partnership network, announcing new partnerships with Robustel, one of the world's leading manufacturers of industrial quality solutions for the IoT and M2M market, Solid State Supplies Ltd (part of Solid State plc), a focused distributor serving the needs of the electronics OEM community in the UK as well as the partnership with ECA which delivered the early material contract during the year.

For more information visit: www.invma.co.uk.

FUNDAMENTAL VR

FVRVS Limited ("FundamentalVR")

Market segment: SAAS immersive platform for medical and surgical education driving data insight

Equity ownership: 26.9%	Cost: £2.4 million	Valuation: £3.0 million

Valuation is based on the price of shares in the most recent fundraise in October 2019.

FundamentalVR provides the Company with exposure to the rapidly growing medical simulation market using low cost open-system IoT devices and provides a basis for developing our IoT analytics pillar of the Tern investment strategy.

This was an active year for FundamentalVR: successfully closing a Series A fundraise and establishing traction in the market whilst continuing to develop their Fundamental Surgery platform and achieve market recognition.

The FundamentalVR platform is now being used by an array of customer groups including clinics and medical centres, device companies and pharmaceutical companies. Active clients of this platform include established innovative device and pharmaceutical businesses. Within the hospital marketplace customers include the Mayo clinic and UCLA (USA), Sana Kliniken (Germany), UCLH and St George's (UK).

In October 2019, FundamentalVR closed a £4.3 million Series A funding round, including a £0.5 million convertible loan note conversion from Tern, with a post-money valuation of £11.3 million. The funding round was led by Downing Ventures, with participation from the Company, Epic Private Equity and Brighteyes Ventures. Leading medical institutions also participated in the funding round, including Mayo Clinic, one of America's leading centres of medical excellence, and Sana Kliniken, one of Europe's leading medical organisations and the third largest hospital organisation in Germany, which is a strong endorsement of the quality of FundamentalVR's offering.

The platform development continued during the year and the FundamentalVR platform achieved accreditation from The Royal College of Surgeons in England and the American Academy of Orthopaedic Surgeons in the US, clearly validating the strength of the proposition.

For more information visit: www.fundamentalvr.com.

Wyld

Wyld Networks Limited ("Wyld")

Market segment: Project management of research and innovation projects in technology

Fair value:	Cost: £0.9 million	Valuation: £0.9 million
Consists of:		
Equity ownership: 100%	Cost: £37,500	Valuation: £78,000
Cash flow loan:	Cost: £853,332	Valuation: £853,332

Valuation is based on a combination of factors including an assessment of sales pipeline and 2020 trading forecast.

In 2019 Wyld focused on developing **Wyld Mesh** and **Wyld Fusion**, a wireless mesh technology to create low cost and revenue generating Social, Enterprise IoT and 5G device-to-device networks, as well as commencing the commercialisation of **Wyld Connect**, a range of LPWAN solutions to provide IoT wireless connectivity.

Wyld's technology is unique in that it creates a wireless network which connects people to people directly from smartphone-to-smartphone or device-to-device, as well as device-to-people. It establishes a resilient and low-latency mesh network without the need to route all the traffic through the traditional hierarchical mobile infrastructure.

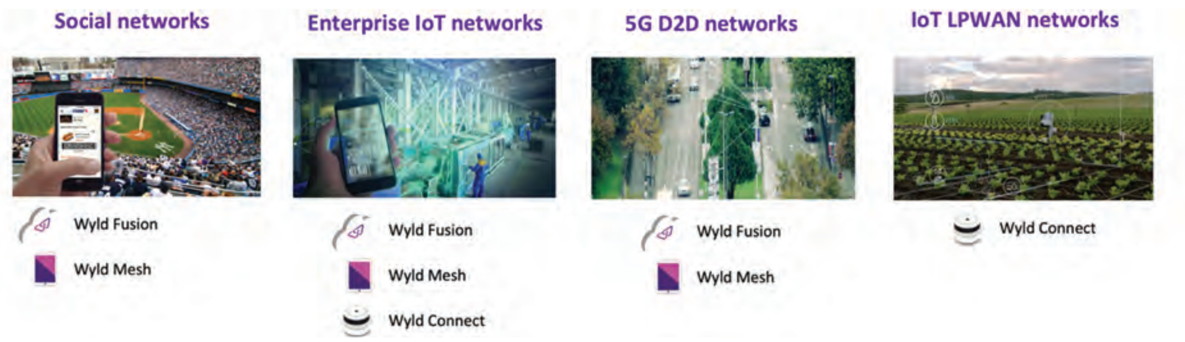
Wyld's solutions are developed to market in the following sectors:

1. **Social networks** - Creation of customer engagement and new revenue streams through the enablement of pop-up social networks, providing user engagement, gaming, safety and location-aware marketing in events and retail.

2. **Enterprise IoT networks** - Building a network of meshed smartphones and IoT devices at the edge of the network in enterprise communication and IoT, ensuring connectivity and reducing operational cost for applications in healthcare, smart factories and transportation.

3. **5G D2D networks** - Creating 5G mesh connectivity to deliver resilient spectrum efficient densification of 5G networks and low latency applications, such as autonomous vehicle and AR/VR connectivity.

4. **IoT networks** - Enabling IoT providers to create LPWAN wireless networks to control IoT devices in hard to reach locations for applications in agritech, environment, transportation and smart factories.



During the year Wyld secured a framework contract with Delta-T Devices, a world leader in the development of sensors for the Agritech sector, to develop and deploy a **Wyld Connect** LPWAN solution integrated into Delta-T Devices agritech sensors to create a wireless LoRaWan network.

In 2019, in addition to the smart agritech deal with Delta-T Devices, Wyld signed smart-device delivery contracts and license agreements for its Wyld Connect solutions in the smart energy (Cadis, RCD, Develco) sector.

Wyld Networks was also awarded a £121,000 grant by Innovate UK to collaborate on a new mass production technology, SmartDrop, for Archipelago Technology Group Ltd.

For more information visit: www.wyldnetworks.com.

Other Portfolio Companies

Push Technology Limited ("Push")

Market segment: Data distribution software

Equity ownership: <1% | Cost: £120,197 | Valuation: £34,205

Valuation is based on fair value, which has been assessed as the price of shares in the most recent fundraise in May 2019.

Push significantly enhances the ability of organisations to communicate in real-time. This includes direct communication as well as indirect, for example, by refreshing data displayed information in real time rather than when a user explicitly asks for an update. Interactive applications are infinitely more engaging, updating in real-time as new data becomes available.

In 2019 Push announced a number of new contract wins including Gratisbroker, the first free online German trading platform; Brenock, specialising in shipping industry applications and Derivco, a gaming software development company.

Other customers include William Hill, Betfair, Racing Post, Sportingbet amongst others.

For more information visit: www.pushtechnology.com.

Seal Software Group Limited ("Seal")

Market segment: Database Analytics and Search software

Equity ownership: <1% | Cost: £50,000 | Valuation: £109,951

Valuation is based on fair value, which has been assessed as the price of shares in the most recent fundraise in March 2019.

Seal specialises in writing software which performs complex analysis of contractual data. Seal is specifically designed to locate and examine contractual documents and extract and present key contractual information related to language, clauses, clause combinations, and the significant contextual metadata held within them.

In 2019 Seal's notable events included:

- Announcing new contract wins, including TPR Legal and an expansion of use by Airbus and new partnerships, including with AI Innovation Centre of Sweden.
- Being named within the Deloitte's Technology Fast 500™ for a fourth consecutive year. Seal was named the 72nd fastest growing tech company in the San Francisco Bay Area, and 388th overall with 241% year-over-year growth.
- Seal Co-Founder and CTO, Kevin Gidney, was honoured for Transformative Thinking and Tangible Outcomes in Artificial Intelligence and has been named as one of the world's most influential voices in artificial intelligence (AI).
- Continuous product development including a new AI based contract negotiation product.

Customers include Nokia, PayPal, Bosch, DocuSign, Experian, Dell amongst others.

For more information visit: www.seal-software.com

Board of Directors

Ian Ritchie

Chairman

Ian is the non-executive Chairman of Computer Applications Service, and Krotos and completed his term of office as the Chairman of Iomart plc in August 2018. He founded OWL in 1984, which pioneered hypertext application development (a forerunner to the world wide web) selling the company to Panasonic in 1989. Since then he has been involved in over 40 start-up high-tech businesses. Ian is a Fellow of the Royal Academy of Engineering, the Royal Society of Edinburgh, and a Fellow and past President of the British Computer Society. His TED talk has been viewed over 600,000 times.

Committee membership: Member of Audit committee and Remuneration committee

Albert Sisto

Chief Executive Officer

Albert is an IT industry veteran with more than 25 years of senior executive level experience. As Chief Operating Officer at RSA Data Security Inc, the leading security software company, he led its transformation from a passive patent licensing operation to an aggressive, sales oriented software company. At RSA he negotiated partnership agreements with IBM, Intel, Compaq, Cisco and Nortel. Albert was Chairman, President and CEO of Phoenix Technologies Limited, the global BIOS software company. He revitalised Phoenix through the acquisition of Internet appliance business, Ravisent Technologies; investing in semiconductor and microprocessor designer Transmeta and spinning off Silicon Corporation.

