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Annual Report and Accounts 2022

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Chairman's Statement

I am pleased to report another year of progress for the Company in what has been a difficult climate. All of our portfolio[1] have increased bookings and won new customers during the year; the aggregate year-on-year growth of unaudited annual recurring revenue (ARR) of our portfolio, a key indicator of progress, has increased by 97%, and our portfolio increased employee numbers by 66% and ARR per employee of 19%.

Our portfolio companies are all early-stage businesses with exciting breakthrough technologies and should be recognised for their growth, performance and potential for exit at an excellent return at the appropriate time. It is always difficult to determine the real underlying value of a portfolio, but we follow the established investment practice of taking the last valuation of a round of investment, tempered by any adjustments based on current market performance and the value of comparable businesses, as the value of our holdings. Of course, we all expect such businesses to be worth far more when we finally realise their return at an exit, but in the meantime we must take a very prudent approach to their valuation.

In this context, it is important to regard Tern shares as a long-term investment. The real value of the Company will not emerge in the short-term, it will only be fully realised when we can, in the medium to long-term, obtain good exits for our various investments. Meanwhile the Tern team will continue to work tirelessly to ensure that our various companies are maximising their opportunities to grow and become a source of disruption in their respective markets in such a way that they can become extraordinarily valuable to a potential acquiring business.

Our portfolio has been working well, evidenced by the ability of every one of them to either achieve a listing on a stock market (Wyld Networks on NASDAQ First North Growth Market), or to raise later stage investment from new third-party investors (Device Authority, FundamentalVR, Talking Medicines and Konektio). These all indicate that our confidence in the excellent potential of our companies is shared by other sources of risk capital.

Of course, it is not possible for our companies to avoid the impact of recent global economic events; interest rates have increased sharply, and technology businesses have had to quickly adapt to a new world of ensuring that customer acquisition and revenue generation is paramount. The extensive experience of our directors over many decades of past technology cycles has enabled us to help our companies effectively to manage their way through such turbulence.

The downturn in the global technology sector and in particular the collapse of Silicon Valley Bank has affected the technology business climate, but previous downturns have demonstrated that such market conditions can have a relatively short-term effect on early-stage innovative companies with breakthrough technologies. Their potential remains to be realised.

Our particular positioning and skillset remain very strong, especially our valuable intimate links with the US technology marketplace, and our ability to introduce highly effective management, marketing and technology skills and our extensive experience over many years of ensuring effective operations in growth businesses.

Our specialisation in IoT technology, along with the novel application of innovative artificial intelligence (AI), and the effective analysis of very large data sources, are the fields most prized in today's technology markets. We have also identified a particular focus on life sciences and medical applications which are among today's key growth areas.

We have also been making excellent progress in the development of ESG (environmental, social and governance) policies throughout our portfolio.

I would like to take the opportunity to recognise the outstanding performance during this year of Al Sisto, our CEO, and our executive directors Bruce Leith, Sarah Payne and Matthew Scherba, in carefully monitoring and adding value to the various companies under their charge. We are very much a 'hands-on' team who actively participate in the strategy and development of our various portfolio companies.

I would also like to thank my fellow non-executive director, Alan Howarth, for his excellent judgment and advice based on his extensive financial and business experience.

What we do well is provide an ability for our shareholders to participate in the development of a portfolio of attractive high-potential businesses, not otherwise available to private investors, whose growth, with our guidance, will undoubtedly provide long-term capital gains.

I look forward, in the coming months and years, to the further development of our excellent portfolio of exciting high-growth companies, and to achieving an excellent return for you, our shareholders.

Ian Ritchie
CBE, FREng, FRSE
Chairman

Note 1. Portfolio refers to principal portfolio companies (Device Authority Limited, FVRVS Limited, InVMA Limited and Talking Medicines Limited) and holdings (Wyld Networks AB)

CEO's Statement

Overview

I am pleased to report that our portfolio has shown remarkable resilience and growth during 2022. With our dedicated support and guidance, they have executed skilfully, resulting in continued progress and contribution to our key performance indicators (KPIs). Even in the face of unprecedented market challenges, our portfolio companies have shown impressive strength and further development, a true testament to their leadership and our support. Despite the intense downward pressure on valuations that we witnessed in 2022, our companies have demonstrated admirable determination and grit, and we couldn't be prouder of their accomplishments.

In last year's annual report, I described 2021 as a remarkable year for Tern and UK technology companies. However, 2022 has presented unprecedented challenges, unlike any we have seen in recent history. The year can be divided into two distinct halves, with the first continuing the positive momentum from the previous year as technology companies, investors, and customers maintained their course post-pandemic. However, the emergence of inflationary concerns and the subsequent interest rate hikes created a significant shift in the traditional investing metrics for the technology industry. This has led to challenges for technology companies globally and here in the UK, both in public and private markets. The downward pressure on public technology company shares eventually trickled down to the private technology sector in the second half of 2022, resulting in declining valuations that have persisted into 2023. Despite our best efforts, Tern has not been immune to these dynamics and I am disappointed to report an £8.4m reduction in the unrealised fair value of our portfolio during the year.

The objective of venture-backed businesses has always been to pursue rapid, high-growth opportunities, and this remains true today. As investors, we at Tern are dedicated to supporting talented entrepreneurs by providing the necessary capital and support to build innovative, category-creating businesses, which we believe we have successfully done. However, as the cost of capital increases and market conditions change, we are encouraging our portfolio to focus on a different narrative. This involves prioritising a compelling and sustainable opportunity for potential investors, rather than relying solely on seeking market dominance. We are striving for our portfolio to strike a balance between growth and seeking profitability, in order to responsibly reduce burn rates and drive efficient value-creating growth. As our reported KPIs demonstrate, our portfolio is still experiencing strong growth, high levels of customer satisfaction, and our exit goals remain grounded, despite being impacted by the recent turbulence in valuation metrics.

Strategy and Market Focus

In 2022, UK M&A activity took a hit and dropped from the record-setting levels seen in 2021 to pre-pandemic levels. The year-on-year decline of 16%[1] was, we believe, a result of economic headwinds affecting the volume of deals completed.

At Tern, we recognise the importance of being agile and having multiple exit strategies in place to navigate the current market conditions and we firmly believe that more favourable market conditions are on the horizon in the second half of 2023.

We remain committed to creating lasting value for our shareholders through our focus on IoT technology companies that deploy artificial intelligence (AI), machine learning (ML), augmented reality/virtual reality (AR/VR), natural language processing (NLP), security and communications products and services. Despite these unexpected events, our portfolio has demonstrated impressive resilience, which is reflected in their growth in ARR. We have been encouraging our companies to embrace Software as a Service (SaaS) revenue models, and it has had a positive impact.

At Tern, our objective is to sell our interests in our portfolio companies when shareholder value is maximised. We will not sell when valuations are low or hold indefinitely. We continuously evaluate the optimal timing for liquidity events, recognising that external events significantly influence market sentiment. And while we may hold some companies longer to maximise value for Tern shareholders, a "defined time horizon" would be inappropriate in rapidly evolving markets. It could be seriously value destructive if potential buyers knew Tern was obligated to sell by a certain date.

We are confident in the long-term potential of our investment thesis and our targeting of the double-digit compound annual growth rate (CAGR) in healthcare/life sciences and industrial segments. Our approach varies for each company, but we remain committed to creating value for our shareholders while reducing dependence on Tern for future funding. Talking Medicines is a prime example of the success of our investment strategy, and we were proud to report in 2021 that the valuation of our holding in their equity had increased by 62% on the November 2020 valuation. Liquidity events are a top priority and we believe that Tern is in a favourable position to sell when the right time arises.

Financial Performance, Investments and Realisations

Tern's portfolio's fair value as of December 31, 2022, was £23.9m, reflecting a decline of £6.7m or 22% from the previous year. This decline was primarily due to a fair value reduction of £8.4m offset by additional investment of £1.7m. Additionally, £3.1m (gross) was raised through three equity raises in August, October and December 2022 and £42,300 realised from sales of Tern's holding in Wyld Networks.

1 PWC Global M&A Trends report, Jan 2023

As previously referenced, a large part of the fair value decrease at the year end is a reflection of the dramatic decrease in valuation metrics and models in the technology sector rather than the underlying prospects of our companies. For example, FundamentalVR in May 2022 announced a Series B fund raising round, securing £7m in new equity investment from existing investors and a new institutional investor, at a valuation uplift of 77% from the previous book valuation of Tern's holding. The recent follow-on investment from the last round's investors in April 2023, which was priced at a discount to the previous round and resulted in a reversal of the previous uplift, in part reflecting the change in sentiment regarding valuation metrics. This downwards adjustment to the valuation metrics also impacted the rest of the portfolio including reductions for Device Authority (£3.2m), Konektio (£1.9m) and Wyld Networks (£3.2m).

Despite short-term challenges, we remain confident in the long-term potential of our portfolio and the IoT markets in which we operate. We have maintained ongoing engagement with and have a clear understanding of our portfolio companies' cash needs. Our cash and available liquid assets form part of the important reserve that exists, that can be deployed as appropriate, but we remain mindful of the importance of preserving capital.

As a quoted company, we are constantly reviewing our expenses to ensure we operate with maximum efficiency.

ESG

We at Tern are not just another investment firm ticking off boxes on an ESG checklist. Rather we believe that investing with purpose is our duty, and that our ultimate goal is to create better outcomes for society, the environment, and the people that we call our portfolio family.

Our commitment to ESG is the guiding principle that runs through everything we do, from our investment decisions to our day-to-day operations. To ensure that we stay true to our values, we have created a portfolio-wide committee dedicated to providing guidance and support on ESG matters.

Through regular meetings and the sharing of tools and resources amongst our companies, our ESG committee has helped the entire portfolio develop their own ESG strategies tailored to their respective markets. As employee, customer, and investor expectations continue to rise, we understand that ESG is no longer an option, but a must-have for any successful and responsible business.

As part of our commitment to environmental transparency, we have taken the additional step of disclosing Tern's carbon usage with the help of a leading environmental disclosure platform. We truly believe that accountability is key to driving change, and that transparency is the first step towards creating a more sustainable future for all.

Outlook and Summary

Despite the challenges posed by macroeconomic factors and geopolitical conflicts, our portfolio operates in thriving IoT markets and remain well positioned for successful exits at the right time. While uncertainty may persist in the short term, we are heartened by the indicators we are seeing in the market that point to a return to improvements in valuations.

As hands-on managers, we are committed to continuing to work closely with our portfolio companies, providing them with the benefit of our expertise and resources to help them navigate the road ahead. The IoT technology markets, which remain a core focus for us, continue to offer long-term growth potential and we are excited to see what the future holds.

At the heart of our investment strategy is a focus on ARR growth, which we believe is the key driver of valuations for start-ups. We understand the importance of balancing growth and achieving profitability to drive efficient growth, and we are dedicated to supporting our portfolio as they chart their path to success.

We are confident that our portfolio will continue to make important technological advancements that will solve critical business and social problems, shaping the future of work and the world we live in.

In closing, we want to express our gratitude to the Tern team, our portfolio CEOs and employees, and our shareholders for their commitment and patience during what has been a challenging period. Thank you for your trust in our vision and for joining us on this exciting journey.

