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# Report & Accounts

For the year ended
31 December 2017

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# Company Information

| | |
|---|---|
| DIRECTORS | Angus Forrest (resigned 20 October 2017)<br>Alan Howarth<br>Bruce Leith<br>Sarah Payne<br>Ian Ritchie (appointed 1 June 2017)<br>Albert Sisto<br>Richard Turner (appointed 25 October 2017, resigned 15 January 2018) |
| SECRETARY | Sarah Payne |
| REGISTERED OFFICE | 27/28 Eastcastle Street<br>London<br>W1W 8DH |
| COMPANY'S REGISTERED NUMBER | 05131386 |
| AUDITORS | Grant Thornton UK LLP<br>30 Finsbury Square<br>London<br>EC2A 1AG |
| NOMINATED ADVISOR AND JOINT BROKER | WH Ireland Limited<br>24 Martin Lane<br>London<br>EC4R 0DR |
| JOINT BROKER | Whitman Howard Limited<br>1-3 Mount Street<br>London<br>W1K 3NB |
| REGISTRARS | Share Registrars Limited<br>The Courtyard<br>17 West Street<br>Farnham<br>Surrey<br>GU9 7DR |
| BANKERS | Handelsbanken<br>3rd Floor<br>86 Jermyn Street<br>London<br>SW1Y 6JD |
| CORPORATE LAWYERS | Reed Smith<br>The Broadgate Tower<br>20 Primrose Street<br>London<br>EC2A 2RS |

# Highlights of 2017

- Device Authority Limited secured new commercial contracts and boosted its partnerships
- New investments were made in IOT businesses: InVMA Limited and Wyld Technologies Limited
- Management team technology credentials strengthened with new Chairman

## Year on year finances stable but NAV impacted by exchange rate movement

| 31 December | **2017 £'000** | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| **Total Assets** | **11,069** | 11,465 | 1,825 |
| **Net Assets** | **10,581** | 11,188 | 1,692 |
| **Profit/(loss)** | **(1,690)** | 5,297 | (185) |

The change in our results from 2016 to 2017 is due primarily to recognition of an exchange rate loss in 2017 as the pound sterling strengthened against the US dollar and caused us to revalue our investment in Device Authority Limited ("Device Authority"), which is based on a US dollar price per share. In 2016, the profit was driven primarily by the fair value gain on Device Authority, due to the acquisition of Device Authority Inc. (see note 7).