Sarah Payne

Chief Financial Officer

Sarah qualified with Ernst & Young as a Chartered Accountant and spent six years with the firm, joining its corporate finance team for the later years and is now an FCA. She spent six years with the BBC, firstly within their corporate commercial and investment strategy team and then as Head of Financial Planning and Analysis. For the seven years before joining Tern Plc, Sarah was an outsourced Finance Director for SME businesses principally within high tech markets.

Board of Directors

Bruce Leith

Business Development Director

Bruce began his career with IBM and has extensive international sales management and board level experience in the software industry including senior level positions at DataWorks Corporation, London Bridge Software International and Codestream. Specialising in delivering high growth, high profit results through product development, portfolio repositioning and geographical expansion, Bruce was involved in the successful sales of a number of companies including Interactive UK, London Bridge and Codestream. Bruce is also an active angel investor in several high growth software businesses.

Matthew Scherba

Investment Director

Matthew has over 25 years of international executive management experience covering the full technology lifecycle, focused on strategy and commercial development, including investment and NED roles. He is a life-long entrepreneur with experience creating, building and scaling early stage technology businesses. He has founded, run and invested in early stage companies across Internet of Things (IoT), including software, hardware, mobile, AI, machine learning, and blockchain.

Alan Howarth

Non-Executive Director

Alan has extensive experience as a Chairman and Non-Executive Director of private and public companies. He is a specialist in building and selling technology businesses. Previously, Alan was a partner at Ernst & Young and is one of the founding partners of the EY Management Consulting practice in the UK. For the last eighteen years he has been managing a portfolio of non-executive appointments.

Committee membership: Chair of Audit Committee and Chair of Remuneration Committee

Directors' Report

For the year ended 31 December 2019

The Directors present their annual report and the audited financial statements of Tern plc (the "Company") for the year ended 31 December 2019.

The Company is registered as a public limited company (plc). The Company's Ordinary shares of 0.02p each are traded on AIM of the London Stock Exchange.

Principal activities

The principal activity of the Company is investing in unquoted software companies, predominantly in the Internet of Things sector, to achieve capital growth.

Results and dividends

The results for the year are shown in the income statement and statement of comprehensive income on page 40.

The loss for the year was £780,643 (2018: £312,564).

The Directors do not recommend payment of a dividend.

Political and charitable contributions

No political or charitable donations were made during the year.

Control procedures

Operational procedures have been developed for the Company that embody key controls over relevant areas. The implications of changes in law and regulations are taken into account by the Company.

The Board has considered the need for an internal audit function but has decided that this is not justified at present given the size of the Company. However, it will keep the decision under review on an annual basis.

Going concern

The financial statements have been prepared on the going concern basis because, as set out in detail in Note 1.3, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. This has been assessed using detailed cash flow analysis so that the Board can conclude that the Company has sufficient working capital resources to continue for at least 12 months without any additional financing requirements. The post year end fundraise and impact of COVID-19 has been considered as part of this assessment. In the event that opportunities are presented such that additional funding was required, management are confident that they would be able to obtain additional funds from various sources.

Directors and directors' interests

The Directors who held office during the year and their interests in the ordinary shares of the Company are as follows:

	At 31 December 2019 Ordinary shares	At 31 December 2018 Ordinary shares
Alan Howarth	–	–
Bruce Leith	8,857,233	8,857,233
Sarah Payne	–	–
Ian Ritchie	677,000	677,000
Albert Sisto	9,683,333	9,683,333

The interests of the Directors in options granted by the Company are disclosed under the "Report on Directors Remuneration".

Significant shareholdings

As at 4 May 2020, the company had been notified of the following shareholdings of 3% or more of the share capital.

	Number of Ordinary Shares	Percentage of Issued Shares Held
John Mahtani	15,109,605	5.3%
Albert Sisto	10,416,666	3.7%
Bruce Leith	8,857,233	3.1%

Statement of Directors’ responsibilities

The Directors are responsible for preparing the Directors’ Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the Company financial statements have been prepared in accordance with IFRS as adopted by the European Union subject to any material departures disclosed and explained in the financial statements; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Section 172 compliance

Section 172 of the Companies Act 2006 imposes a general duty on every Director to act in a way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members (shareholders) as a whole. When considering what is most likely to promote the success of the company, Directors must have regard to various matters designed to ensure that boards consider the broader implications of their decisions, not just for their shareholders but for a wider group of stakeholders. These matters include:

- the likely consequences of any decision in the long term;
- the interests of the company’s employees;
- the need to foster the company’s business relationships with suppliers, customers and others;
- the need to maintain an effective investment selection process, including maintaining a strong pipeline of opportunities and a thorough due diligence process;
- the impact of the company’s operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

Directors' Report

For the year ended 31 December 2019

The Board determines the strategic objectives and policies of the Company to best support the delivery of long-term value, providing overall strategic direction within an appropriate framework of rewards, incentives and controls. The Board is collectively responsible for the success of the Company: the Executive Directors are directly responsible for running the business operations; and the Non-Executive Directors are responsible for bringing independent judgement and scrutiny to decisions taken by the Board. The Non-Executive Directors must satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust. Following presentations by the Executive Directors and a disciplined process of review and challenge by the Board, clear decisions on policy or strategy are adopted, and the Executive Directors are fully empowered to implement those decisions. During the year, the Board approved additional investment in FundamentalVR as it recognised the potential for a fair value increase during the year. Stakeholder interests and the matters listed above are factored into all Board discussions and decisions. A more detailed assessment of stakeholder engagement is included on pages 31-34.

Disclosure of information

In the case of each person who was a Director at the time this report was approved:

- so far as that Director is aware there is no relevant available information of which the company's auditors are unaware; and that Director has taken all steps that the Director ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors were aware of that information.

Publication of accounts on the company website

Financial statements are published on the Company's website. The maintenance and integrity of the website is the responsibility of the Directors. The Directors' responsibility also extends to the financial statements contained therein.

Independent auditors

The auditor, Nexia Smith & Williamson Audit Limited, was appointed on 10 December 2019 in accordance with section 160 (2) of the Companies Act 2006. In accordance with S489 (4) of the Companies Act 2006, a resolution to re-appoint Nexia Smith & Williamson Audit Limited as auditor will be put to the members at the annual general meeting.

Signed on behalf of the board

Sarah Payne
CFO

4 May 2020

Corporate Governance and Compliance

For the year ended 31 December 2019

"Effective corporate governance is critical to delivering our strategy and creating long term value for our shareholders. We also recognise the importance of our wider stakeholders in delivering our strategy and achieving sustainability within our business"

Ian Ritchie – Chairman and Senior Independent Director

Chairman's Corporate Governance Statement

As Chairman, it is my responsibility to ensure that good standards of corporate governance are embraced throughout the Group. As a Board, we set clear expectations concerning the Group's culture, values and behaviours.

The Company's shares are traded on AIM and the Company is subject to the UK City Code on Takeovers and Mergers. The Board recognises the value and importance of high standards of corporate governance and has adopted the Corporate Governance Code 2018 ("the Code") published by the Quoted Company Alliance ("QCA"). This report and the Report on Directors' Remuneration describe how the Company applies certain of the provisions of good corporate governance. A fuller updated review describing how the Company applies the QCA's ten principles of corporate governance is available on the Company's website (www.ternplc.com) under Investors.

Directors

The Company supports the concept of effective Board leadership and control of the Company. The Board is responsible for approving Company policy and strategy. All Directors have access to advice from the company secretary and independent professionals at the Company's expense.

The Board consists of four Executive Directors and two Non-Executive Directors. The Non-Executive Directors are independent of management and any business or other relationship which could interfere with the exercise of their independent judgement.

Ian Ritchie has been Chairman, senior independent Director and a Director of the Board for over two years. He has extensive experience as an independent Director of listed companies and technology startup companies. Albert Sisto has been a Director of the Board for over six years and CEO for over three years. He has over 25 years of experience at senior executive level and with security software companies.

The Board members are listed on page 26-27.

Board Evaluation

The Board carries out an evaluation of its performance as a whole annually, taking into account the Financial Reporting Council's Guidance on Board Effectiveness. This process is led by the Chairman and the latest evaluation was carried out in May 2019. Due to the size and nature of the company, the effectiveness of the individual Directors is constantly evaluated and therefore it is not the belief of the Board that a formal process is required. Due to the detailed review of performance at each Board meeting, any issues are very quickly apparent and can be dealt with on a timely basis. As the company grows, the Board will periodically consider whether a more formal annual evaluation process is required in the future. The Company's Board, individual Director and Committee evaluation process have not changed materially over the previous years, on the basis that the Board as a whole consider these evaluation processes to be appropriate for the Company's requirements.

Corporate Governance and Compliance

For the year ended 31 December 2019

Board committees

Audit Committee

The Audit Committee was established in November 2016 and is chaired by Alan Howarth.

The Board endeavours to present a balanced and understandable assessment of the Company's position and prospects in all reports as well as in the information required to be presented by statutory requirements. All financial information published by the Company is subject to the approval of the Audit Committee.

The Audit Committee is responsible for reviewing the Company's internal control and risk management systems, and reviewing and monitoring the requirement for an internal audit function and the effectiveness of the external audit. The Committee is responsible for maintaining a system of internal control to safeguard shareholders' investments and the Company's assets and for reviewing its effectiveness. Such a system is designed to manage, but not eliminate, the risk of failure to achieve business objectives. There are inherent limitations in any control system and accordingly even the most effective systems can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Activities of the Audit Committee include monitoring the integrity of the Company's financial statements and other formal announcements relating to the Company's financial performance and reviewing significant financial reporting judgements contained in them.