Albert Sisto
CEO

Portfolio Companies and Holdings

As at 31 December 2022

Device Authority Limited ("DA" or "Device Authority")

Valuation £11.9m
Equity ownership 53.8%
plus convertible loan of £0.4m and cashflow loan of £0.1m

Device Authority is a global leader in securing machine identities and enabling 'zero trust' security policies for the IoT. Zero Trust is a security framework requiring all users, whether in or outside the organisation's network, to be authenticated, authorised, and continuously validated for security configuration and posture before being granted or keeping access to applications and data. Device Authority's KeyScaler® software security platform is believed to be the only platform that can automate and manage machine identities throughout their lifecycle, delivering automated device provisioning, authentication, credential management, policy-based end-to-end data security/encryption and secure updates and providing complete device, data and operational trust.

"Team Tern continues to support the company in many ways, developing fundraising plans, leveraging its network and contacts, and actively supporting customer, channel and partner-based activities."

Darron Antill CEO, Device Authority

InVMA Limited (trading as "Konektio")

Valuation £0.5m
Equity ownership 36.8%
plus convertible loan of £0.2m

Konektio helps industrial and manufacturing companies prosper by converging their physical assets with new transformational digital insights. Konektio's AssetMinder® is a modular, industry 4.0, IoT SaaS platform, using a wide range of analytical tools, AI and machine learning algorithms to connect whole factory floors and processes as well as managing resources into and out of the factory. AssetMinder® assesses the effectiveness and efficiencies of entire operations, putting customers in control of their assets and therefore directly impacting productivity, efficiency and business outcomes.

"We're in an exciting growth phase where we are experiencing acceleration in customer demand for AssetMinder solutions at greater scale. We are seeing this from both existing customers taking more of our portfolio solutions and new customers working with us for the first time in existing and expansion markets. We are very excited to have the support of Tern as we go into this accelerated growth stage."

Peter Stephens CEO, Konektio

FVRVS Limited ("FundamentalVR")

Valuation £3.6m
Equity ownership 16.6%

FundamentalVR delivers virtual reality haptic 'flight simulators' for surgery creating a safe, measurable and repeatable space to refine skills. FundamentalVR's goal is to transform the way surgeons prepare, practice and refine their skills. It has built an immersive, surgical simulation application platform, Fundamental Surgery, to provide medical professionals with the opportunity to rehearse, practise, and test themselves within a safe, controllable space that is as close to real-life as possible.

"Throughout our journey, Tern has been an invaluable partner, offering unwavering support and expertise. As we strive to achieve new heights and increase our commercial traction, their wealth of experience and guidance have proven to be invaluable."

Richard Vincent CEO, FundamentalVR

Talking Medicines Limited ("Talking Medicines")

Valuation £1.8m
Equity ownership 23.8%

Talking Medicines is revolutionising the pharmaceutical industry with its cutting-edge social intelligence platform, PatientMetRx. By harnessing the power of artificial intelligence (AI) and natural language processing (NLP), the platform provides pharmaceutical companies with unparalleled insights into patient and healthcare providers (HCPs) experience and preferences using social data. This allows companies to deliver a greater return on investment for marketing and ultimately improve health outcomes for patients. With PatientMetRx, pharmaceutical companies have access to a level of scale and depth of patient insights that was previously impossible, enabling them to make data-driven decisions that drive success.

"Tern are a committed investor who add significant value to scaling our operation through their strategic involvement particularly around expansion to US and product led growth."

Jo Halliday CEO, Talking Medicines

Wyld Networks AB (publ) ("Wyld Networks" or "Wyld")

Valuation £6.0m

Holding 41.2%

Wyld Networks, quoted on the NASDAQ First North Growth Market in Stockholm, enables affordable connectivity across the globe in areas where wireless coverage is unavailable. The company specialises in providing wireless connectivity between IoT sensors and Low-Earth-Orbit ("LEO") satellites with its Wyld Connect solution for governments and businesses.

> "As we continue to evolve and expand, we are grateful for the insights and guidance that Tern provides, helping us navigate the challenges and capitalise on the opportunities that lie ahead."
>
> Alastair Williamson CEO, Wyld Networks

Diffusiondata Limited (previously Push Technology)

Valuation £0.02m

Equity ownership <1%

Diffusiondata 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.

Sure Valley Ventures UK Software Technology Fund ("SVVUK")

Valuation £0.1m

Equity ownership 5.9%

SVVUK is a new UK venture capital fund, investing in cutting-edge software companies that are at the forefront of immersive technology and metaverse innovation. With a focus on augmented and virtual reality, artificial intelligence, the IoT and security, SVVUK's portfolio companies are poised to transform the digital landscape.

ESG Report

The Company recognises the potential to create positive economic, social, and environmental impacts. While many IoT applications have been marketed primarily for commercial purposes, our portfolio companies are committed to leveraging IoT technology to address some of the world's most pressing challenges.

The ESG Committee is responsible for overseeing the integration of ESG considerations into our investment decisions, as well as monitoring the performance of our portfolio companies in these areas.

Our approach to ESG is grounded in our belief that outperformance of market-rate financial returns and positive social and environmental outcomes go hand in hand. We recognise that delivering sustainable, long-term value to our stakeholders requires us to adhere to exemplary governance practices, maintain a positive impact on society, and preserve the environment.

We remain committed to driving positive change through our investments and continuing to raise the bar for ESG practices across the industry.

Sustainable Investment

The Company is dedicated to promoting sustainable and responsible business practices. We prioritise the integration of ESG factors into our decision-making process when evaluating potential partners and maintain this commitment throughout the entire relationship lifecycle, from inception to exit. We are working to align ourselves with international best practices, by leveraging a variety of screening, appraisal, and monitoring methods that align with the United Nations Principles for Responsible Investment (PRI). Moreover, we are actively engaging with the companies we support on ESG matters. Through these initiatives, we strive to promote a more equitable and sustainable business environment and foster positive social and environmental impacts.

All investments in 2022 were made into our existing portfolio companies.

Environmental

The Company are committed to making a positive impact on the environment. Our investment model reflects this commitment by prioritising companies that have a strong track record of environmental responsibility and sustainability.

As part of our broader sustainability efforts, we are actively working to reduce our carbon footprint. Through the implementation of a range of initiatives, including the use of renewable energy sources and the adoption of more energy-efficient technologies, we aim to minimise our impact on the environment and contribute to the global effort to combat climate change. By incorporating sustainability into our investment model and reducing our own carbon footprint, we are striving to make a meaningful and positive impact on the world around us.

As part of our commitment to environmental sustainability, the Company made an investment of £4,700 in a UK-based tree planting and deforestation project. This investment is an essential step in our ongoing strategy to remain carbon neutral in 2022 and beyond. By doing so, we have successfully offset our calculated 2022 carbon emissions of 237 tCO_2e (2021: 62 tCO_2e). Our investment will support one of two 'tree buddying' deforestation projects whilst also protecting existing forests through REDD+ certified projects whilst we continue to focus on reducing overall emissions to reduce the need for offsetting projects in the longer term.

Social

Fostering a culture of fairness, transparency, and inclusivity is fundamental to the Company's ESG strategy. We believe that these values are critical to creating a positive and productive work environment and building strong, mutually beneficial relationships with our stakeholders.

We are committed to managing our business operations and stakeholder interactions in a socially responsible manner. This means taking a proactive approach to identifying and addressing potential impacts on the environment, society, and other stakeholders. We believe that by operating in a socially responsible way, we can not only mitigate potential risks but also create opportunities to contribute to the communities in which we operate.

Governance

To ensure that the Company upholds high standards of integrity, ethics and social responsibility, we have adopted the Corporate Governance Code 2018 published by the Quoted Company Alliance (QCA). This code provides a framework for effective corporate governance and sets out principles and guidelines for board structure, transparency, accountability, and stakeholder engagement. We are committed to complying with this code and continuously monitoring our practices to ensure that we maintain the highest standards of corporate governance.

Financial Review

All sectors, excluding energy, saw a decline in venture investing and valuations during 2022 from high valuations and catch-up investing post Covid in 2021. This valuation adjustment flowed through to some of our portfolio companies and holdings. However, our portfolio continued to focus on their fundamentals, showing growth through the period with a focus on maximising growth of annual recurring revenue.

Statement of Financial Position

Net assets at 31 December 2022 were £24.9m, a reduction of £7.5m from the net assets of £32.4m at 31 December 2021. This is principally due to movements in investments held at fair value through the profit or loss (FVTPL) and a reduction in the Company's cash balance. Investments made in our portfolio, and the net positive impact of foreign exchange movements at Device Authority and Wyld Networks have been offset by decreases in the fair value of the portfolio leading to an overall decrease in our investments of £6.7m. Our cash balance is £1.0m lower at 31 December 2022 compared to 31 December 2021. There is no debt on the Statement of Financial Position.

Investments held at FVTPL of £23.9m relate to our portfolio of high-growth technology companies. During the year, the fair value of this portfolio decreased by £6.7m, resulting from investments made of £1.7m and a negative movement in the fair value of investments held at FVTPL of £8.4m.

Income Statement and Statement of Comprehensive Income

The total comprehensive loss for the year was £10.4m (2021: profit of £4.6m), primarily due to a net negative movement in the fair value of investments held at FVTPL of £8.4m: a negative fair value movement of £9.5m offset by a positive foreign exchange movement of £1.1m.

The Company does not charge high board fees to ensure capital is not deducted at source and is instead reinvested in the portfolio to drive value creation.

Administration costs increased to £1.8m in 2022 (2021: £1.6m). This consisted of a £0.1m decrease in directors' fees compared to 2021 and small increases elsewhere, including travel, professional fees and interest. Other expenses of £0.4m (2021: £0.1m) include costs relating to the proposed acquisition of Pires Investments Plc, which ultimately did not complete (£0.3m).

Statement of Cash Flows

During the year, £2.0m was used in the Company's operations, £1.8m deployed within our existing portfolio, via equity and debt; £1.7m into investments and £0.1m as repayable debt. A net £2.8m was raised through three equity raises in August 2022, October 2022 and December 2022. A £0.4m short term loan was provided to the Company during the year and repaid from the December 2022 fund raise proceeds. The loan included an option over Wyld Networks shares, which has now been cancelled.

Events after the end of the reporting period impacting 2022 results

InVMA Limited, which trades as Konektio, completed a £0.3m equity fundraise in April 2023. Tern invested £0.1m, with the remainder provided by Konektio's other institutional investors Mercia and Foresight. Tern and other investors also converted £0.5m of convertible loan notes in Konektio.

Key performance indicators

The Company's financial Key Performance Indicators (KPIs) are focused on increasing net asset value, increasing net asset value per share and delivering consistent turnover growth from our portfolio. The Company also monitors non-financial KPIs, the primary focus being on the increase in employee numbers and turnover per employee in our portfolio 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:

Wyld Networks: £6.0m valuation (31 December 2021: £8.7m): The equity valuation has decreased due to a reduction in market capitalisation of £3.0m (reduction in share price) plus an exchange rate loss of £0.2m, offset by additional funding of £0.5m provided to exercise warrants in Wyld Networks;

Device Authority: £11.9m valuation (31 December 2021: £14.7m): The valuation has decreased due to a net fair value reduction of £3.2m, including a foreign exchange rate gain of £1.3m, which is considered to be a reflection of the dramatic decrease in valuation metrics and models in the technology sector, offset by additional funding provided to the company by Tern of £0.4m via a CLN. £0.1m of short term loans are also outstanding (and held in trade and other receivables);

Konektio: £0.5m valuation (31 December 2021: £2.2m): The equity value of Konektio reduced due to a fair value reduction of £1.9m with the pricing of the most recent equity fundraise in April 2023 taken into account, including £0.2m of additional funding provided via a CLN to the company;

FundamentalVR: £3.6m valuation (31 December 2021: £3.6m): The valuation increased due to the conversion of an outstanding CLN of £0.6m and a fair value uplift based on the Series B funding in May 2022, this fair value increase was then reversed with the most recent equity fundraise in April 2023 at a 25% discount taken into account;

Talking Medicines: £1.8m valuation (31 December 2021: £1.4m): The valuation has increased due to additional funding provided to the company of £0.4m. The equity value remains unchanged taking into account the price of the equity fundraise in January 2022;

Diffusiondata (previously Push Technology): £0.02m valuation (31 December 2021: £0.02m): The investment is valued at fair value with the price of the most recent valuation taken into account; and

SVVUK: £0.1m valuation: The investment is valued at fair value at the value provided by the SVVUK fund.