# Contents

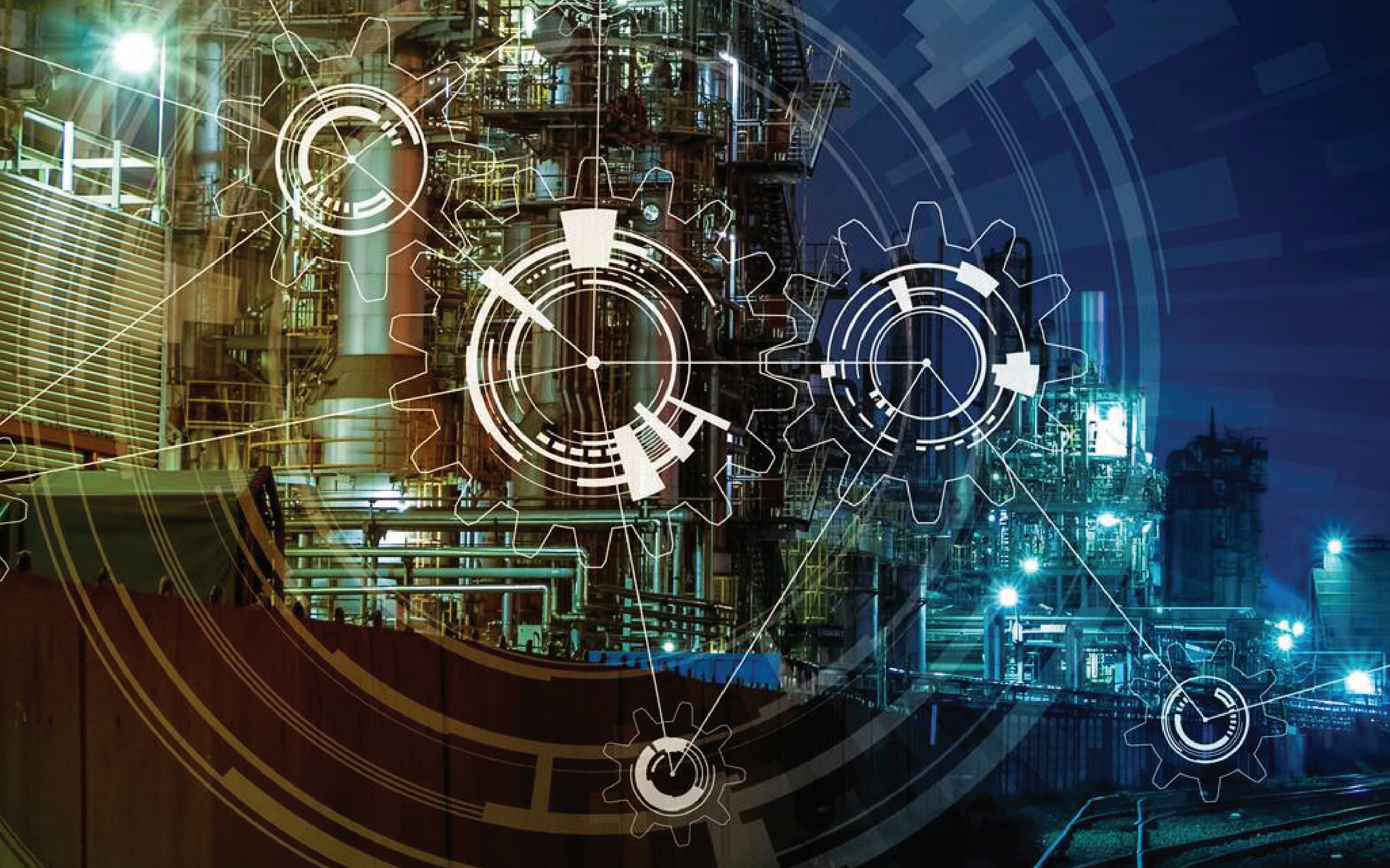
## About Tern

**Tern PLC is an investment company which specialises in the Internet of Things ("IoT"), which is a network of devices with electronic connectivity allowing the digital exchange of data.**

**Tern invests in companies in the IoT space with an established software business, existing intellectual property and customer validation.**

**Tern's objective with each of its portfolio companies is to add value by improving capital efficiencies and building sales and market strategies by taking equity positions and offering support and mentoring in all areas of the company.**

**We augment this work by identifying opportunities within the IoT space using a vast network of connections to increase the company's value.**



## Chairman's Statement

For the year ended 31 December 2017

"We look forward to a year of growth as we leverage our strong network and operating experience."

In my first Annual Report as your non-executive Chairman, I am pleased to communicate to you the progress we have made in terms of building a portfolio of exciting companies in the Internet of Things (IoT) sector.

This strategy is based on widely accepted forecasts that the majority of future computing devices will be distributed in huge volumes of low cost processors, all connected together, and to the internet, to solve real world problems.

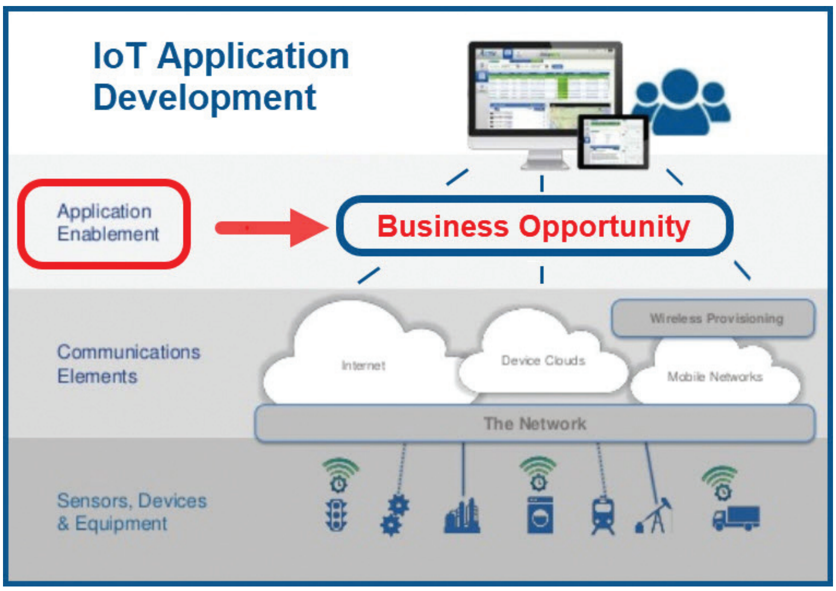
This year has seen us make new investments in InVMA and Wyld Technologies, which diversifies our exposure beyond our existing key stake in Device Authority. Throughout 2018 we expect Device Authority will continue to be our most significant holding as we grow and further develop our portfolio.

Our management team works closely with our portfolio companies to help them gain traction in their respective fields. In particular, our strong network enables us to facilitate industry introductions with potential technology or reseller partners, both within the UK and abroad, notably North America.

I would like to thank our Executive team on behalf of our shareholders for their hard work over the year.

I look forward to a year of growth as we continue to build our portfolio and aid the development of our investee companies and I am confident that we will see our companies prosper in the coming months.

**Ian Ritchie CBE, FREng, FRSE**
*Chairman*
26 March 2018



## CEO's Statement

For the year ended 31 December 2017

"2017 has been a year of transition where we revised our approach to better ensure the success of our portfolio companies."

We are pleased to present our annual report for the year ended 31 December 2017.