The Audit Committee advises the Board on the appointment, reappointment and removal of the external auditor, considers its effectiveness and approves its remuneration and terms of engagement. It also reviews and monitors the independence and objectivity of the external auditor.

There were three Audit Committee meetings in 2019. These were fully attended by all members.

Remuneration Committee

The Remuneration Committee was established in November 2016 and is chaired by Alan Howarth. A detailed Remuneration Report is included on pages 35-36.

There were four Remuneration Committee meetings in 2019. These were fully attended by all members.

The Audit Committee and Remuneration Committee do not provide formal reports but do report to the Board on all recommendations. Given the size of the Company and the Board's familiarity with the business of the Company, it is not considered necessary to provide formal reports.

Appointment of Directors

The Board deals with all matters relating to the appointment of Directors including determining the specification, identifying suitable candidates and selection of the appointee. No separate nominations committee has been formed.

The remuneration committee is responsible for agreeing the executive framework and remuneration policy.

Throughout the year the Articles of Association have required each Director to seek re-election after no more than three years in office. Therefore, the Board considers it inappropriate that Non-Executive Directors be appointed for a fixed term as recommended by the Code.

Our Key Stakeholders

We rely on our stakeholders for our success in achieving our aim of becoming the leading investment company specialising in IoT in the UK. Our key stakeholders are our portfolio companies, our people, our shareholders, our suppliers and the wider community within which we operate.

Our portfolio companies

Each portfolio company has a nominated Director and we work closely with the companies to advise and guide with feedback obtained during the month via regular interactions with the nominated Director and more formally through attendance at their monthly board meetings.

Corporate Governance and Compliance

For the year ended 31 December 2019

The portfolio companies provide a report for the Board each month and the CEOs rotate attendance at the Company Board meeting.

Our employees

Our people are central to the success of our business. We want to deliver outstanding service to our portfolio companies by ensuring our people are engaged and active in delivering the Company strategy. We are a young and growing company with a small number of employees, all of whom have regular contact with the CEO and other Directors, where open communication and feedback is encouraged.

Our shareholders

The Company values the views of its shareholders and recognises their interest in the Company's strategy and performance, Board membership and quality of management. It therefore encourages shareholders to offer their views.

We do this via a programme of events:

AGM	The AGM provides an opportunity for shareholders, particularly private investors, to question the Board on issues arising in a formal setting and then informally immediately following the AGM. Directors enjoy the opportunity to engage with shareholders, answer their questions and meet with them informally In light of the evolving Coronavirus (COVID-19) pandemic, the Board has been monitoring closely the rapidly changing situation. The health of our shareholders, employees and stakeholders remains extremely important to us and accordingly, the Board has taken into consideration the compulsory 'Stay at Home' measures published by the UK Government. These measures currently provide that public gatherings of more than two people are not permitted, unless the gathering is 'essential for work purposes'. Attendance at an annual general meeting by a shareholder, other than one specifically required to form the quorum for that meeting, is not 'essential for work purposes' under those measures. Regrettably therefore, shareholders are requested not attend the AGM to be held on 8 June 2020 and the Company will be unable to allow entry to anyone seeking to attend the AGM in person. The current situation is evolving and once Stay at Home measures are no longer in place, the Company will host a meeting with the Board which is open to all shareholders to attend. This will enable Directors and shareholders to engage in an informal environment. The date of this meeting will be communicated by RNS.
Shareholder calls	Two shareholder calls per annum provide an opportunity for shareholders to put their questions to the Board. These calls provide a helpful way of presenting an update to the shareholders on a regular basis and addressing their questions by taking and answering questions posed to the Directors through this forum.
Mello conference	The Directors attend an investor event every year to provide shareholders with an opportunity to meet with the Directors and pose questions in an informal environment.
Annual Report	We publish a full annual report and accounts each year where we articulate the strategy for the coming year and a review of the annual performance. The report is available in online and paper format.
Regulatory and non-regulatory news	We issue regulatory news as required and non-regulatory news to communicate significant portfolio companies news and explain the relevance and impact of the press release.

Corporate Governance and Compliance

For the year ended 31 December 2019

Website	The Company's website (www.ternplc.com) maintains a comprehensive, up to date news flow for shareholders and other interested parties. A dedicated email address is provided (info@ternplc.com) which is managed by the Company's financial public relations advisors. The Company may exercise discretion as to which questions will receive a response and all information provided will be freely available in the public domain. If necessary, the enquiries will be brought to the Board's attention. There is a section dedicated to investors which includes financial results, analyst coverage, corporate governance information, information on the Board, constitutional and admission documents and a link to our regulatory news. Shareholders can also subscribe to our portfolio updates and news.

Our suppliers

Our Company has a small number of suppliers and therefore regular interaction is the norm. Feedback is inherent within these interactions and input from specifically our nomad, brokers and PR agency have resulted in improved external communication and better interaction with our wider stakeholder groups.

Our community

Our investment committee includes an assessment of environmental, social and governance ("ESG") factors within each investment appraisal. We are closely involved with each of our principal portfolio companies and therefore can influence their consideration of impact on community. Given our area of expertise our portfolio companies are often involved in addressing ESG factors by increasing efficiencies and focusing actions on minimising waste. In 2020, our focus on this area will increase to ensure we are fulfilling our aim to have a positive impact on our environment and community.

Ian Ritchie
Chairman

Report on Directors' Remuneration

For the year ended 31 December 2019

The Remuneration Committee submits its Report on Directors' Remuneration for the year ended 31 December 2019.

The Remuneration Committee is responsible for agreeing the framework and remuneration policy for the Executive Directors. It sets the remuneration for the Board including basic pay, any bonus awards and share incentive schemes; agrees the terms of employment of all Board members, including those on cessation of employment, ensuring all payments are fair to both the employee and the Company; continues to review the appropriateness of the remuneration policies, with reference to the conditions across the Company and up to-date information in other companies and ensures that all requirements on the disclosure of remuneration are fulfilled.

The Committee is chaired by Alan Howarth. There were four Remuneration Committee meetings in 2019. These were fully attended by all members. No advice was sought by the Board or its Committees on any significant matters.

Remuneration Policy

The policy of the Remuneration Committee is to provide executive remuneration packages designed to attract, motivate and retain Directors of the calibre necessary to manage the Company and to reward them for enhancing shareholder value and returns. It aims to provide appropriate levels of remuneration to do this and a have compensation programs that are structured at or near the midpoint of our peer group.

There are three main elements of the Directors' remuneration package being:

- basic annual salary,
- performance related bonus and
- participation in the Company's share option plan.

All Directors' salaries are reviewed annually by the Remuneration Committee.

Executive Directors' service contracts

The Executive Directors are appointed under service contracts which are not for a fixed duration and are terminable upon six months' notice by either party.

Non-Executive Directors

Each of the Non-Executive Directors is appointed under a letter of appointment with the Company. Subject to their re-appointment by shareholders, the initial term of appointment for each Non-Executive Director is three years from the date of appointment and their appointments are terminable upon three months' notice by either party. The Non-Executive Directors' fees are determined by the Board.

The Company Share Option Plan

The Company operates an equity settled share-based remuneration scheme for Directors, employees and advisors. Under the Director and employees' scheme issued during the year, options may be granted to purchase shares which must be exercised within ten years from the date of the grant.

The options are capable of exercise on the third anniversary of the grant date according to the increase in share price on the vesting date. If the share price increased by 100% then 100% of the shares vest and if there has been no increase in share price, then 0% of the shares vest. Between these two points the options will vest on a straight-line basis.

No options were issued to Directors during the year ended 31 December 2019.

Performance Related Bonus

The purpose of the bonus plan is to align the interests of selected senior executives of the Company with those of its shareholders. Participation in the Plan is at the discretion of the Board and it will enable selected senior executives to share in a proportion of the value realised from the investments made by the Company over time based on successful performance against KPIs set by the Board.

Report on Directors' Remuneration

For the year ended 31 December 2019

Directors' remuneration

The remuneration of each Director, excluding share options awards, during the year ended 31 December 2019 is detailed in the table below:

	Salary and fees £	Pension payments £	2019 Total £	2018 Total £
Alan Howarth	27,500	–	27,500	24,000
Bruce Leith	107,312	1,188	108,500	65,898
Sarah Payne	112,312	1,188	113,500	65,703
Ian Ritchie	33,500	–	33,500	30,000
Albert Sisto	126,287	–	126,287	84,473
Richard Turner	–	–	–	3,553
	406,911	2,376	409,287	273,627
Share based payment charge	–	–	–	165,267
Total remuneration	406,911	2,376	409,287	438,894

Directors' share options

The Director's outstanding share options as at 31 December 2019 are shown in the table below:

	Outstanding at 31 December 2018	Granted during the year	Exercised during the year	Expired during the year	Outstanding at 31 December 2019	Option Price	Exercise period
Alan Howarth	250,000	–	–	–	250,000	13p	23 Feb 2016 – 22 Feb 2023
Bruce Leith	2,500,000	–	–	–	2,500,000	8.5p	19 May 2017 – 18 May 2027
Sarah Payne	2,500,000	–	–	–	2,500,000	8.5p	19 May 2017 – 18 May 2027
Ian Ritchie	–	–	–	–	–	–	–
Albert Sisto	2,500,000	–	–	–	2,500,000	8.5p	19 May 2017 – 18 May 2027
Total	7,750,000	–	–	–	7,750,000		

Alan Howarth

Chairman of Remuneration Committee

Independent auditor's report to the members of Tern Plc

For the year ended 31 December 2019

Opinion

We have audited the financial statements of Tern Plc (the 'company') for the year ended 31 December 2019 which comprise the Income Statement and Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Emphasis of matter – impact of COVID-19

We draw attention to note 23 of the financial statements, which describes the impact of COVID-19 on the company. Our opinion is not modified in respect of this matter.