Financial Review

The companies in our portfolio are early-stage businesses in evolving 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 which includes the multiples achieved in comparable markets on recent transactions, and an assessment by the Board on the strength of our companies' sales pipelines and achievability of their 2023 sales forecast. Wyld Networks is measured as a Level 1 company under IFRS and as such the value is determined by reference to the appropriate quoted market price at the reporting date. The global downturn in technology company valuations and multiples applied to early-stage businesses was taken into consideration when assessing the fair value of the portfolio, and this in particular is a driver of the reduction in the fair value of our holding in Device Authority.

Further details in respect of fair value measurement can be found in note 17.

The net assets of the Company at 31 December 2022 showed a reduction to £24.9m (31 December 2021: £32.4m). The net asset value per ordinary share as at 31 December 2022 decreased to 6.4p (31 December 2021: 9.2p).

The year-on-year unaudited ARR of our portfolio increased by 97% from 2021 to 2022 and the year-over-year growth in aggregated revenue grew by 5% (47% from 2020 to 2021). The key focus for our portfolio is on recurring revenue as it is a primary driver of valuation growth. As a result, it will be that growth that we will monitor and report going forward.

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

Employees in our portfolio increased by 66% from 2021 to 2022 (35% from 2020 to 2021), and this increase was balanced by an associated increase in ARR such that ARR per employee also increased by 19% from 2021 to 2022.

Sarah Payne
CFO

The Board

Ian Ritchie
Chairman

Ian was appointed as Chairman of the Company in June 2017. Ian is also the non-executive Chairman of Computer Applications Service and Krotos and completed his term of office as the Chairman of iomart plc in 2018. He has also been involved with technology risk finance for over 25 years.

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 personally involved in over 50 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 650,000 times.

Committee membership:
Member of Audit Committee and Remuneration Committee

Albert Sisto
Chief Executive Officer

Albert is one of the original founders of the Company and was appointed as CEO in September 2016. He chairs the Investment Committee and also acts as non-executive Chairman and non-executive director for selected portfolio companies. Albert is a technology 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 (NASDQ:PTEC) and Chairman and CEO of HiFn (NASDAQ:HIFN). He also served as a Venture Partner for Nauta Capital designer Transmeta and was involved in spinning off Silicon Corporation.

Sarah Payne
Chief Financial Officer

Sarah was appointed to the Board in September 2015 and is responsible for the Company's financial and compliance functions as well as being a member of the Investment Committee and acting as a non-executive director for selected portfolio companies.

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.

Committee membership:
Member of ESG Committee

Bruce Leith
Business Development Director

Bruce was one of the original founders of the Company with Albert in 2013. He is a member of the investment committee and a non-executive director for selected portfolio companies. 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 joined the Board in March 2020 and is a member of the investment committee and a non-executive director and Chairman for selected portfolio companies. He 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 the Internet of Things (IoT), including software, hardware, mobile, Artificial Inteligence (AI), machine learning, and blockchain.

Matthew is currently on secondment to InVMA Limited (trading as Konektio) to assist with the development of the Konektio business.

Alan Howarth
Non-Executive Director

Alan was appointed to the Board in November 2015. 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, Remuneration Committee and ESG Committee

Director's Report

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

Principal activities

The principal activity of the Company is investing in the Internet of Things sector.

Results and dividends

The results for the year are shown in the Income Statement and Statement of Comprehensive Income on page 28.

The loss for the year was £10,446,764 (2021: £4,578,321 profit).

The directors do not recommend payment of a dividend.

Control procedures

The Company has established operational procedures that include key controls for relevant areas, demonstrating a commitment to sound governance practices. The Company also stays current with changes in laws and regulations, considering their implications to ensure compliance.

The Company continues to operate an internal audit function to conduct control reviews of our portfolio.

Going concern

In accordance with the applicable accounting standards, the Company's financial statements have been prepared on the going concern basis. This reflects the directors' reasonable expectation, as explained in Note 1.3, that the Company has sufficient resources to operate for the foreseeable future. The directors have conducted a detailed cash flow analysis to support this assessment and have concluded that the Company has adequate working capital to continue for at least 12 months without requiring additional financing.

The Board has carefully considered the Company's current financial position, including its cash flow, liquidity, and prospects, to arrive at this conclusion. By preparing the financial statements on a going concern basis, the Board is affirming its belief that the Company is well-positioned to continue operating and delivering value to stakeholders.

If opportunities arise that require additional funding, the management team is confident in their ability to secure the necessary funds from a variety of 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:

Ordinary shares at:	31/12/2022	31/12/2021
Alan Howarth	-	-
Bruce Leith	8,923,899	8,857,233
Sarah Payne	166,666	100,000
Ian Ritchie	1,636,999	1,010,333
Matthew Scherba	796,666	716,666
Albert Sisto	10,716,666	10,416,666

Options granted to the directors by the Company are disclosed under the "Report on Directors Remuneration" on pages 21-22.

Significant shareholdings

As at 30 May 2023, 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
Jonathan Swann	19,650,363	5.06%

Statement of Directors' responsibilities

As per applicable law and regulations, the directors hold the responsibility for preparing the Strategic Report, Directors' Reports, and financial statements. Company law mandates the preparation of financial statements for every financial period. In compliance with this law, the directors have chosen to prepare the Company's financial statements following UK-adopted international accounting standards. It is crucial to note that the directors cannot approve the financial statements unless they are fully satisfied that they provide a true and fair representation of the Company's financial status and profit or loss for that particular 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 UK-adopted international accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and**
- **prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.**

The directors hold the responsibility of maintaining appropriate accounting records that sufficiently demonstrate and clarify the Company's transactions, accurately disclose its financial position at any time, and enable them to ensure that the financial statements adhere to the Companies Act 2006. Additionally, they are responsible for safeguarding the Company's assets and taking necessary measures to prevent and detect any fraudulent activities or other irregularities.

The directors must also ensure that they fulfil their obligations under the AIM Rules.

The directors hold the responsibility for preserving the accuracy and authenticity of the corporate and financial information displayed on the Company's website. It's important to note that the UK legislation related to the creation and distribution of financial statements may vary from regulations in other jurisdictions.

Section 172 compliance

Section 172 of the UK Companies Act 2006 outlines the duties of directors to promote the success of the company while considering various factors. The section requires directors to act in good faith and in a manner that they believe is most likely to promote the company's success while having regard to several factors, including the interests of employees, shareholders, customers, suppliers, and the environment. In fulfilling their duties under this section, directors are expected to exercise reasonable care, skill, and diligence and consider the long-term impact of their decisions on the company's success. This section of the Companies Act 2006 aims to promote responsible and sustainable business practices and encourages directors to take a broader view of their duties, beyond just maximising shareholder value.

The Board plays a crucial role in defining the strategic objectives and policies of the Company to maximise long-term value. It provides overall strategic direction within an appropriate framework of rewards, incentives, and controls, and is collectively responsible for the success of the Company. The executive directors are responsible for running the business operations, while the non-executive directors bring independent judgment and scrutiny to the Board's decisions.

To ensure financial integrity, the non-executive directors are responsible for satisfying themselves on the integrity of financial information and that financial controls and systems of risk management are robust. Through 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.

The Board considers the interests of stakeholders in all its discussions and decisions. In particular, stakeholder considerations are factored into key Board decisions, as illustrated in the table on page 12. More details about stakeholder engagement are provided in the Corporate Governance and Compliance section on pages 13-17.

Director's Report

Key board decisions	Stakeholder considerations
The Board regularly considered the potential for fair value movement of some of the portfolio company valuations given the prevailing change in macroeconomic climate.	**Consideration was given to the changes in valuation metrics being evidenced in early-stage investment rounds and technology IPOs.** **Consideration was also given to the impact of high inflation and interest rates on the business plans of the portfolio companies, as well as a tightening labour market meaning recruitment was more challenging.**
The Board considered and approved the investment and long-term commitment as a limited partner in the Sure Valley Ventures UK Software Technology Fund.	**The Board considered the opportunity to make a commitment to the Sure Valley Ventures UK Software Technology Fund.** **Consideration was given to the strategic value of being involved with this early-stage fund and the possible returns available from participating as well as the pipeline of investment opportunities that would become available to Tern plc.**
The Board considered and approved the all share offer for the issued and to be issued share capital of Pires Investments plc, which subsequently was not completed.	**The Board discussed the opportunities presented by the acquisition, considering the benefits of being an enlarged investment company and acquiring a portfolio of technology companies in a synergistic sector.** **The Board discussed the outcome of the due diligence process and the return-on-investment expectations from the acquisition.**

Disclosure of information

Each appointed director at the time of report approval confirms to the best of their knowledge that there is no relevant information pertaining to the audit of which the Company's auditors are unaware, and they have taken all necessary steps to ensure that they are aware of any relevant audit information and that the auditors are informed of it.

Publication of accounts on the Company website

The Company's financial statements are available on its website, and the directors hold the responsibility for preserving the accuracy and authenticity of the website's content. This includes ensuring that the financial statements presented on the website are reliable and adhere to applicable regulations. Therefore, the directors' responsibility extends to the maintenance and integrity of the website, as well as to the financial statements contained therein.

Independent auditors

The auditor, CLA Evelyn Partners Limited (previously Nexia Smith & Williamson 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 CLA Evelyn Partners Limited as auditor will be put to the members at the annual general meeting.

Signed on behalf of the board

Sarah Payne
CFO
30 May 2023

Corporate Governance Report

As Chairman, I am accountable for promoting and embedding strong corporate governance standards across the entire organisation. Our Board holds a collective responsibility for setting clear expectations regarding the Company's culture, values, and behaviours, and actively advocates for good corporate governance practices. We recognise the significance of fostering transparency, accountability, and ethical conduct in all aspects of our business. By adhering to these fundamental principles, we strive to build and maintain the trust of our stakeholders, including our portfolio, shareholders, employees and the wider community.

The Company's shares are quoted on AIM, and the Company is subject to the UK City Code on Takeovers and Mergers. The Board recognises the significance of maintaining high standards of corporate governance and applies the Corporate Governance Code 2018 published by the Quoted Company Alliance (QCA). This report, along with the Report on Directors' Remuneration, outlines how the Company implements certain provisions of good corporate governance. For a more comprehensive and up-to-date review of the Company's application of the QCA's ten principles of corporate governance, please refer to the AIM Rule 26 section of our website (ternplc.com). We are committed to ensuring that our corporate governance practices remain aligned with best practices and that we continue to consider the evolving needs and expectations of our stakeholders.

The Board recognises that fostering a corporate culture grounded in strong ethical values and behaviours is integral to creating a positive work environment that enables individuals to thrive. We believe that this approach will ultimately enhance shareholder value. To this end, the Company maintains a zero-tolerance policy towards bribery and corruption and has implemented a robust anti-bribery policy. We are committed to complying with all relevant laws, regulations, and industry standards, and conducting our business in accordance with established best practices. We aim to build and maintain the trust of our stakeholders by conducting our affairs with integrity, transparency, and accountability.

Role of the Board

The Board is accountable to both shareholders and wider stakeholders for the Company's overall performance. Our primary responsibility is to provide strategic leadership and to promote the long-term, sustainable success of the Company, while generating value for our shareholders and making a positive contribution to society. We recognise the importance of implementing prudent and effective controls to enable us to assess and manage risk appropriately. We aim to strike the right balance between risk-taking and risk management, and to ensure that our decisions are aligned with our corporate values and objectives. Through our actions, we strive to uphold the trust and confidence of our stakeholders, while delivering on our commitment to sustainable growth and responsible business practices.

The Board has a schedule of matters reserved for its consideration and approval supported by a set of operating principles.
These matters include:

- Approval of the budget and any material change to it;
- Oversight of the Company's operations, including internal control environment;
- Changes made to the Company's capital structure;
- Approval of financial results;
- Approval of any cash injections into the portfolio;
- Approval of regulatory news releases; and
- Changes to Board structure or composition.

Board Meetings

The Board met formally on eleven occasions during the year. Additional Board and Committee meetings were convened on an ad-hoc basis from time to time in order to consider specific corporate activity (e.g sign off on statutory financial reporting and monitor director benefits). The directors are expected to attend all Board meetings and Committee meetings on which they sit.

Individual director attendance at scheduled Board and Committee meetings is set out in the table below:

	Board Meetings (out of 11)	Audit Committee (out of 4)	Remuneration Committee (out of 3)	ESG Committee (out of 3)
Ian Ritchie	11	4	3	n/a
Albert Sisto	11	4[1]	3[1]	n/a
Sarah Payne	11	4[1]	n/a	3
Bruce Leith	11	n/a	n/a	n/a
Matthew Scherba	11	n/a	n/a	n/a
Alan Howarth	11	4	3	3

Note 1: Attendance by invitation.

Corporate Governance Report

Other meetings not included in the table above were held on occasions throughout the year to consider items such as equity placings, the potential acquisition of Pires Investments plc and investment activities across the portfolio.

Roles and Responsibilities of the Board

Composition

The board structure in 2022 is made up of four executive directors and two independent non-executive directors. Each member is appointed on their range of skills and experience appropriate for the business requirements and in support of the Company's strategy and objectives. The Board members understand their role as individuals, and as a collective, to ensure the long-term success of the Company. The Board ensures the appropriate division of responsibilities on the Board, ensuring no existence of unfettered power nor over-reliance on any one person. The independence of Directors not only supports good governance, but also facilitates diversity of thought and inclusion on the Board.

Bespoke training is offered as required which covers core matters, such as regulatory requirements and technical training, to continue to develop the skill sets of the Board members.

Company Secretary

All Board Directors have access to the advice and services of the Company Secretary to support the discharge of their duties and on matters of governance. Sarah Payne was appointed Company Secretary of Tern in 2015. The Company Secretary supports the Chair, ensuring that directors receive accurate, timely and clear information. Appropriate policies, processes, time and resources are available to the Board to ensure its effective and efficient operation. The Company Secretary ensures that accurate records of Board and Committee meetings are prepared on a timely basis enabling unresolved concerns of Directors to be duly recorded. No concerns were recorded during 2022.

Chair

Ian Ritchie has been Chair of the Board at Tern since his appointment in 2017. The Chair's primary role is to lead the Board and ensure its effective operation, promoting an open forum for debate between executive and non-executive directors. The Chair also has a key role in ensuring effective engagement with shareholders and other stakeholders, as well as setting the Board's agenda.

Chief Executive Officer

Albert Sisto was appointed Chief Executive Officer (CEO) of Tern in 2016. The CEO is responsible for developing the Company's strategy for approval by the Board, for leading the execution of the Company's strategy and investment policy, and for implementing the decisions of the Board and its Committees. The CEO is responsible for the day-to-day operations of the business and ensuring that the culture promoted by the Board is operated throughout the Company.

Chief Financial Officer

In 2015, Sarah Payne was appointed role of Chief Financial Officer (CFO) at Tern. The CFO provides financial leadership to the Company and aligns the Company's business and financial strategy. The CFO is responsible for financial planning and analysis, portfolio valuations, presenting and reporting accurate and timely historic financial information, and is the executive responsible for the Company's ESG activity.

All Board members are detailed on page 9.

Independence of the Board

The overall independence of the Board has been in line with the recommended criteria under the relevant corporate governance code (QCA Code). The Board has assessed the independence of each of the non-executive directors by reference to the criteria set out in QCA Code, and the Board remains satisfied that none of those criteria apply and that both non-executive directors are independent in character and judgement.

The Board considers both the non-executive Chairman and non-executive director to be independent of management and free from any relationship that may affect their independent judgment. However, it should be noted that the Chairman holds 0.4% interest in the Company's issued share capital. In addition, the non-executive director held share options in the Company at 31 December 2022, all of these options have now lapsed. Despite this, the Board is confident that the Chairman and the non-executive director's ownership does not compromise his ability to act in the best interests of the Company and its stakeholders.

Appointment of Directors

The Board is responsible for all matters related to the appointment of directors, including determining the qualifications and characteristics needed for the role, identifying suitable candidates, and selecting the appointee. As such, the Company has not established a separate Nominations Committee.

The Remuneration Committee is responsible for agreeing on the executive framework and remuneration policy, ensuring that it aligns with the Company's strategy, objectives, and values.

According to the Articles of Association, each director is required to seek re-election after no more than three years in office. Therefore, the Board believes that it is not appropriate to appoint non-executive directors for a fixed term as recommended by the Code. Instead, the Board will evaluate the performance of each non-executive director and re-elect or replace them accordingly, ensuring that the Board remains dynamic and effective.

Board Evaluation

The Board recognises the importance of regular evaluation of its performance and undertakes an annual review of its overall effectiveness. This evaluation is conducted in line with the QCA's Guidance on Board Effectiveness and considers factors such as the Board's composition, diversity, skills, and overall performance. Any areas for improvement are identified, and actions are taken to address them.

This process is led by the Chairman and the latest evaluation was carried out in August 2022. In 2022, external input was again sought from various advisors to ensure a robust evaluation process which incorporated external viewpoints.

As a small and growing company, we constantly monitor and evaluate the performance of our individual directors through regular review and discussion at each Board meeting. While we currently do not have a formal process for director evaluation, individual KPI's are set and reviewed annually and we remain open to the possibility of implementing such a process in the future as the Company continues to grow. Additionally, we review the effectiveness of our Board as a whole and our Committees on an ongoing basis to ensure that our evaluation processes are appropriate for our evolving needs. Any issues or concerns with individual director or Board performance are promptly addressed through timely discussions and actions.

Board committees

The Board has delegated specific responsibilities to the Audit, Remuneration and Environmental, Social and Governance (ESG) Committees.

Audit Committee

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

The role of the audit committee is to oversee and monitor the financial reporting process of the Company to ensure it is accurate, transparent, and in compliance with legal and regulatory requirements. The Audit Committee is comprised of independent non-executive directors with expertise in accounting and financial reporting.

The key responsibilities of the audit committee include:

- Overseeing the appointment, reappointment, and removal of the external auditor. The Committee considers the effectiveness of the auditor's work, approves their remuneration and terms of engagement, and reviews and monitors their independence and objectivity.
- Reviewing the company's financial statements and ensuring that they accurately reflect the financial performance and position of the company. All financial information published by the Company is subject to the approval of the Audit Committee.
- Ensuring that the company's financial reporting practices comply with legal and regulatory requirements, including accounting standards and disclosure requirements.
- Reviewing the company's compliance with ethical standards and policies, including those related to conflicts of interest and financial fraud.
- Reporting to the Board of Directors on the results of their oversight activities and making recommendations for improvement where necessary.
- Reviewing the findings of the internal audit function on the control reviews of our portfolio.

The Committee is responsible for establishing and maintaining a robust system of internal controls to safeguard shareholders' investments and protect the Company's assets. The primary objective of this system is to manage, but not eliminate, the risks associated with achieving business objectives.

While the Committee strives to implement effective controls, it recognises that no control system can completely eliminate the risk of material misstatement or loss. Even the most comprehensive system can only provide reasonable assurance that these risks are effectively managed.

To ensure the effectiveness of the internal control system, the Committee regularly reviews and assesses its design, implementation, and operation. The Committee also works to identify and address any weaknesses or deficiencies in the system, and to implement appropriate corrective actions.

Overall, the audit committee plays a critical role in ensuring the integrity of the Company's financial reporting process and maintaining the trust of investors and other stakeholders in the Company, help mitigate the risks associated with operating the business and promote transparency and accountability in the Company's operations.

There were four Audit Committee meetings in 2022. 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 21-22.

There were three Remuneration Committee meeting in 2022. 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.

ESG Committee

The ESG Committee was established in 2021 and is chaired by Alan Howarth. A detailed ESG Report is included on page 6.

The ESG Committee is responsible for overseeing and driving the Company's ESG strategy, initiatives, and performance. The committee ensures that the Company's operations align with its ESG goals and objectives, and that ESG considerations are integrated into the decision-making processes of the Company.

There were three ESG Committee meeting in 2022. These were fully attended by all members.

Corporate Governance Report

External Advisors

Throughout the year, the Board actively seeks advice and guidance from its trusted partners and advisers to ensure the Company's continued smooth operations. To this end, the Board regularly consults with its AIM Nominated Adviser (Allenby Capital), corporate lawyers (Reed Smith) and auditors (CLA Evelyn Partners). In addition, external experts are engaged to provide specialised support in areas such as human resources, corporate policies, and financial PR, as needed.

Moreover, the Board relies on consultancy services to evaluate new business opportunities, including technical due diligence, to ensure informed decision-making.

Conflicts of Interest

The Board remains vigilant in identifying and addressing any potential conflicts of interest that may arise among its Directors. In such cases, the Board conducts a thorough review and recommends whether the Director's involvement should be authorised, along with any necessary conditions.

The Companies Act 2006 mandates that each Director has a legal obligation to avoid situations where they may have a direct or indirect interest that conflicts with the Company's interests. Therefore, at the beginning of each meeting, every Director must disclose any potential conflicts of interest related to the agenda items.

In accordance with the Company's Articles of Association, if a Director's conflict of interest arises from a permissible cause, such as a contractual agreement or employment relationship, they are allowed to vote and participate in the quorum. This ensures that the decision-making process remains fair and transparent while upholding the Company's values and interests.

Internal controls

The Board is ultimately responsible for establishing and monitoring internal control systems and reviewing the effectiveness of these systems. The Board considers the internal control environment as a crucial factor for the Company's success. Nevertheless, the Board acknowledges that these systems can provide reasonable but not absolute assurance against material misstatement or loss.

The key elements of the Company's internal control system are as follows:

- Close management of the day-to-day activities by the executive directors;
- An annual budgeting process which is approved by the Board, performance against which is reviewed at every Board meeting;
- No single individual has the ability to authorise payments in excess of £2,000; and
- Monthly management reporting to the Board against agreed KPIs.

Share dealing, anti-bribery and whistleblowing

In accordance with Rule 21 of the AIM Rules, the Company has implemented a comprehensive share dealing policy, which all employees, including new joiners, are required to adhere to. Additionally, the Company has anti-bribery and whistleblowing policies that are outlined in the Company handbook and communicated to all employees.

The Company maintains an open and inclusive culture that encourages employees to voice their concerns without fear of retaliation. The objective of these policies is to foster ethical behaviour among all Directors and employees and encourage them to report any issues that may be of concern to either the executive or non-executive Directors.