Key audit matters

We identified the key audit matters described below as those that were of most significance in the audit of the financial statements of the current period. Key audit matters include the most significant assessed risks of material misstatement, including those risks that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team.

In addressing these matters, we have performed the procedures below which were designed to address the matters in the context of the financial statements as a whole, and in forming our opinion thereon. Consequently, we do not provide a separate opinion on these individual matters.

Independent auditor's report to the members of Tern Plc

For the year ended 31 December 2019

Key audit matter	Description of risk	How the matter was addressed in the audit
Valuation of investments	Investments are the most significant balance on the balance sheet and the value is reliant on third party financial information and projections. Due to the nature of the investments there is a lack of observable inputs and therefore the key risk is considered to be the fair value of investments. We therefore identify the valuation of investments held for trading as high risk. The company's accounting policy on investments is shown in note 1.9 to the financial statements, critical accounting judgements and estimates included in note 3 and related disclosures are included in note 11.	We challenged the valuation of investments, assessing the methodology used by management and considered other potential valuation models which have been used in the industry. We tested the key inputs to the valuation model, valuing the underlying assets and the forecasts of future revenue. We considered the sensitivity of the valuations to changes in key assumptions. We utilised our specialist valuations team to review the validity of the methodology and calculations used to value the investments. We have agreed the valuation of the most significant investment to the indicative range suggested by an independent third party. We tested the mathematical accuracy of the valuation calculations.

Materiality

The materiality for the financial statements as a whole was set at £378,000. This has been determined with reference to the benchmark of the company's net assets, which we consider to be one of the principal considerations for members in assessing the performance of the group. Materiality represents 2% of the company's net assets as presented in the Statement of Financial Position.

Other information

The other information comprises the information included in the Report and Accounts, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Independent auditor's report to the members of Tern Plc

For the year ended 31 December 2019

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 29, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Sancho Simmonds

Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

25 Moorgate
London
EC2R 6AY

4 May 2020

Income Statement and Statement of Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 £	2018 £
Fee income		124,766	106,117
Movement in fair value of investments	11	293,756	775,910
Total investment income		418,522	882,027
Administration costs		(1,028,605)	(792,534)
Other expenses	6	(245,414)	(476,716)
Operating loss	7	(855,497)	(387,223)
Finance income	8	74,854	74,659
Loss before tax		(780,643)	(312,564)
Tax	9	–	–
Loss and total comprehensive income for the period		(780,643)	(312,564)

Since there is no other comprehensive income, the loss for the year is the same as the total comprehensive income for the year.

EARNINGS PER SHARE:			
Basic and diluted earnings per share	10	(0.3) pence	(0.1) pence

The accompanying accounting policies and notes are an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2019

	Notes	2019 £	2018 £
ASSETS			
NON-CURRENT ASSETS			
Investments	11	17,882,660	14,856,239
		17,882,660	14,856,239
CURRENT ASSETS			
Trade and other receivables	12	174,486	239,180
Cash and cash equivalents	13	1,007,965	1,913,801
		1,182,451	2,152,981
TOTAL ASSETS		19,065,111	17,009,220
EQUITY AND LIABILITIES			
Share capital	14	1,355,571	1,348,903
Share premium	14	22,578,619	19,660,434
Retained earnings	15	(5,021,113)	(4,257,564)
		18,913,077	16,751,773
CURRENT LIABILITIES			
Trade and other payables	16	152,034	257,447
TOTAL CURRENT LIABILITIES		152,034	257,447
TOTAL LIABILITIES		152,034	257,447
TOTAL EQUITY AND LIABILITIES		19,065,111	17,009,220

The financial statements were approved and authorised for issue by the Board of Directors on 4 May 2020 and were signed on its behalf by:

Sarah Payne
Director

Company number 05131386

The accompanying accounting policies and notes are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital £	Share premium £	Loan note equity reserve £	Warrant reserve £	Retained earnings £	Total equity £
Balance at 31 December 2017	1,330,225	13,237,362	123,482	175,982	(4,286,249)	10,580,802
Total comprehensive income	–	–	–	–	(312,564)	(312,564)
Transactions with owners						
Issue of share capital	18,678	6,861,072	–	–	–	6,879,750
Share issue costs	–	(603,000)	–	–	–	(603,000)
Conversion of convertible loan note	–	–	(123,482)	–	–	(123,482)
Transfer of lapsed warrants	–	–	–	(175,982)	175,982	–
Share based payment charge	–	–	–	–	165,267	165,267
Transfer on conversion of loan notes	–	165,000	–	–	–	165,000
Balance at 31 December 2018	1,348,903	19,660,434	–	–	(4,257,564)	16,751,773
Total comprehensive income	–	–	–	–	(780,643)	(780,643)
Transactions with owners						
Issue of share capital	6,668	3,243,335	–	–	–	3,250,003
Share issue costs	–	(325,150)	–	–	–	(325,150)
Share based payment charge	–	–	–	–	17,094	17,094
Balance at 31 December 2019	1,355,571	22,578,619	–	–	(5,021,113)	18,913,077

The accompanying accounting policies and notes are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 £	2018 £
OPERATING ACTIVITIES			
Net cash used in operations	20	(1,337,878)	(752,350)
Purchase of investments		(1,808,034)	(2,523,309)
Loan to investee companies		(688,332)	(1,033,316)
Interest received		3,555	3,450
Net cash used in operating activities		(3,830,689)	(4,305,525)
FINANCING ACTIVITIES			
Proceeds on issues of shares		3,250,003	6,010,000
Share issue expenses		(325,150)	(603,000)
Proceeds from exercise of options		–	8,500
Proceeds on issue of loan note		–	550,000
Repayment of loan stock		–	(20,000)
Net cash from financing activities		2,924,853	5,945,500
(Decrease)/Increase in cash and cash equivalents		(905,836)	1,639,975
Cash and cash equivalents at beginning of year		1,913,801	273,826
Cash and cash equivalents at end of year		1,007,965	1,913,801

The accompanying accounting policies and notes are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2019

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

1.1 GENERAL INFORMATION

Tern plc is an investing company specialising in private software companies, predominantly in the Internet of Things.

The Company is a public limited company, incorporated in England and Wales, with its shares traded on AIM, a market of that name operated by the London Stock Exchange.

The address of Tern's registered office is 27/28 Eastcastle Street, London W1W 8DH. Items included in the financial statements of the Company are measured in Pound Sterling, which is the Company's presentational and functional currency.

1.2 BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union (EU) and therefore the financial statements comply with Article 4 of the EU IAS Regulation and Companies Act 2006.

IFRS is subject to amendment and interpretation by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) and there is an ongoing process of review and endorsement by the European Commission. The financial statements have been prepared on the basis of the recognition and measurement principles of the IFRS that were applicable at 31 December 2019.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

The financial statements have been prepared on the historical cost basis except for investments and certain financial instruments which are measured at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies set out below have been consistently applied to all periods presented, except where stated.

In accordance with IFRS 10, para 4 the Directors consider the Company to be an investment company and has taken the exemption not to present consolidated financial statements or apply IFRS3 when it obtains control of another entity as it is an investing company that measures all of its investments at fair value through the income statement in accordance with IFRS 9.

1.3 GOING CONCERN

The financial statements have been prepared on the going concern basis.

The Directors have a reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Company's financial statements. This has been assessed using detailed cash flow analysis so that the Board can conclude that the Company has sufficient working capital resources to continue for at least 12 months without any additional financing requirement. The post year end fundraise and the impact of COVID-19 has been considered as part of this assessment. In the event that opportunities are presented such that additional funding was required, management are confident that they would be able to obtain additional funds from various sources. More detail is set out in Note 23.

1. ACCOUNTING POLICIES (continued)

1.4 STATEMENT OF COMPLIANCE

International Financial Reporting Standards ("Standards") in issue but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 7 Financial Instruments: Disclosures, IAS 39 Financial Instruments: Recognition and Measurement, amendments regarding pre-replacement issues in the context of the IBOR reform (issued in September 2019 and effective for annual periods beginning on or after 1 January 2020)
- IFRS 17 Insurance Contracts (issued in May 2017 and effective for annual periods beginning on or after 1 January 2021)
- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, amendments to the definition of material (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020)

1.5 ADOPTION OF NEW AND REVISED STANDARDS

On 1 January 2019, the Company adopted International Financial Reporting Standard 16 Leases (IFRS 16). IFRS 16 replaces IAS 17 Leases. Under the provisions of the new standard, most leases, including the majority of those previously classified as operating leases, will be brought onto the statement of financial position, as both a right-of-use assets and a largely offsetting lease liability. The right of use asset and lease liability are both based on the present value of lease payments due over the term of the lease, with the asset being depreciated in accordance with IAS 16 'Property, plant and equipment' and the liability increased for the accretion of interest and reduced by lease payments. The Company has adopted the new IFRS, however given the lease is short term and immaterial, it has had no change to the net assets or any line items in the 2019 financial statements.