Our Key Stakeholders

At our core, we recognise that our stakeholders are essential to our success as we strive to become the leading investment company in the UK specialising in the IoT. Our key stakeholders include our portfolio, our employees, our shareholders, our suppliers, and the broader community in which we operate.

Our portfolio companies and holdings

Every company in our portfolio initially benefits from having a Tern-nominated Director who works closely with them throughout the year. These Directors offer valuable advice and guidance to the companies and maintain regular interactions with them. Additionally, they attend the companies' monthly board meetings to provide a more formal level of oversight.

The companies within our portfolio provide monthly reports to Tern's Board, and their CEOs are required to present at least once a year. These presentations enable the Board to stay abreast of the companies' progress and address any concerns or challenges they may be facing.

Our Directors' active involvement with our portfolio companies is a vital aspect of our investment strategy, ensuring that we are closely aligned with the companies' objectives and able to provide effective support when needed. Through these close relationships, we aim to create long-term value and drive the success of our portfolio companies.

Our employees

Our people are central to the success of our business. We want to deliver outstanding service to our companies by ensuring our people are engaged and active in delivering the Company strategy. We are a 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

We understand the importance of our shareholders and their interest in our Company's strategy, performance, and governance. We value their views and actively seek to engage with them on a regular basis to keep them informed where possible.

To facilitate this dialogue, we conduct regular online investor presentations, where we provide updates on our progress and invite shareholders to submit their questions and feedback.

Annual General Meeting (AGM)

The AGM is an essential event for our Company and provides an opportunity for our shareholders, especially private investors, to engage with our Board in a formal setting. During the AGM, we encourage shareholders to ask questions and provide feedback on issues relevant to our Company's operations, strategy, and performance.

Following the formal proceedings, our directors are available to meet with shareholders informally, providing a further opportunity to exchange views and generate discussion.

To accommodate shareholders who may be unable to attend the AGM in person, we plan to host an online meeting after the AGM to provide an update on our progress throughout the year and offer an opportunity for shareholders to ask questions and provide feedback. We believe that this approach is an effective way to engage with a broader audience.

Shareholder calls

To ensure regular communication with our shareholders, we hold a minimum of two shareholder calls per year. These calls offer our shareholders the opportunity to ask questions and provide feedback to the Board, as well as to the CEOs from our portfolio who frequently attend these events.

Annual Report

We publish an annual report and accounts each year which not only provides a detailed review of the Company's performance in the year but also outlines the strategy for the upcoming year. The report is made available in both online and paper formats.

Regulatory and non-regulatory announcements

To ensure timely and accurate dissemination of information to our stakeholders, we issue regulatory announcements as required and non-regulatory announcements to communicate significant developments from our portfolio and explain the relevance and impact of the press release.

To complement our regulatory news updates, analyst reports are periodically prepared and issued by Progressive Research to provide a more in-depth analysis in support of regulatory announcements.

Website

The Company's website (ternplc.com) is a valuable resource for shareholders and other interested parties, providing comprehensive and up-to-date news and information. To ensure efficient management of enquiries, a dedicated email address (info@ternplc.com) is provided and managed by the Company's financial public relations advisors. While the Company may exercise discretion in responding to questions, all information provided will be freely available in the public domain. The Board is kept informed of key themes by a monthly summary of enquiries, and if necessary, specific enquiries are brought to the Board's attention for review.

The website also features a dedicated investor section, which includes financial results, analyst coverage, corporate governance information, information on the Board, constitutional and admission documents, and a link to regulatory announcements.

Our suppliers

Our Company recognises the importance of our suppliers and values the regular interaction that we have with them. As a result of our close working relationships, we are able to receive feedback on our performance and use this information to improve our operations. Our AIM nominated adviser, brokers, and PR agency have been instrumental in providing guidance and support to enhance our external communication and strengthen our engagement with our wider stakeholder groups. In addition, we value the input of these parties in our annual Board Evaluation process.

Our Community

We recognise the importance of environmental, social, and governance (ESG) factors in our business operations and strive to make a positive impact on our community. As a responsible investor, we actively engage with our portfolio to encourage them to consider their impact on the environment and society. Our companies are frequently involved in addressing ESG issues through initiatives such as increasing efficiencies and reducing waste.

In line with our 2022 commitment to sustainability, we have worked closely with our portfolio to ensure that they are fulfilling their responsibilities towards ESG factors and making progress on positively impacting the environment and community.

Ian Ritchie
Chairman

Business Risks

The management of the business and achievement of the Company's strategy are subject to a number of risks which are monitored regularly by the Board. The Board has ultimate responsibility for setting and managing the risk framework and considers that the risks detailed below represent the key areas that could impact on achieving overall strategic objectives.

The key controls over the Group's principal risks and uncertainties are documented in the Company's risk register, which includes an assessment of the risk, likelihood of occurrence, severity of impact and mitigating actions and is reviewed at least quarterly by the Board. An assessment of the strength of mitigating actions determines the net risk score and any further actions required, with the review also assessing the effectiveness of the Company's risk management and related control systems. The executive directors meet at least weekly to review ongoing trading performance for the portfolio, discuss budgets, forecasts, opportunities and new risks associated with ongoing trading. 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. 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 our portfolio. An internal audit function exists to evaluate and assess the controls within our portfolio, ensuring any risks are highlighted to the Audit Committee which escalates and reports to the Board. The Company is effected 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 principal operational risks, they are briefly summarised below:

Risks include the Company and its portfolio not being able to secure later rounds of funding at crucial development inflection points and not being able to source or retain appropriately skilled and experienced staff. Other risks arise where competing technologies enter the market, or commercial traction is not achieved within the forecast timeframe with commercial success protracted leading to severe cash flow pressure. Technology can be materially unproven and may ultimately fail, IP may be infringed, copied or stolen, may be more susceptible to cybercrime and other administrative taxation or compliance issues. Changes in the macroeconomic environment or valuations placed on the technology sector may impact on the fair value of the portfolio. These factors may lead to a reduction in value generated at the Company level.

The Company does not operate in the Ukraine or Russia and is therefore not directly affected by the impact of the ongoing political conflict.

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 the portfolio, this is enhanced by a monthly meeting held with all CEOs from our portfolio;
- 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.

Ability to maximise value from the portfolio

Risk

The timing of disposal of a holding is uncertain and cash returns to the Company are therefore not predictable. Valuations in the technology sector may change.

Potential Impact

Companies may require additional funding if syndication events are delayed.
The funding requirements may exceed those forecast in the Company cash flow. Fair value of the portfolio may reduce

Mitigation Strategy

The Company maintains sufficient cash resources to manage its ongoing operational and investment commitments.

Regular operational reviews are undertaken by the executive team who meet weekly and the investment directors present a review of performance at each meeting.

Financial performance of the Company is a standing agenda item at the Board.

The Board meets with the CEOs from the portfolio once a month to discuss operational performance and other strategic initiatives.

Dominance of single company in the portfolio

Risk

The portfolio is dominated by one or two companies.

Potential Impact

If one dominant company fails or fair value changes materially, it may have a disproportionate impact on the Company.

Mitigation Strategy

The Company is building a portfolio to insulate itself against poor performance of any single company.

Inherent risk of building a portfolio of early-stage companies

Risk

The returns and cash proceeds from the portfolio may be insufficient. The majority of the businesses are at a relatively early stage in their development, and as a result, carry inherent risks including technical and commercial risks. Typically, such companies are developing new technology or disrupting existing technologies in a relatively new sector.

Potential Impact

Risks include portfolio companies and holdings not being able to secure later rounds of funding at crucial development inflection points and not being able to source or retain appropriately skilled and experienced staff. Other risks arise where competing technologies enter the market, or commercial traction is not achieved within the forecast timeframe with achieving commercial success becoming protracted leading to severe cash flow pressure. The current volatility of global stock markets impacting valuations was particularly noted by the Board.

Portfolio companies' technology can be materially unproven and may ultimately fail, IP may be infringed, copied or stolen, may be more susceptible to cybercrime and other administrative taxation or compliance issues. These factors may lead to the Company recognising a fair value loss or loss on disposal.

Mitigation Strategy

The Company undergoes rigorous due diligence before proceeding with backing a new company.

The Company actively takes an influential role in the strategic direction of its companies and regularly monitors performance. A Company Director holds a non-executive board position on most portfolio company boards.

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.

These mitigating factors reduce, although they do not eliminate, the risk of direct failure, particularly in the current uncertain economic climate. A focus on bringing in synergistic companies and encouraging a strong network between them further mitigate the inherent risks.

Retain and attract successful staff

Risk

The Company is unable to retain key individuals or attract experienced, skilled and successful directors.

Potential Impact

The Company depends on the experience, skill and judgement of the team in both selecting promising companies to join the portfolio as well as to guide them once they join and the success of the Company is dependent on having the right individuals in place.

New staff can cause disruption for the Company as new individuals take time to gain an understanding of the Company's strategy and requirements.

Mitigation Strategy

The Company offers balanced and competitive remuneration packages, overseen by the Remuneration Committee, designed to attract, motivate and retain key individuals. This includes the potential to receive performance related bonuses and share options.

Key individuals in the companies are offered a competitive remuneration package and either shares or share option incentives.

Cyber security breaches

Risk

Cyber security incidents may affect the operations and reputation of the Company.

Potential Impact

A significant cyber security breach could result in financial liabilities, reputational damage, business disruption or the loss of business critical or commercially sensitive information.

Mitigation Strategy

To ensure operational resilience and minimise the risk of occurrence of cyber security incidents, the Company utilises reliable software and hardware and operates anti-virus protection systems and backup procedures.

Business Risks

Maintain required level of capital to operate at optimum level

Risk
The Company is unable to raise new funds due to a reduction in investor confidence or access to capital.

The timing of company realisations is uncertain and cash returns to the Company are therefore not predictable. Impact of other investors on portfolio company valuations if the Company is unable to participate due to insufficient funds.

Potential Impact
Can result in a reduction in the ability to grow the portfolio companies or the ability to maintain holdings in existing companies. May have a detrimental impact on the Company's ability to fund operational costs. Other investors may take a disproportionate share of the portfolio company if the Company is unable to negotiate due to lack of funds.

Mitigation Strategy
The Company will maintain a sufficient cash balance to finance itself for a prudent period or ensure it has access to funds.

The financial performance of the Company is a standing agenda item at the Board and regular working capital reviews are undertaken.

Foreign exchange risk

Risk
The valuation of assets may be impacted by foreign exchange movements

Potential Impact
The value of the Company's assets could fall.

Mitigation Strategy
The Company actively reviews the value of its assets and will consider action on foreign exchange risk where relevant, following advice from advisors.

The Company does not currently operate hedging arrangements to mitigate exposure to currency fluctuations but relationships are in place with foreign exchange service providers in the event the Board decides to make such arrangements.

Competition risk

Risk
As the IoT sector becomes more mature, it will attract increased interest from entities competing with the Company.

Potential Impact
This may have a detrimental impact on the Company's ability to add businesses to its portfolio at an acceptable cost.

The Company may miss out on new opportunities and may also have the portfolio valuation impacted negatively if it does not match prices and terms offered by competitors but equally it may experience decreased rates of return if it matches unfavourable terms.

Mitigation Strategy
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 technology companies which should remain attractive to new companies.

ESG/Climate Change

Risk
Increasing need to navigate the regulatory, market, technology, and reputational aspects associated with climate change concerns as well as the potential physical impacts.

Potential Impact
Transitioning to a lower-carbon economy may entail policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change, which include changing stakeholder expectations as consumers and investors making decisions based on carbon performance and climate resilience. Impact on employee attraction and retention due to increased interest in working for 'climate aware' organisations.