1.6 TURNOVER

Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which the Company is expected to be entitled in exchange for transferring services to a portfolio company or recharging legal advice to a portfolio company. For each contract with a portfolio company there is only one performance obligation in the contract and the transaction price is readily identifiable. Revenue is recognised as each performance obligation is satisfied in a manner that depicts the transfer to the portfolio company of the goods or services promised.

There is no variable consideration within the transaction price.

Rendering of services

Revenue from a contract to provide services is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

1. ACCOUNTING POLICIES (continued)

1.7 TAXATION

The tax expense represents the sum of the tax currently payable and any deferred tax. The charge for current tax is based on the results for the period as adjusted for items which are non-assessable or disallowed. It is calculated using rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs to its tax base, except for differences arising on:

- the initial recognition of an asset or liability which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that the taxable profit will be available against which the differences can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

1.8 INVESTMENTS

The investment valuation consists of equity investments and convertible loan notes and loans issued to an investment company. The convertible loan note is a financial asset with multiple embedded derivatives which includes a warrant instrument. IFRS 9 permits the entire contract to be designated at FVTPL.

In accordance with IFRS 10, paragraph 4, investments are recognised at FVTPL in line with guidance set out in IFRS 9. Changes in foreign exchange rates impact investments valued in a foreign currency.

1.9 IMPAIRMENT OF FINANCIAL ASSETS

Assets carried at fair value through profit or loss (FVTPL)

Under IFRS 9 no impairment testing is required for equity investments which are measured at fair value through profit or loss (“FVTPL”).

Under IFRS 9, the change in lifetime expected credit losses for trade receivables is recognised as an impairment gain or loss in the income statement.

1.10 TRADE RECEIVABLES

Trade receivables are classified as a financial asset and are valued at amortised cost in accordance with IFRS 9. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is calculated as the change in lifetime expected credit losses and recognised in the income statement, in accordance with IFRS 9.

1.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the statement of financial position. Cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

1. ACCOUNTING POLICIES (continued)

1.12 TRADE PAYABLES

Trade payables are financial liabilities measured at amortised cost in accordance with IFRS 9.

1.13 EQUITY INSTRUMENTS

Equity instruments are recorded at the proceeds received net of direct issue costs.

1.14 LOANS TO PORTFOLIO COMPANIES

Convertible Loans

Convertible loans provided to investment companies are evaluated with reference to IFRS 9. The convertible loan facility issued to Device Authority is a financial asset with multiple embedded derivatives and a warrant instrument. The convertible loan facility issued to InVMA is a financial asset with multiple embedded derivatives. IFRS 9 permits the entire contract for both loans to be designated at FVTPL.

Other Loans

The loan facility provided to Wyld Networks is a financial asset designated at FVTPL. Assets are measured at fair value at each reporting date, with any movement in fair value taken to profit or loss for the year.

1.15 SHARE BASED PAYMENTS

All share based payments are accounted for in accordance with IFRS 2 – “Share-based payments”. The Company issues equity-settled share based payments in the form of share options to certain Directors, employees and advisors. Equity settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share based payments is expensed on a straight line basis over the vesting period, with a corresponding adjustment to retained earnings, based on the Company’s estimate of shares that will eventually vest.

Fair value is estimated using the Black-Scholes model as relevant for the terms and conditions of the options. The expected life used in the model has been adjusted, on the basis of management’s best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations. At each statement of financial position date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to retained earnings.

2. FINANCIAL RISK MANAGEMENT

The Company uses a limited number of financial instruments; comprising cash, convertible loans and various items such as trade receivables and payables, which arise directly from operations. The Company does not trade in financial instruments.

2. FINANCIAL RISK MANAGEMENT (continued)

2.1 FINANCIAL RISK FACTORS

The Company's financial instruments comprise its investment portfolio, loans to portfolio companies, cash balances, debtors and creditors that arise directly from its operations. The Company is exposed to market risk through the use of financial instruments and specifically to liquidity risk, market price risk and credit risk, which result from the Company's operating activities.

The Board's policy for managing these risks is summarised below.

Liquidity risk

The Company makes investments in private companies for the medium term which are therefore not immediately liquid. The Company manages this risk by holding cash to support its investments and for working capital. The Company ensures it has sufficient cash through a combination of means including proceeds from asset sales, equity raises and, in the past, the use of convertible loan notes. The financial performance and position of the investee companies are regularly monitored to assess when further investment may be required, this includes a review of cash flow forecasts. Whilst the Company has no quoted investments at present, if it holds such investments these may be sold to meet the Company's funding requirements.

The Company's income and operating cash flows are substantially independent of changes in market interest rates.

The following table shows the contractual maturities of the Company's financial liabilities, including repayments of both principal and interest where applicable.

Trade and Other Payables	2019 £	2018 £
Six months or less	152,034	257,447
Six months to 2 years	–	–
Total contractual cash flows	152,034	257,447

Market price risk

When the Company owns quoted investments, it will be exposed to market price risk as shown by movements in the value of its equity investments. Any such risk will be regularly monitored by the Directors.

The convertible loan notes held in Device Authority and InVMA also expose the Company to market price variation as the conversion possibilities include a price to be set by a qualifying fundraise.

The investments currently held are not liquid as all the investments are unquoted.

Foreign exchange risk

The Company generally conducts its business within the UK, however some of its investments are valued based on a US dollar valuation, particularly Device Authority, the most significant investment, and therefore their value can change dependent on currency exchange movement. To the extent that exchange rate fluctuations impact the value of the Company's investments in its foreign operations, they are not hedged.

Credit risk

The Company's primary credit risk arises from loans made to its portfolio companies and trade receivables. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable and derivative instruments. These instruments contain a risk of counterparties failing to discharge their obligations. The Company monitors credit risk and manages credit risk exposure by type of financial instrument by assessing the creditworthiness of counterparties. The Company does not anticipate non-performance by counterparties, however it generally requires security over the companies' assets to support financial instruments with credit risk.

2. FINANCIAL RISK MANAGEMENT (continued)

2.1 FINANCIAL RISK FACTORS (continued)

The Company derives a significant percentage of revenue from a small number of investments. Sales to these portfolio companies are not expected to fluctuate significantly and are not significant in value.

The credit risk on loans is low as the expectation is to convert loan balances on realisation of the assets. The credit risk on trade receivables is low due to the generally low balance held.

The maximum credit exposure is equal to the carrying values of cash at bank, accounts receivables and investments.

2.2 CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company monitors capital on the basis of the carrying amount of equity plus debt as presented on the face of the statement of financial position. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

2.3 FAIR VALUE ESTIMATION

The nominal value less impairment provision of trade receivables and payables is assumed to approximate to their fair values. The fair value of financial assets is based on an assessment of returns from the conversion or repayment of the loans. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

The fair value of trade receivables is estimated at fair value less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is calculated as the change in lifetime expected credit losses and recognised in the income statement, in accordance with IFRS 9.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

ESTIMATES

Fair value of financial instruments

The Company holds investments of £17.9 million that have been designated as held for trading on initial recognition. Where practicable the Company determines the fair value of these financial instruments that are not quoted (Level 3) using the most recent bid price at which a transaction has been carried out. These techniques are significantly affected by certain key assumptions, such as market liquidity. Given the nature of the investments being early stage business, other valuation methods such as discounted cash flow analysis to assess estimates of future cash flows and derive fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realised immediately.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Device Authority has maintained its US dollar valuation compared to 2018 without a bid price comparison in the year. It is an early stage business in an emerging market where there is a lack of comparative businesses available on which to provide a comparable valuation and therefore valuation was based on a combination of factors including the independent valuation of Device Authority's patent portfolio, an independent comparison to transaction multiples in comparable market sectors and an evaluation of sales pipeline and 2020 trading forecast. This supported a valuation in line with 2018, although an exchange rate loss was recognised on translation at the balance sheet date.

The Company holds financial assets that have been held at FVTPL. The value of the convertible loan note has been estimated by assessing the probability of each possible redemption or conversion scenario and accounting for this within the overall fair value assessment.

JUDGEMENTS

Investments held at FVTPL

The critical judgement that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is the assessment that investments should be consolidated. This assessment was reached following a review of all the key conditions for an investment entity, as set out in IFRS 10 and the Company was judged to have met those key conditions as follows:

- The Company obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- The Company commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- The Company measures and evaluates the performance of substantially all of its investments on a fair value basis.

In coming to this conclusion, the Company also judged that its investment-related activities do not represent a separate substantial business activity or a separate substantial source of income to the investment entity.

4. SEGMENTAL REPORTING

The accounting policy for identifying segments is based on internal management reporting information that is regularly reviewed by the chief operating decision maker, which is identified as the Board of Directors.

In identifying its operating segments, management generally follows the Company's service lines which represent the main products and services provided by the Company. The Directors believe that the Company's continuing investment operations comprise one segment and therefore the figures presented on the face of the income statement and statement of financial position represent the segmental information.

Notes to the Financial Statements

For the year ended 31 December 2019

5. STAFF COSTS

Staff costs for the Company during the year, including Directors	2019 £	2018 £
Wages and salaries	433,042	277,920
Consultancy fees	27,500	24,000
Social security costs	54,593	31,860
Pension costs	2,428	1,601
Share based payment charge	17,094	165,267
Total staff costs	534,657	500,648

The average number of people (including Executive Directors) employed by the Company during the year was:

	2019 No	2018 No
Directors	5	5
Employees	1	1
Total	6	6

DIRECTORS' REMUNERATION

Other than Directors the Company had two employees as at 31 December 2019. Total remuneration paid to Directors during the year was as follows:

	2019 £	2018 £
Directors' remuneration		
– Salaries and benefits	379,411	248,026
– Consultancy fees	27,500	24,000
– Social security costs	42,872	28,393
– Pension costs	2,376	1,601
– Share based payment charge	–	165,267
Total Directors' remuneration	452,159	467,287
Total remuneration of the highest paid Director (including share based payment charge) was	126,287	139,562

A summary of remuneration paid to each Director, including pension payments, is included in the Report on Directors' Remuneration (page 35-36).

Key management personnel is deemed to consist solely of the statutory Directors.

Notes to the Financial Statements
For the year ended 31 December 2019

6. OTHER EXPENSES

	2019 £	2018 £
Share based payment (options)	17,094	165,267
Sundry non-recurring expenses	10,697	88,868
Non-recurring legal and professional costs	172,319	38,332
Recharged portfolio professional fees	45,304	19,249
Transaction costs associated with convertible loan note	–	55,000
Discount on issue of convertible loan note	–	110,000
	245,414	476,716

7. OPERATING LOSS

	2019 £	2018 £
Loss from operations has been arrived at after charging:		
Remuneration of Directors	452,159	467,287
Fees payable to the Company's auditor for services provided to the Company:		
– Audit services	29,500	27,400
– Audit related services	–	20,000
– Tax compliance services	4,000	3,500
– Tax advisory services	–	45,675

Fees were incurred during the year payable to the Company's previous auditor prior to their resignation. These consist of: non audit related services £18,700; tax compliance services £3,360; tax advisory services £5,500 and other professional services £62,590. Fees in relation to 2018 also relate to the previous auditors.

8. FINANCE INCOME

	2019 £	2018 £
Bank interest	3,259	3,450
Interest income in respect of shareholder convertible loan notes	–	3,567
Interest income on loan notes	296	–
Interest accrued on convertible loan notes	71,299	67,642
	74,854	74,659

9. TAXATION

	2019 £	2018 £
Taxation attributable to the Company	–	–

Domestic income tax is calculated at 19% (2018: 19%) of the estimated assessable profit for the year. The charge for the year can be reconciled to the loss per the income statement as follows:

	2019 £	2018 £
Loss before tax	(780,643)	(312,564)
Tax at domestic income tax rate	(148,322)	(59,387)
Expenses not deductible for tax purposes	4,042	65,409
Income not taxable	(55,814)	(123,479)
Unutilised tax losses	200,094	117,457
Tax (credit)/expense	–	–

The Company has unutilised losses of approximately £6.5 million (2018: £5.6 million) resulting in a deferred tax asset not recognised of approximately £1.2 million (2018: £1.1 million). The losses do not have an expiry date. The Company has not recognised a deferred tax asset in respect of these losses as there is insufficient evidence of future taxable profits. The Company has not recognised a deferred tax liability in respect of fair value gains on investments as most asset sales are expected to be exempt from taxation due to the substantial shareholding exemption (SSE).

10. EARNINGS PER SHARE

	2019 £	2018 £
Loss for the purposes of basic and fully diluted loss per share	(780,643)	(312,564)

	2019 Number	2018 Number
Weighted average number of ordinary shares:		
For calculation of basic earnings per share	251,945,498	217,221,165
For calculation of fully diluted earnings per share	251,945,498	217,221,165

	2019	2018
Loss per share:		
Basic and diluted loss per share	(0.3) pence	(0.1) pence

Note: The fully diluted loss per share for 2019 and 2018 is the same as the basic loss per share as the loss for the year has an anti-dilutive effect on earnings per share.

Notes to the Financial Statements

For the year ended 31 December 2019

11. NON-CURRENT ASSETS

INVESTMENTS

	2019 £	2018 £
Cost of investments brought forward	14,856,239	10,218,625
Reclassification of convertible loan note from other debtors	–	1,270,753
Reclassification of cash flow loans from other debtors	165,000	–
Interest accrued on convertible loan note	71,299	67,642
Additions	2,496,366	2,523,309
Cost of investments carried forward	17,588,904	14,080,329
Fair value adjustment to investments	293,756	775,910
Fair value of investments carried forward	17,882,660	14,856,239
Fair value of equity investments	10,196,240	9,337,041
Fair value of convertible loans	6,833,088	5,519,198
Fair value of cash flow loans	853,332	–
Fair value of investments	17,882,660	14,856,239

The convertible loan facility issued to Device Authority is a financial liability with multiple derivatives and the entire contract has been designated at FVTPL, with any movement in fair value taken to profit or loss for the year. In 2019 the fair value increase was £0.3 million (2018: £0.3 million). The convertible loan note has been secured with a charge over Device Authority's intellectual property.

The cashflow loan issued to Wyld Networks is secured and carries interest at a rate to be agreed by the Company and Wyld Networks. The balance outstanding on the cash flow loan as at 31 December 2018 was reclassified as a non-current asset as repayment is not anticipated in the foreseeable future. All loans issued in 2019 have been included in additions.

12. TRADE AND OTHER RECEIVABLES

	2019 £	2018 £
Trade receivables	112,648	38,958
Prepayments and accrued income	52,531	22,874
Loan to investee companies	–	165,000
Other receivables	9,307	12,348
Total	174,486	239,180

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. There is no provision for bad debt.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of the trade receivables and investee company receivables mentioned above. The investee company receivables are secured on the assets of the companies.

The loan to investee companies has been reclassified to investments.

13. CASH AND CASH EQUIVALENTS

	2019 £	2018 £
Cash at bank	1,007,965	1,913,801

The Directors consider that the carrying amount of cash at bank is a reasonable approximation to their fair value.

14. ISSUED SHARE CAPITAL

	Number of shares No.	Nominal value £	Share premium £
ISSUED AND FULLY PAID:			
At 31 December 2018			
Ordinary shares of £0.0002	236,676,887	47,335	
Deferred shares of £29.999	42,247	1,267,368	
Deferred shares of £0.00099	34,545,072	34,200	
	271,264,206	1,348,903	19,660,434
Ordinary shares issued for cash	33,342,158	6,668	3,243,335
Share issue expenses	–	–	(325,150)
	304,606,364	1,355,571	22,578,619
At 31 December 2019			
Ordinary shares of £0.0002	270,019,045	54,003	
Deferred shares of £29.999	42,247	1,267,368	
Deferred shares of £0.00099	34,545,072	34,200	
	304,606,364	1,355,571	22,578,619

Ordinary Shares

The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights. They do not confer any rights of redemption.

Deferred shares of £29.999

The shares have no voting or dividend rights. There are no capital distribution (including on winding up) rights, other than to receive the nominal amount paid on the shares, after the ordinary shareholders have received the sum of £100 per share.

Deferred shares of £0.00099

The shares have no voting or dividend rights. There are no capital distribution (including on winding up) rights, other than to receive the nominal amount paid on the shares. The Company has the right to purchase all the shares for £1.

On 9 April 2019, 17,647,058 ordinary shares were issued at 8.5p per share for cash as the result of a private placing raising £1,500,000 before expenses.

On 5 November 2019, 15,695,100 ordinary shares were issued at 11.15p per share for cash as the result of a private placing, raising £1,750,003 before expenses.

Notes to the Financial Statements

For the year ended 31 December 2019

15. RESERVES

Details of the movements in reserves are set out in the Statement of Changes in Equity. A description of each reserve is set out below.

Share capital

The amount subscribed for shares at nominal value.

Share premium

This represents the excess of the amount subscribed for share capital over the nominal value of the respective shares net of share issue expenses.

Loan note equity reserve

This represents the equity component of convertible loans issued less amounts realised on conversion of loans.

Warrant reserve

This represents the calculated value of the warrants issued less amounts realised on exercise or lapse of warrants.

Retained earnings

Cumulative loss of the Company.

16. TRADE AND OTHER PAYABLES

	2019 £	2018 £
Trade payables	84,523	64,370
Accruals	51,535	185,138
Other taxes and social security	15,976	7,939
Total	152,034	257,447

The Directors consider that the carrying amount of trade payables approximates to their fair value.

17. FAIR VALUE MEASUREMENT

FINANCIAL ASSETS

The Company classifies its financial instruments in the following categories: at fair value through profit or loss or amortised cost. The classification depends on the purpose for which the financial instrument was acquired. Management determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each financial period end.

When financial assets are recognised initially, they are measured at fair value, being the transaction price plus directly attributable transaction costs.

17. FAIR VALUE MEASUREMENT (continued)

FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

Investments

All investments are determined upon initial recognition as held at fair value through profit or loss. Investment transactions are accounted for on a trade date basis. Asset sales are recognised at the trade date of the disposal. Assets are sold at their fair value. The fair value of the financial instruments in the statement of financial position is based on the last transaction price at the statement of financial position date, with no deduction for any estimated future selling cost. Unquoted investments are valued by the Directors using primary valuation techniques such as recent transactions and last price. Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the statement of comprehensive income as “movement in fair value of investments”. Investments are measured at fair value in accordance with IFRS 9. Details of the valuation technique for each individual investment is set out in the Investment Report on pages 21 to 25.