Mitigation Strategy
Development of a company ESG strategy and working with ESG advisors to assess carbon footprint and target reduction as well as focusing on stakeholder interactions and ensuring the Company culture reflects all elements of the ESG strategy.

Macroeconomic issues

Risk
This would include high inflation and interest rates putting pressure on both the Company cost base and that of its portfolio companies and holdings.

Macroeconomic issues also incorporate the UK exit from the European Union, high employment impacting on availability of appropriately qualified staff as well as the ongoing hostilities between Russia and Ukraine.

Potential Impact
An increase in cost base puts adverse pressure on the short-term financial performance of the Company and liquidity pressure on the portfolio.

Detrimental impact on performance of companies with exposure to the European Union, Russia or Ukraine.

Mitigation Strategy
The Company monitors its working capital to ensure it has sufficient funds to maintain operations during any economic slow down. The portfolio companies and holdings are well led with modest and closely managed cost bases.

The Board continues to monitor the impact of the current global macroeconomic environment and the impact of the conflicts between Russia and Ukraine.

Reputational risk

Risk
As a public company quoted on AIM, anyone can acquire shares in the Company.

Potential Impact
The actions of shareholders are outside of the control of the Company but can impact on the Company by association.

Mitigation Strategy
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.

Director’s Remuneration

I am pleased to present our Remuneration Committee Report for the year ended 31 December 2022, which summarises the work of the Remuneration Committee, as well as the remuneration policy, details of the directors’ remuneration packages and a summary of all remuneration paid to directors during the year.

The members of the Remuneration Committee (the “Committee”) are Alan Howarth (Chair of the Committee) and Ian Ritchie, both of whom are independent non-executive directors of the Company.

The Remuneration Committee is responsible for agreeing the framework and remuneration policy for the executive directors. It sets the remuneration for the Board, 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 on other companies, including benchmarking exercises carried out for AIM companies and ensures that all requirements on the disclosure of remuneration are fulfilled.

There were three Remuneration Committee meetings in 2022. This was fully attended by all members. No advice was sought by the Board or its Committees on any significant matters.

The activity of the Committee during the year was predominately focused on remuneration matters, including approving the remuneration increase for the executive directors and discussing the potential bonus payments to the executive directors following the assessment of performance against agreed financial Key Performance Indicators (KPIs), which are designed to inspire and measure business progress. The Committee also approved the performance measures for the 2023 annual bonus. There were no bonus amounts paid in respect of the year ended 31 December 2022. The overall remuneration to directors fell by 11% compared to 2021, or 19% once 2022 inflation (at 10%) is taken into account.

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 have compensation programs that are structured at or near the midpoint of our peer group whilst maintaining affordability for the Company.

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. Other benefits include employer contributions to pension, life assurance, company car and private health insurance.

Only base salaries are pensionable. 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 reappointment 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 (granted 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 at any point prior to the third anniversary of the grant date, the share price increases by 100%, then 100% of the shares vests immediately. If there has been no increase in share price by the third anniversary, then 0% of the shares vest. Between these two points the options will vest on a straight-line basis. All current outstanding options are fully vested

No options were granted to directors during the year ended 31 December 2022.

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.

The annual bonus for executive directors is assessed against financial KPIs. Challenging targets have been set. Actual performance targets are not disclosed as they are considered to be commercially sensitive at this time.

Director's Remuneration

Director's Remuneration

The remuneration of each director, excluding share options awards, during the year ended 31 December 2022 as detailed in the table below:

	Basic Salary £000	Pension Contributions £000	Bonus £000	Other Benefits £000	2022 £000	2021 £000
EXECUTIVE DIRECTORS						
Albert Sisto	169.7	16.9	-	18.6	205.2	272.5
Sarah Payne	140.6	14.1	-	0.7	155.3	184.6
Bruce Leith	140.1	14.0	-	21.2	175.3	193.1
Matthew Scherba	138.8	13.9	-	5.2	157.8	185.2
NON-EXECUTIVE DIRECTORS						
Ian Ritchie	40.3	-	-	-	40.3	37.8
Alan Howarth	33.8	-	-	-	33.8	31.5
	663.1	58.9	-	45.7	767.7	904.8
Share based payment charge					68.4	34.2
Total remuneration	663.1	58.9	–	45.7	836.1	939.0

The directors did not receive any other emoluments, compensation or cash or non-cash benefits other than that disclosed above.

Director's Share Options

The director's outstanding share options as at 31 December 2022 are shown in the table below:

	2021	Granted	Exercised	Expired	2022	Option price	Expiry date
EXECUTIVE DIRECTORS							
Al Sisto	2,500,000	-	-	-	2,500,000	8.5p	18 May 2027
Sarah Payne	2,500,000	-	-	-	2,500,000	8.5p	18 May 2027
Bruce Leith	2,500,000	-	-	-	2,500,000	8.5p	18 May 2027
Matthew Scherba	2,500,000	-	-	-	2,500,000	9.15p	1 Dec 2029
NON-EXECUTIVE DIRECTORS							
Ian Ritchie	-	-	-	-	-		
Alan Howarth	250,000	-	-	-	250,000	13p	22 Feb 2023

The vesting criteria for the Company's share options can be found above.

Alan Howarth
Chairman of the
Remuneration Committee

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TERN PLC

Opinion

We have audited the financial statements of Tern Plc (the 'company') for the year ended 31 December 2022 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 significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards.

In our opinion, the financial statements:

- **give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its losses for the year then ended;**
- **have been properly prepared in accordance with UK-adopted international accounting standards; 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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 statement of financial position 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.** **The company's accounting policy on investments is shown in note 1.8 to the financial statements, critical accounting judgements and estimates included in note 3 and related disclosures are included in note 11.**	**As part of our procedures, we conducted the following work:** **For investments listed on a recognised exchange, we compared the valuation of investments held in the Statement of Financial Position to the valuation derived from the publicly available share price from the exchange as at 31 December 2022.** **For all other investments, we received valuations prepared by management and challenged the valuation of investments by assessing the methodology used by management, corroborating the key inputs and assumptions as appropriate.** **We utilised our specialist valuations team to review the validity of the methodology and calculations used to value the investments by management.** **We tested the mathematical accuracy of the valuation calculations.**

Our application of materiality

The materiality for the financial statements was set at £1,100,000. 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 of the company in assessing the company's performance. Financial statement materiality represents 4.4% of the company's net assets as presented on the face of the Statement of Financial Position. We also applied a specific materiality for all balances other than those in relation to investments which was set £265,000. This is based on 12% of total expenditure in the year.

Performance materiality for the company's financial statements was set at £825,000, being 75% of financial statement materiality, for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. We have set it at this amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds financial statement materiality. We judged this level to be appropriate based on our understanding of the company and its financial statements, as updated by our risk assessment procedures and our expectation regarding current period misstatements including considering experience from previous audits. The level of 75% was set due to the uncertainty of estimation in the investments balance.

Performance materiality, in respect of all balances other than those in relation to the investments balance, has been set at 75% of specific financial statements materiality, being £198,750, for a similar reason to the above.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- **Challenging the key assumptions used in the detailed budgets and forecasts prepared by management for the financial year to 31 December 2023 and period to May 2024;**
- **Assessing the mathematical accuracy of the detailed budgets and forecasts and agreeing to the underlying key assumptions;**
- **Comparing actual cash flow performance in 2022 to management's prior year forecasts and comparing actual cash flow performance in 2023 to the date of this report to management's 2023 forecast;**
- **Reviewing bank statements to monitor the cash position of the company post year end;**
- **Obtaining an understanding of significant expected cash outflows in the forthcoming 12-month period from the date of signing these financial statements including any cash requirements the company may have to provide to its portfolio companies; and**
- **Considering the sensitivity of the assumptions and re-assessing headroom after sensitivity.**

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 contained within the Report and Accounts. 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Opinions 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.**

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and their 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 in relation to which 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 10, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory framework applicable to the company as well as the laws and regulations applicable, and considered these throughout our testing. We obtained an understanding of the entity's policies and procedures by discussions with management. We also drew on our existing understanding of the company's industry and regulation.

We understand the company complies with requirements of these frameworks through:

- **The Directors updating operating procedures, manuals and internal controls as legal and regulatory requirements change;**
- **The Directors' close involvement in the day-to-day running of the business, meaning that any litigation or claims would come to their attention directly.**

In the context of the audit, we considered those laws and regulations: which determine the form and content of the financial statements; which are central to the company's ability to conduct business; and where failure to comply could result in material penalties. We have identified the following laws and regulations as being of significance in the context of the company:

- **The Companies Act 2006 and IFRS in respect of the preparation and presentation of the financial statements; and**
- **AIM regulations and Market Abuse Regulations.**

We performed the following specific procedures to gain evidence about compliance with the significant laws and regulations above;

- **We have reviewed a sample of legal and professional invoices;**
- **Made enquiries with management as to any legal or regulatory issues during the year;**
- **We have reviewed Board minutes for evidence of non compliance;**
- **We have confirmed with management there has been no correspondence with the FRC during the year;**
- **We have obtained representation from management that they have disclosed to us all known instances of non-compliance or suspected non-compliance with laws and regulations.**

The senior statutory auditor led a discussion with senior members of the engagement team regarding the susceptibility of the entity's financial statements to material misstatement, including how fraud might occur. The key areas identified as part of the discussion were with regard to the manipulation of the financial statements through manual journals and inflation of investment values. This was communicated to the other members of the engagement team who were not present at the discussion.

The procedures carried out to gain evidence in the above areas included;

- **Testing of the investments balance as described in the key audit matters section above; and**
- **Testing of manual journal entries, selected based on specific risk assessments applied based on the company's processes and controls surrounding manual journals.**

The senior statutory auditor was satisfied that the engagement team collectively had the appropriate competence and capabilities to identify or recognise irregularities. In particular, both the senior statutory auditor and the audit manager have a number of years' experience in dealing with companies subject to AIM Regulation.

A further description of our responsibilities is available on the FRC'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.