The Company determines the fair value of its investments based on the following hierarchy:

LEVEL 1 – Where financial instruments are traded in active financial markets, fair value is determined by reference to the appropriate quoted market price at the reporting date. Active markets are those in which transactions occur in significant frequency and volume to provide pricing information on an on-going basis.

LEVEL 2 – If there is no active market, fair value is established using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable market data including recent arm’s length market transactions, and comparisons to the current fair value of similar instruments; but where this is not feasible, inputs such as liquidity risk, credit risk and volatility are used.

LEVEL 3 – Valuations in this level are those with inputs that are not based on observable market data.

The following table shows the levels within the hierarchy of investments measured at fair value on a recurring basis at 31 December 2019 and 31 December 2018:

31 December 2019	Level 1	Level 2	Level 3	Total
Equity investments (£)	–	–	10,196,240	10,196,240
Convertible loan notes (£)	–	–	6,833,088	6,833,088
Cash flow loans	–	–	853,332	853,332
Total investments	–	–	17,882,660	17,882,660

See note 11 for more detail.

31 December 2018	Level 1	Level 2	Level 3	Total
Investments (£)	–	–	9,337,041	9,337,041
Convertible loan notes (£)	–	–	5,519,198	5,519,198
Total investments	–	–	14,856,239	14,856,239

The fair value assessment was made by the Directors using the price of the shares in the most recent fundraise, where this was available, as well as an assessment of market valuations placed on comparable businesses, a review of the underlying asset values and a review of the sales pipeline and forecast to support any valuation applied. The fair value of the investment in Device Authority includes an assessment of the probability of each possible redemption or conversion scenario and accounting for this within the overall fair value assessment. This includes conversion on a qualifying fundraise, conversion on an exit and redemption at a premium. If the probability of the most sensitive variable varies by 10% the impact on the overall valuation is approximately £690,000.

17. FAIR VALUE MEASUREMENT (continued)

Convertible loans provided to investment companies are evaluated with reference to IFRS 9. The financial asset will be measured and accounted for at FVTPL. Assets are measured at fair value at each reporting date, with any movement in fair value taken to profit or loss for the year.

Financial instruments at amortised cost

Non-convertible loans and receivables that are held with the intention of collecting contractual cash flows are classified and measured at amortised cost. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

18. SHARE BASED PAYMENTS

OPTIONS

The Company operates an equity settled share based remuneration scheme for Directors, employees and advisors. Under the Director and employees' scheme options issued during the year were granted to purchase shares which must be exercised within ten years from the date of the grant.

The options are capable of exercise on the third anniversary of the grant date according to the increase in share price on the vesting date. If the share price increased by 100% then 100% of the shares options vest and if there has been no increase in share price, then 0% of the share options vest. Between these two points the options will vest on a straight-line basis. All options issued prior to 2019 were fully vested at 31 December 2018.

Under the previous scheme, which is still in place for the Non-Executive Director and previous Directors, shares were granted which must be exercised within seven years from the date of grant. These options vest immediately on issue.

In 2015 and 2017 share options were issued to a professional adviser as part of their fees. Under the advisors' scheme options may be granted to purchase shares which must be exercised within five years or ten years from the date of grant. The advisor options are fully vested.

The Black Scholes method was used to calculate the fair value of the Director and employees' scheme to calculate the fair value of options at the date of grant.

The table below lists the inputs to the model used for the options granted in 2019:

	Employees
Weighted average share price at date of grant	9.15 pence
Weighted average exercise price	9.15 pence
Expected volatility	100%
Vesting period	1
Contractual life	10
Risk free rate	1.94%

A total share based payment charge of £17,094 was recognised in 2019 (2018: £165,267) in respect of the options granted, of this £17,094 (2018: £165,267) related to equity settled options issued to employees.

18. SHARE BASED PAYMENTS (continued)

The share options held as at 31 December 2019 are set out in the table below:

	Outstanding at 31 December 2018	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2019	Option Price	Exercisable on or before
Directors	7,500,000	–	–	–	7,500,000	8.5p	18 May 2027
	250,000	–	–	–	250,000	13p	22 Feb 2023
Total Directors	7,750,000	–	–	–	7,750,000		
Employees	–	2,500,000	–	–	2,500,000	9.15p	1 Dec 2029
Other	900,000	–	–	–	900,000	9p	15 Feb 2022
	100,000	–	–	–	100,000	8.5p	18 May 2027
	250,000	–	–	–	250,000	15p	16 Dec 2020
Total Options	9,000,000	2,500,000	–	–	11,500,000		

Note: A detailed breakdown of Directors' options is set out in the Report on Directors' Remuneration.

19. RELATED PARTY TRANSACTIONS

Device Authority Limited, a company in which Tern has a controlling shareholding, is also considered a related party. During the year Tern invoiced Device Authority Limited £39,844 in respect of management services and recharged professional services (2018: £20,000). At the year-end Tern was owed £75,844 in trade receivables by Device Authority Limited (2018: £36,000). Tern has also provided a convertible loan note to Device Authority Limited. As at 31 December 2019, the convertible loan outstanding was £2,527,848 (2018: £1,270,753).

Wyld Networks Limited, a company wholly owned by Tern, is also considered a related party. During the year Tern invoiced Wyld Networks £15,914 in respect of management services and recharged professional services (2018: £30,000). As at 31 December 2019 Tern was owed £9,120 in trade receivables by Wyld Networks Limited (2018: nil). Tern has also provided a working capital loan to Wyld Networks Limited. As at 31 December 2019, the working capital loan outstanding was £853,332 (2018: £165,000).

Wyld Technologies Limited, a company 90% owned by Wyld Networks Limited, is also considered a related party. During the year Tern invoiced Wyld Technologies Limited £13,680 in respect of management services (2018: nil). As at 31 December 2019 Tern was owed £720 in trade receivables by Wyld Technologies Limited (2018: nil).

InVMA Limited, a company in which Tern has a 50% shareholding, is also considered a related party. During the year, Tern invoiced InVMA Limited £33,097 in respect of management services (2018: £39,700). As at 31 December 2019, Tern was owed £26,963 in trade receivables by InVMA Limited (2018: £2,958).

FVRVS Limited, a company in which Tern has a 26.9% shareholding, is also considered a related party. During the year, Tern invoiced FVRVS Limited £16,328 in respect of management services and recharged legal services (2018: £19,249). There were no amounts outstanding to or from the Company at 31 December 2019 (2018: nil).

During the year, Alan Howarth & Associates Limited, a company in which Alan Howarth has a controlling shareholding, invoiced the Company £27,500 for management services (2018: £24,000). There were no amounts outstanding to or from the Company at 31 December 2019.

Executive Directors made payments of £6,678 in total to the Company in respect of tax liabilities resulting from gains accrued on the conversion of Directors' convertible loan notes (2018: £27,950).

Notes to the Financial Statements

For the year ended 31 December 2019

20. CASH FLOW FROM OPERATIONS

	2019 £	2018 £
Loss for the year	(780,643)	(312,564)
Adjustments for items not included in cash flow:		
Movement in fair value of investments	(293,756)	(775,910)
Share based payment charge	17,094	165,267
Transaction costs associated with convertible loan note	–	55,000
Discount on issue of convertible loan note	–	110,000
Interest income accrued	(71,299)	(71,209)
Finance income	(3,555)	(3,450)
Operating cash flows before movements in working capital	(1,132,159)	(832,866)
Adjustments for changes in working capital:		
(Increase)/decrease in trade and other receivables[1]	(100,306)	100,233
Decrease in trade and other payables	(105,413)	(19,717)
Cash used in operations	(1,337,878)	(752,350)

[1] Excludes loans to investee companies

21. FINANCIAL INSTRUMENTS

The Group uses financial instruments, other than derivatives, comprising cash to provide funding for the Group's operations.

CATEGORIES OF FINANCIAL INSTRUMENTS

The IFRS 9 categories of financial asset included in the Statement of Financial Position and the headings in which they are included are as follows:

	2019 £	2018 £
FINANCIAL ASSETS:		
Cash at bank	1,007,965	1,913,801
Financial instruments at amortised cost		
Trade receivables	112,648	38,958
Loans	–	165,000
Other receivables	9,307	12,348
Fair value through profit or loss (FVTPL)		
Investments	17,882,660	14,856,239

FINANCIAL LIABILITIES MEASURED AT AMORTISED COST:

The IFRS 9 categories of financial liabilities included in the Statement of Financial Position and the headings in which they are included are as follows:

	2019 £	2018 £
Trade and other payables	84,523	64,370
Accruals	51,535	185,138

Notes to the Financial Statements

For the year ended 31 December 2019

22. EVENTS AFTER THE REPORTING PERIOD

On 13 January 2020, it was announced that InVMA had secured an initial order commitment worth £817,000 over a two-year period to provide its AssetMinder® solution to a global, multi-billion Euro revenue supplier to the industrial and construction sectors.

On 3 March 2020 it was announced that DocuSign Inc intended to acquire Seal for $188 million in cash.

On 9 March 2020, it was announced that the Company had raised approximately £0.8 million before expenses through a subscription of 13,333,331 new ordinary shares of 0.02p each at a price of 6 pence per new ordinary share.