Mark Bishop

Senior Statutory Auditor, for and on behalf of
CLA Evelyn Partners Limited
Statutory Auditor
Chartered Accountants
45 Gresham Street
London EC2V 7BG
30 May 2023

Financials 2022

Income Statement and Statement of Comprehensive Income

For the year ended 31 December 2022

	Notes	2022 £	2021 £
Fee income		66,013	63,783
Movement in fair value of investments	11	(8,415,781)	6,240,095
Profit/(Loss) on disposal		11,208	(199,115)
Total investment income		(8,338,560)	6,104,763
Administration costs		(1,792,523)	(1,635,058)
Other expenses	6	(366,596)	(75,372)
Operating (loss)/profit	7	(10,497,679)	4,394,333
Finance income	8	50,915	183,988
(Loss)/Profit before tax		(10,446,764)	4,578,321
Tax	9	–	–
(Loss)/Profit and total comprehensive income for the period		(10,446,764)	4,578,321

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

(LOSS)/EARNINGS PER SHARE			
Basic (loss)/earnings per share	10	(2.92) pence	1.35 pence
Diluted (loss)/earnings per share	10	(2.92) pence	1.33 pence

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

Statement of Financial Position

As at 31 December 2022

	Notes	2022 £	2021 £
ASSETS NON-CURRENT ASSETS			
Investments	11	23,881,769	30,612,047
		23,881,769	30,612,047
CURRENT ASSETS			
Trade and other receivables	12	363,765	189,354
Cash and cash equivalents	13	931,765	1,957,203
		1,295,530	2,146,557
TOTAL ASSETS		25,177,299	32,758,604
EQUITY AND LIABILITIES			
Share capital	14	1,379,282	1,371,970
Share premium	14	33,341,218	30,546,569
Retained earnings		(9,868,199)	498,010
		24,852,301	32,416,549
CURRENT LIABILITIES			
Trade and other payables	16	324,998	342,055
TOTAL CURRENT LIABILITIES		324,998	342,055
TOTAL LIABILITIES		324,998	342,055
TOTAL EQUITY AND LIABILITIES		25,177,299	32,758,604

The financial statements were approved and authorised for issue by the Board of Directors on 30 May 2023 and were signed on its behalf by:

Company number 05131386

Sarah Payne
Director

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 2022

	Share capital £	Share premium £	Retained earnings £	Total equity £
Balance at 31 December 2020	1,367,635	26,740,789	(4,107,767)	24,000,657
Total comprehensive income	–	–	4,578,321	4,578,321
TRANSACTIONS WITH OWNERS				
Issue of share capital	4,335	4,031,665	–	4,036,000
Share issue costs	–	(225,885)	–	(225,885)
Share based payment charge	–	–	27,456	27,456
Balance at 31 December 2021	1,371,970	30,546,569	498,010	32,416,549
Total comprehensive income	–	–	(10,446,764)	(10,446,764)
TRANSACTIONS WITH OWNERS				
Issue of share capital	7,312	3,114,249	–	3,121,561
Share issue costs	–	(319,600)	–	(319,600)
Share based payment charge	–	–	80,555	80,555
Balance at 31 December 2022	1,379,282	33,341,218	(9,868,199)	25,852,301

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

Statement of Cash Flows

For the year ended 31 December 2022

	Notes	2022 £	2021 £
OPERATING ACTIVITIES			
Net cash used in operations	20	(2,055,814)	(1,535,722)
Purchase of investments		(1,670,194)	(2,504,185)
Cash received from sale of investments		42,346	–
Loans to portfolio companies		(144,757)	–
Interest received		1,020	56,829
Net cash used in operating activities		(3,827,399)	(3,983,078)
FINANCING ACTIVITIES			
Proceeds on issues of shares		3,121,561	4,000,000
Share issue expenses		(319,600)	(225,885)
Proceeds from exercise of options		–	36,000
Net cash from financing activities		2,801,961	3,810,115
(Decrease) in cash and cash equivalents		(1,025,438)	(172,963)
Cash and cash equivalents at beginning of year		1,957,203	2,130,166
Cash and cash equivalents at end of year		931,765	1,957,203

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 2022

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, rounded to the nearest pound 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 UK-adopted international accounting standards.

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 4B the directors consider the Company to be an investment company and have 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 from the approval of the financial statements without any additional financing requirement. A review of a variety of macro-economic factors have 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. For example, the Company can exit part of its investment in its level one held investments with the risk that such transactions are determined by an inherent and undetermined market risk.

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 and are expected to relate to the Company:

- **IFRS 16 Leases: amendments to clarify how a seller-lessee subsequently measures sale and leaseback transactions (issued in September 2022 and effective for annual periods beginning on or after 1 January 2024).**
- **IAS 1 Presentation of Financial Statements: amendments regarding the classification of debt with covenants (issued in October 2022 and effective for annual periods beginning on or after 1 January 2024).**

1.5 ADOPTION OF NEW AND REVISED STANDARDS

Amendments have been made to IFRS 9 Financial Instruments in relation to fees in the '10 per cent' test for derecognition of financial liabilities. The amendment clarifies the fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

1.6 FEE INCOME

Under IFRS 15, fee income 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. Fee income 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.

Fee income from a contract to provide services is recognised over time as the services are rendered based on a fixed price.

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 substantively 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 investments consists of equity investments, convertible loan notes and loans issued to a portfolio company. The convertible loan notes are financial assets with multiple embedded derivatives which can include a warrant instrument. These financial assets are measured in their entirety at (FVTPL) fair value through profit or loss.

In accordance with IFRS 10, paragraph 46, 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 FVTPL.

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 will be calculated based on 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 and other short term highly liquid investments with original maturities of three months or less.

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 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.

1.15 LOANS TO PORTFOLIO COMPANIES

CONVERTIBLE LOANS

Convertible loans provided to portfolio companies are evaluated with reference to IFRS9. 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 derivatives. IFRS 9 permits the entire contract for both loans to be designated at FVTPL.

OTHER LOANS

The loan facility provided to Device Authority 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 and loss for the year.

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.

2.1 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 foreign exchange risk, 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 predominantly private companies for the medium term which are therefore not immediately liquid. The Company manages this risk by seeking to hold 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 portfolio companies are regularly monitored to assess when further investment may be required, this includes a review of cash flow forecasts. The Company has a quoted investment which 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.

MARKET PRICE RISK

As 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.

As at 31 December 2022, if market prices were 3% higher or (lower) and all other variables were held constant, the Company's net loss would decrease by £0.2m (2021: £0.7m additional profit). This is attributable to the Company's exposure to market price risk on its quoted investment.

The unquoted investments currently held are not liquid.

FOREIGN EXCHANGE RISK

The Company generally conducts its business within the UK, however some of its investments are valued based on a foreign currency valuation. Device Authority, the most significant investment, is based on a US dollar valuation and Wyld Networks is based on a SEK valuation 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.

As at 31 December 2022, if foreign exchange rates were 5% higher or (lower) and all other variables were held constant, the Company's net loss would increase by £0.9m (2021: £1.6m decrease in profit). This is attributable to the Company's exposure to foreign exchange risk on its investments held in Device Authority and Wyld Networks.

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.

The Company derives its fee income from a small number of investments. Fee income to these portfolio companies is not expected to fluctuate significantly and is 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

Refer to note 17 for the fair value measurement accounting policy.

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

As set out in note 17, the Company holds unquoted investments of £17.9m 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.

The Company holds financial assets that have been held at FVTPL. The value of the convertible loan notes 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 is the assessment that investments should not 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.

5. STAFF COSTS

Staff costs for the Company during the year, including directors	2022	2021
	£	£
Wages and salaries	809,534	909,060
Social security costs	109,158	85,083
Pension costs	66,230	59,709
Share based payment charge	80,555	27,456
Total staff costs	1,065,477	1,081,308

The average number of people (including non-executive directors) employed by the Company during the year was:

	2022	2021
	No	No
Directors	6	6
Employees	1	1
Total	7	7

DIRECTORS' REMUNERATION

Other than directors the Company had one employee as at 31 December 2022. Total remuneration paid to directors during the year was as follows:

	2022	2021
	£	£
DIRECTORS' REMUNERATION		
– Salaries and benefits	708,872	850,455
– Social security costs	98,391	78,770
– Pension costs	58,878	54,309
– Share based payment charge	68,374	34,187
Total directors' remuneration	934,515	1,017,721

Total remuneration of the highest paid director was	225,412	272,541

A summary of remuneration paid to each director, including pension payments, is included in the Report on Directors' Remuneration (pages 21-22).

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

6. OTHER EXPENSES

	2022	2021
	£	£
Share based payment (options)	80,555	27,456
One-off legal and professional costs	13,025	31,916
Recharged professional fees	20,880	6,000
Charitable donations	–	10,000
Non-recurring[1]	252,136	–
	366,596	75,372

1 Relating to the cost of the acquisition of Pires Investments PLC which was subsequently not completed.

7. OPERATING (LOSS)/PROFIT

	2022	2021
	£	£
PROFIT FROM OPERATIONS HAS BEEN ARRIVED AT AFTER CHARGING		
Remuneration of directors	934,515	1,017,721
FEES PAYABLE TO THE COMPANY'S AUDITOR FOR SERVICES PROVIDED TO THE COMPANY		
– Audit services	42,000	35,000
– Tax compliance services	5,510	4,675
– Advisory services	18,450	1,025
– Audit related services	3,000	3,000

8. FINANCE INCOME

	2022	2021
	£	£
Interest income on loan notes	4,468	21,897
Interest accrued on convertible loan notes	46,447	162,091
	50,915	183,988

9. TAXATION

	2022 £	2021 £
(Loss)/Profit before tax	(10,446,764)	4,578,321
Tax at domestic income tax rate	(1,984,885)	869,881
Expenses not deductible for tax purposes	16,926	6,026
Fair value movement not taxable	1,356,889	(1,185,618)
Unutilised tax losses	611,070	309,711
Tax	–	–

The Company has unutilised losses of approximately £12.3m (2021: £9.0m) resulting in a deferred tax asset not recognised of approximately £2.3m (2021: £1.7m). 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. (LOSS)/EARNINGS PER SHARE

	2022 £	2021 £
(Loss)/profit for the purposes of basic and fully diluted (Loss)/profit per share	(10,446,764)	4,578,321

	2022 Number	2021 Number
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES		
For calculation of basic earnings per share	357,424,413	339,559,205
For calculation of fully diluted earnings per share	357,424,413	342,975,205

	2022	2021
(LOSS)/EARNINGS PER SHARE:		
Basic (loss)/earnings per share	(2.92) pence	1.35 pence
Diluted (loss)/earnings per share	(2.92) pence	1.33 pence

In 2022 the fully diluted loss per share is the same as the basic loss per share as the share options were underwater which would have an anti-dultive effect on loss per share.

11. NON CURRENT ASSETS

INVESTMENTS	2022 £	2021 £
Fair value of investments brought forward	30,612,047	21,904,791
Interest accrued on convertible loan note	46,447	162,091
Additions	1,670,194	2,504,185
Disposals	(31,138)	(199,115)
Fair value of investments carried forward	32,297,550	24,371,952
Fair value adjustment to investments	(8,415,781)	6,240,095
Fair value of investments carried forward	23,881,769	30,612,047

	Cost	Valuation	Equity ownership
	£000	£000	%
Wyld Networks AB	2,299	5,985	41.2
Device Authority Limited	8,932	11,861	53.8
InVMA Limited (Konektio)	1,695	469	36.8
FVRVS Limited (FundamentalVR)	2,928	3,630	16.6
Talking Medicines Limited	1,260	1,792	23.8
Diffusiondata Limited[1]	120	23	<1
Sure Valley Ventures UK Software Technology Fund	222	122	5.9
	17,456	23,882	

1 Previously Push Technology Limited

The convertible loan facility issued to Device Authority is a financial asset 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. As at 31 December 2022, the principal of the convertible loan outstanding was £354,547 ($427,520) (2021: Nil). The unsecured cashflow loan issued to Device authority carries interest. The balance outstanding of the cashflow loan as at 31 December 2022 was £144,757 ($174,551) (2021: Nil).

The convertible loan facility issued to InVMA is a financial asset 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. As at 31 December 2022, the principal of the convertible loan outstanding was £170,000 (2021: Nil).

The convertible loan facility issued to FVRVS was converted into equity during the year with any movements in fair value taken to profit or loss for the year.

12. TRADE AND OTHER RECEIVABLES

	2022	2021
	£	£
Trade receivables	136,175	102,959
Prepayments	64,147	63,850
Loans to portfolio companies	144,757	-
Interest receivable on loan notes	4,256	808
Other receivables	14,430	21,737
Total	**363,765**	**189,354**

The directors consider that the carrying amount of trade and other receivables approximates to its 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 which all relate to receivables from our investments.

13. CASH AND CASH EQUIVALENTS

	2022	2021
	£	£
Cash at bank	**931,765**	**1,957,203**

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

14. ISSUED SHARE CAPITAL

	Number of shares no.	Nominal value £	Share premium £
ISSUED AND FULLY PAID			
AT 31 DECEMBER 2021			
Ordinary shares of £0.0002	352,014,701	70,402	
Deferred shares of £29.999	42,247	1,267,368	
Deferred shares of £0.00099	34,545,072	34,200	
	386,602,020	1,371,970	30,546,569
Ordinary shares issued for cash	36,556,809	7,312	3,114,249
Share issue expenses	–	–	(319,600)
	423,158,829	1,379,282	33,341,218
AT 31 DECEMBER 2022			
Ordinary shares of £0.0002	388,571,510	77,714	
Deferred shares of £29.999	42,247	1,267,368	
Deferred shares of £0.00099	34,545,072	34,200	
	423,158,829	1,379,282	33,341,218

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 23 August 2022, 200,000 ordinary shares were issued at 9.9p per share for cash as the result of a subscription, raising £19,800.

On 12 October 2022, 21,356,809 ordinary shares were issued at 7.5p per share for cash as the result of a private placing raising £1,601,761 before expenses.

On 15 December 2022, 15,000,000 ordinary shares were issued at 10p per share for cash as a result of a private placing raising £1,500,000 before expenses.

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.

Retained earnings

Cumulative profit of the Company.

16. TRADE AND OTHER PAYABLES

	2022 £	2021 £
Trade payables	131,112	75,232
Accruals and deferred income Other	101,248	217,361
Other taxes and social security	90,268	49,462
Other payables	2,370	-
Total	**324,998**	**342,055**

The directors consider that the carrying amount of trade payables approximates to its 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.

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. 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 Financial Review on pages 7-8.

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 recognised in the Statement of Comprehensive Income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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 2022 and 31 December 2021:

For Level 3 investments, 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.

Convertible loans provided to portfolio 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.

31 DECEMBER 2022	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments held for trading	5,985,420	–	17,896,349	23,881,769

31 DECEMBER 2021	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments held for trading	8,746,157	–	21,865,890	30,612,047

See note 11 for more detail.

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 at any point prior to the third anniversary of the grant date, the share price increases by 100%, then 100% of the shares vest immediately. If there has been no increase in share price by the third anniversary, then 0% of the shares vest. Between these two points the options will vest on a straight-line basis.

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. As at the date the accounts were signed, all these options have subsequently lapsed.
In 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 ten years from the date of grant. The advisor options are fully vested and the options have now lapsed.

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.

A total share based payment charge of £80,555 was recognised in 2022 (2021: £27,456) in respect of the options granted in 2019 and 2020, of this £12,180 (2021: £(6,732)) related to equity settled options issued to employees.

The table below lists the inputs to the model used for the options granted in 2020:

	EMPLOYEES
Weighted average share price at date of grant	8.15 pence
Weighted average exercise price	8.15 pence
Expected volatility	100%
Vesting period	3
Contractual life	10
Risk free rate	1.94%

The share options held as at 31 December 2022 are set out in the table below:

	Outstanding at 31 December 2021	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2022	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
	2,500,000	–	–	–	2,500,000	9.15p	1 Dec 2029
Total directors	10,250,000	–	–	–	10,250,000		
Employees	500,000	–	–	–	500,000	8.15p	22 July 2030
Other	500,000	–	–	500,000	–	9p	15 Feb 2022
	100,000	–	–	–	100,000	8.5p	18 May 2027
Total Options	11,350,000	–	–	–	10,850,000		

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

19. RELATED PARTY TRANSACTIONS

The Company considers the following businesses to be related parties and details in the table below, all related party transactions that took place during the year.

FOR THE PERIOD AS AT 31 DECEMBER	2022			2021		
	Revenue	Purchases	Investment	Revenue	Purchases	Investment
	£	£	£	£	£	£
Device Authority Limited	15,000	-	367,061	24,333	738	1,172,511
Wyld Networks AB	-	-	511,646	-	-	451,674
Wyld Networks Limited	-	-	-	6,450	-	-
Wyld Technologies Limited	-	-	-	6,000	-	-
FVRVS Limited (FundamentalVR)	8,333	-	-	10,000	-	530,000
InVMA Limited (Konektio)	25,180	-	170,000	12,000	-	350,000
Talking Medicines Limited	17,500	-	399,987	5,000	-	-

Outstanding trade receivable balances at the year-end are detailed in the table below:

AS AT 31 DECEMBER	2022	2021
	£	£
Device Authority Limited	105,959	90,959
FVRVS Limited (FundamentalVR)	-	12,000
InVMA Limited (Konektio)	30,216	-

Outstanding loan balances at the year-end are detailed in the table below:

AS AT 31 DECEMBER	2022	2021
	£	£
Device Authority Limited	144,757	-

Equity shareholdings are detailed in Note 11.

20. CASH FLOW FROM OPERATIONS

	2022 £	2021 £
(Loss)/Profit for the year	(10,446,764)	4,578,321
ADJUSTMENTS FOR ITEMS NOT INCLUDED IN CASH FLOW		
Movement in fair value of investments	8,415,781	(6,240,095)
(Profit)/Loss on disposal	(11,208)	199,115
Share based payment charge	80,555	27,456
Finance income	(50,915)	(183,988)
Operating cash flows before movements in working capital	(2,012,551)	(1,619,191)
ADJUSTMENTS FOR CHANGES IN WORKING CAPITAL		
(Increase)/decrease in trade and other receivables [1]	(26,206)	37,015
(Decrease)/increase in trade and other payables	(17,057)	46,454
Cash used in operations	(2,055,814)	(1,535,722)

1 Excludes cash loans and interest receivable from portfolio companies.

21. FINANCIAL INSTRUMENTS

The Company uses financial instruments, other than derivatives, comprising cash to provide funding for the Company'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, all of which are current:

	2022 £	2021 £
FINANCIAL ASSETS		
Cash at bank	931,765	1,957,203
Financial instruments at amortised cost		
Trade receivables	136,175	102,959
Other receivables	14,430	21,737
Fair value through profit or loss (FVTPL)		
Investments	23,881,769	30,612,047

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, all of which are current:

	2022 £	2021 £
Trade payables	131,112	75,232
Accruals	96,665	201,920

22. EVENTS AFTER THE REPORTING PERIOD

On 25 April 2023, it was announced that InVMA Limited (trading as Konektio) had completed a £0.3m equity fundraise. The Company's investment in Konektio is now valued at £1m, which included an additional investment of £0.1m by Tern in this round. Tern also converted £0.5m of convertible loan notes in Konektio.

On 26 May 2023, it was announced that InVMA Limited (trading as Konektio) has agreed a £2.5m equity fundraise, to be completed in two tranches. The first tranche of £1.2 million has completed and the second tranche of £1.3 million is due for completion in Q4 2023. The Company's investment in Konektio is now valued at £0.9m, which included an additional investment of £0.1m by Tern in this round.

23. ULTIMATE CONTROLLING PARTY

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

Notice of 2023 Annual General Meeting

Notice of 2023 Annual General Meeting NOTICE IS HEREBY GIVEN that the 2023 Annual General Meeting of Tern plc (the "Company") will be held at 9.00am on Thursday 29 June 2023 at the offices of Reed Smith, The Broadgate Tower, 20 Primrose Street, London, EC2A 2RS.

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 2022, together with the Directors' Report and Auditors' Report on those accounts.

2. To re-appoint Evelyn Partners 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 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.

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 £12,500 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 £10,000.

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 2024; 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
30 May 2023

NOTES TO THE AGM NOTICE

1. Shareholders will only be entitled to attend and vote at the Annual General Meeting if they are registered as the holders of Ordinary Shares at 9.00am on 27 June 2023. If shareholders attend as appointed proxies, they must bring photo ID with them to enable attendance at the AGM. All Corporate Representatives must bring their printed letter of Corporate Representative together with photo ID to enable attendance at the AGM. If the Annual General Meeting is adjourned, the time by which a person must be entered on the register of members of the Company in order to have the right to vote at the adjourned meeting is 48 hours (ignoring any part of a day that is not a working day) prior to the date and time fixed for the adjourned meeting. Changes to entries on the register of members of the Company later than the time and date falling 48 hours (ignoring any part of a day that is not a working day) prior to the meeting (or any adjournment thereof) will be disregarded in determining the rights of any person to vote at the meeting.

2. A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, vote and speak at the meeting provided each proxy is appointed to exercise rights attached to different shares. A proxy need not be a shareholder of the Company.

3. You can register your vote(s) for the Annual General Meeting either:

- by logging on to www.shareregistrars.uk.com, clicking on the "Proxy Vote" button and then following the on-screen instructions (you can locate your user name and access code on the top of the proxy form);

- by post or by hand to Share Registrars Limited, 3 The Millennium Centre, Crosby Way, Farnham, Surrey GU9 7XX using the proxy form accompanying this notice;
- in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out in notes 6 - 9 below.

In order for a proxy appointment to be valid the proxy must be received by Share Registrars Limited by 9.00am on 27 June 2023.

4. Shareholders can:

- appoint a proxy or proxies and give proxy instructions by voting online or returning the enclosed form of proxy by post (see note 5); or

- if a CREST member, register their proxy appointment by utilising the CREST electronic proxy appointment service (see notes 6-9).

5. A form of proxy is enclosed for use by the shareholders of the Company. To be effective, it must be deposited with the Company's registrars, Share Registrars Limited, 3 The Millennium Centre, Crosby Way, Farnham, Surrey GU9 7XX so as to be received no later than 48 hours (ignoring any part of a day that is not a working day) before the time appointed for holding the meeting. Completion of the proxy does not preclude a shareholder from subsequently attending and voting at the meeting if he or she so wishes. In the case of a shareholder which is a company, the form of proxy 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 form of proxy is signed (or a duly certified copy of such power or authority) must be included with the form of proxy.

6. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Annual General Meeting and any adjournment(s) of it by using the procedures described in the CREST Manual (available via www.euroclear.com). 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.

7. For a proxy appointment or instructions made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is 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 the issuer's agent (ID:7RA36) no later than 9.00am on 27 June 2023, or, in the event of an adjournment of the Annual General Meeting, 48 hours (ignoring any part of a day that is not a working day) before the adjourned 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. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

8. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular message. 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/her 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.

9. 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.

10. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.

11. The notes to the form of proxy explain how to direct your proxy how to vote on each resolution or withhold their vote.

12. To change your proxy instructions, simply submit a new proxy appointment using one of the methods set out above. Note that the cut-off time for receipt of proxy appointments also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded. If the Company receives more than one appointment of a proxy in respect of any one share, the appointment received last revokes each earlier appointment and the Company's decision as to which appointment was received last is final.

13. In order to revoke a proxy appointment, you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Share Registrars Limited at 3 The Millennium Centre, Crosby Way, Farnham, Surrey GU9 7XX. 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. The revocation notice must be received by Share Registrars Limited no later than 9.00am on 27 June 2023, or 48 hours (ignoring any part of a day that is not a working day) before any adjourned meeting.

14. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

15. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

16. Any person to whom this Notice of Meeting is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a Nominated Person) may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting.
If a Nominated Person has no such Proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

The statement of the rights of shareholders in relation to the appointment of Proxies in paragraphs 2 and 3 above does not apply to Nominated Persons. The rights described in those paragraphs can only be exercised by shareholders of the Company.

17. Any shareholder attending a meeting of the Company has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting, but no such answer need be given if:

a. to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;

b. the answer has already been given on a website in the form of an answer to a question; or

c. it is undesirable in the interests of the Company or the good order of the meeting that the questions be answered

18. As at 30 May 2023, being the latest practicable date before publication of this notice, the Company had 388,571,510 Ordinary Shares in issue. Each Ordinary Share carries one vote.

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