23. COVID-19

Companies around the world are faced with unprecedented challenges to keep essential operations moving forward amid the coronavirus pandemic. Economic recovery can only follow the recovery of public health which is the focus of every government. At Tern we have focused on the safety of our employees and the employees of our portfolio companies and we have also taken additional steps to be prepared when emphasis shifts to social well-being.

We recently conducted a fundraise of £0.8 million which at the time of writing means we do not need to furlough Tern staff but as a precautionary measure the Board have taken 20% salary reductions to protect our balance sheet. The team is also set up to work effectively from home. We have established a weekly situation video conference with our principal portfolio company CEOs to provide support, advice and share recent experiences. Our portfolio companies have taken similar actions to each other, including furloughing some employees, salary reductions across the business and applying for government support where relevant.

As technology businesses, our portfolio is fortunately facing less severe challenges during the current crisis and are operating and meeting the needs of their customers and prospects by applying their technologies where appropriate to help in the support of the fight to restore public health and safety. There will be an ongoing need for technology to support continuing social distancing measures as the lockdown eases.

The risks associated with COVID-19 are considered further in principal business risks and uncertainties, including the risk that fundraising for the portfolio companies may be more difficult to access. The Company has mitigated this risk by ensuring it has sufficient cash reserves and continuing discussions with potential strategic partners and investors for the portfolio companies.

We remain optimistic about our portfolio businesses and are working to ensure they will be positioned for growth when the economy begins its recovery.

COVID-19 is considered to be a non-adjusting post balance sheet event and therefore has not been taken into account in preparing the Statement of Financial Position, including the fair value of investment portfolio, as at 31 December 2019.

24. ULTIMATE CONTROLLING PARTY

The Directors do not consider there to be a single ultimate controlling party.

Notice of 2020 Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2020 Annual General Meeting of Tern plc ("the Company") will be held at 3pm on Monday 8 June 2020 at the Company offices: Gridiron, One Pancras Square, London N1C 4AG.

IMPORTANT INFORMATION – IMPACT OF THE COVID-19 PANDEMIC ON THE AGM

In light of the evolving Coronavirus (COVID-19) pandemic, the Board has been monitoring closely the rapidly changing situation. The health of our shareholders, employees and stakeholders remains extremely important to us and accordingly, the Board has taken into consideration the compulsory 'Stay at Home' measures published by the UK Government. These measures currently provide that public gatherings of more than two people are not permitted, unless the gathering is 'essential for work purposes'. Attendance at an annual general meeting by a shareholder, other than one specifically required to form the quorum for that meeting, is not 'essential for work purposes' under those measures. Regrettably therefore, shareholders are requested not attend the AGM to be held on 8 June 2020 and the Company will be unable to allow entry to anyone seeking to attend the AGM in person. As noted below, Shareholders should instead vote by proxy. Our advisers have also been requested not to attend.

The Company will convene the AGM with the minimum necessary quorum of two shareholders (which the Company will facilitate). The Company will include all valid proxy votes (whether submitted electronically or in hard copy form) in its polls at the AGM and the Chair of the meeting will call for a poll on each resolution. The Company accordingly requests that shareholders submit their proxy votes in respect of the resolutions as set out in this Notice, electronically or by post in advance, in accordance with the instructions set out in this Notice.

The current situation is evolving and the Company will make any further announcements that may be required by way of a Regulatory News Service and on the Company's website. If the Stay at Home measures are not in force at the date of the AGM and there are no other restrictions on attendance in place, you may be able to attend the meeting in person, subject to any public health guidance issued at the time.

Shareholders should submit their votes via proxy as early as possible, and shareholders are requested to appoint the Chair of the meeting as their proxy. If a shareholder appoints someone else as their proxy, that proxy will not be able to attend the AGM in person or cast the shareholder's vote.

ORDINARY BUSINESS

To consider, and if thought fit, to pass the following resolutions as ordinary resolutions:

1. To receive and adopt the Company's annual accounts for the financial year ended 31 December 2019, together with the Directors' Report and Auditors' Report on those accounts.

2. To re-appoint Nexia Smith & Williamson as auditors to hold office from the conclusion of the meeting to the conclusion of the next meeting at which the accounts are laid before the Company at a remuneration to be determined by the directors.

3. Albert Sisto retires by rotation, in accordance with the Articles of Association of the Company and having consented to be considered for re-appointment, is hereby re-appointed as a director of the Company.

4. Matthew Scherba, having been appointed as a director of the Company since the date of the last annual general meeting, becomes subject to retirement by rotation in accordance with the Articles of Association of the Company and having consented to be considered for re-appointment, is hereby re-appointed as a director of the Company.

SPECIAL BUSINESS

To consider, and if thought fit, to pass the following resolutions, of which resolution 5 will be proposed as an ordinary resolution and resolutions 6 and 7 will be proposed as special resolutions:

5. That for the purpose of section 551 of the Companies Act 2006 (the Act) the directors of the Company be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot equity securities (within the meaning of Section 560 of the Act) up to an aggregate nominal amount of £20,000 provided that this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the next annual general meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require relevant equity securities to be allotted after such expiry and the board may allot relevant equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

This authority is in substitution for all subsisting authorities previously conferred upon the directors for the purposes of section 551 of the Act, without prejudice to any allotments made pursuant to the terms of such authorities.

6. That, subject to the passing of resolution 5 above, the directors of the Company be and are hereby empowered pursuant to section 570 of the Act to allot equity securities (within the meaning of section 560 of the Act) pursuant to the authority conferred by resolution 5 above as if section 561 of the Act did not apply to any such allotment provided that the power conferred by this resolution shall be limited to:

   6.1 the allotment of equity securities for cash in connection with an issue or offer of equity securities (including, without limitation, under a rights issue, open offer or similar arrangement) to holders of equity securities in proportion (as nearly as may be practicable) to their respective holdings of equity securities subject only to such exclusions or other arrangements as the board may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange in any territory; and

   6.2 the allotment (otherwise than pursuant to sub-paragraph 6.1 of this resolution (6) of equity securities up to an aggregate nominal value of £20,000.

   The power conferred by this resolution 6 shall expire (unless previously renewed, revoked or varied by the Company in general meeting), at such time as the general authority conferred on the board by resolution 5 above expires, except that the Company may at any time before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors of the Company may allot or sell equity securities for cash in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

7. That the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the 2006 Act) of its Ordinary Shares provided that:

   7.1 the maximum number of Ordinary Shares authorised to be purchased is 10% of the entire issued share capital of the Company;

   7.2 the minimum price which may be paid for an Ordinary Share is £0.0002;

   7.3 the maximum price which may be paid for an Ordinary Share is an amount equal to 105% of the average of the middle-market prices shown in the quotation for an Ordinary Share as derived from the Stock Exchange Alternative Trading Service of the Stock Exchange for the 5 business days immediately preceding the day on which the Ordinary Share is purchased;

   7.4 the authority hereby conferred shall expire on the earlier of the date falling 15 months after the Annual General Meeting or on the conclusion of the next annual general meeting of the Company to be held in 2021; and

   7.5 the Company may make a contract to purchase its Ordinary Shares under the authority hereby conferred prior to the expiry of such authority, which contract will or may be executed wholly or partly after the expiry of such contract.

By Order of the Board
Sarah Payne,
Company Secretary
4 May 2020

Notice of 2020 Annual General Meeting

Notes to the AGM notice

1. Given the current Coronavirus (COVID-19) situation, and to ensure adherence to current Government requirements, attendance in person at the meeting will not be possible this year. Shareholders are requested to appoint the Chairman of the meeting as his or her proxy as any other person so appointed will not be permitted to attend the meeting. The below notes are to be read subject to this COVID-19 related proviso.

2. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001 and by paragraph 18(c) of The Companies Act (Consequential Amendments) (Uncertificated Securities) Order 2009, only those members entered on the Company's register of members not later than 3pm on 4 June 2020, or if the meeting is adjourned, Shareholders entered on the Company's register of members not later than 2 days before the time fixed for the adjourned meeting (excluding non-business days) shall be entitled to attend and vote at the meeting.

3. A member of the Company entitled to attend and vote at this meeting is entitled to appoint a proxy (or proxies) to vote in his place. A proxy need not be a member of the Company. You can only appoint a proxy using the procedures set out in these notes and the notes to the Form of Proxy.

4. To be effective, the Form of Proxy must be deposited at the office of the Company's registrars, Share Registrars Limited, The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR so as to be received not later than 3pm on 4 June 2020, or if the meeting is adjourned, not later than 48 hours before the time fixed for the adjourned meeting.

5. To change your proxy instructions simply submit a new proxy appointment using the methods set out above and in the notes to the Form of Proxy. Note that the cut-off times for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

   Where you have appointed a proxy and would like to change the instructions, please contact the Company's registrars, Share Registrars Limited, The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR.

6. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Company's registrars, Share Registrars Limited, The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

   In either case, the revocation notice must be received by the Company's registrars, Share Registrars Limited, The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR no later than 3pm on 4 June 2020.

   If you attempt to revoke your proxy appointment but the revocation is received after the time specified above, then your proxy appointment will remain valid.

7. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by our agent Share Registrars (ID 7RA36) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

   CREST members and, where applicable, their CREST sponsors or voting service providers should note that

CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

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