This past year represented a period of transition for the Company. We have delivered new investments in disruptive Internet of Things ("IoT") companies, diversifying our portfolio. In addition, we have realigned our management team so that it is best positioned to add value to companies in recognition of the fact that this exciting sector, which continues to grow in scope and significance, has moved beyond the early hype stage.

As a result, we were delighted to appoint a highly credentialed new non-executive Chairman, Ian Ritchie. Ian brings a wealth of experience in the technology industry which has already helped guide the Board during ongoing investment assessment.

We also revised our approach to better ensure the success of our portfolio companies and adopted an investing philosophy that does not rely on obtaining majority holdings in investee companies. We believe this will enable accelerated growth in the firms within our portfolio. This was put into practice at the time of our investment in two new portfolio companies, InVMA Limited and Wyld Research Limited (acquired by flexiOPS Limited).

Finally, to ensure that the Company's activities are appropriately understood by our shareholders, and the investing community at large, we implemented a new approach to our communications strategy.

Turning to our trading performance for the year, in 2017 we recognised a loss for the year of £1.7 million, compared to a profit of £5.3 million in 2016. As our investment in Device Authority is based upon a US dollar value per share, the strengthening in the pound sterling in the year resulted in a £0.8 million exchange rate loss. We maintained the US dollar valuation of Device Authority, following a £6.1 million increase in 2016. We also experienced an increase in legal fees as we added new new companies to our portfolio and an increase in directors' fees as we increased the number of directors and their time commitment to the Company. The remaining expenses were broadly flat.

With our transitional changes now complete, Tern's management and Directors anticipate that 2018 will represent a period of net asset value ("NAV") growth for Tern. We anticipate this to be achieved via the business expansion of our portfolio companies and the addition of one or more investments in new portfolio companies.

**Investment Focus and Philosophy**

Tern's fundamental goal is to find technology companies in the UK involved in specific aspects of the IOT sector. Then, to invest in these companies, and provide management assistance and resources that accelerate the success of these firms.

At the outset, Tern recognised the potential to create shareholder value through investments in early-stage companies providing products and services associated with the IoT. The IoT, as detailed in the 'Our Markets' section of this report, is rapidly growing and transforming entire industries. This growth requires the development of new commercial ecosystems that create a demand for firms that can manage different aspects of the technologies and capabilities that will be essential to the development of the IOT.

As the IoT market has expanded and is maturing, Tern's investment philosophy has similarly evolved. The Company's management and directors have concluded that the best near-term opportunities, coupled with our expertise and resources, are best deployed through investments in three types of companies: (1) IoT security services, (2) IoT enablement services, and (3) IoT Analytics.

These three areas share a range of common features, that reflect our views on the arenas where Tern is most likely to find and grow successful portfolio companies. They are all part of the evolving IoT ecosystem, represent high-growth areas, present large opportunities for new technology companies, and have the potential to integrate with third party IoT platforms. Platforms offer partners that may act as resellers which can both leverage a company's technology without the costs of developing and supporting a large in-house sales force. Our portfolio companies' partners also act as a warrant of the quality of the service involved, and operate across the many industries involved in the IoT.

In sharpening our investment focus, we have also adjusted our investment philosophy. As mentioned previously, we initially envisaged that Tern would, as a general rule, seek to invest in portfolio companies where Tern would have a controlling interest in the firm. With experience, we have concluded that it is often equally valuable for the growth of our portfolio companies, and the creation of shareholder value, for Tern to take large influential positions in firms, which may not represent sole or controlling ownership. This change in our philosophy is advantageous for our shareholders in several respects:

- First, we have found that the number of high-value investment opportunities available is far higher. As a result, we have greater opportunities to find companies and build NAV;
- Second, through shared ownership, Tern's responsibility and risk in funding the early growth of portfolio companies is similarly reduced;
- Third, in many cases, the co-owners of our portfolio companies bring added capabilities that further assist in building the success of these companies; and
- Finally, our ability to deploy our capital across a wider range of firms, with reduced potential capital requirements as the operations of each firm evolves, means that Tern is able to build a broader base of high potential value-creating portfolio companies.

With a broader portfolio base, the Company will be able to reduce shareholder risk.

**Portfolio Progress**

In 2017, the Tern team worked extensively with the management of Device Authority Limited ("Device Authority"), our flagship investment, and flexiOps Limited ("flexiOPS") to help drive business expansion and success. The Board has also reviewed many businesses, as potential portfolio additions, resulting in the investments in InVMA Limited ("InVMA") and Wyld Technologies Limited (Wyld").

**Device Authority**

Device Authority continued to add to its ecosystem of partners and customers and make progress in line with its strategy to bring its IoT security platform to market via partnerships with leading IoT ecosystem providers during 2017. However, we were disappointed that it did not achieve the announced revenue targets for 2017 or secure additional investment through the efforts of US Capital Partners, a San Francisco based investment firm although the fundraising process continues. The development of revenue traction was impacted by several factors;

- The delay in the completion of KeyScaler, the combined platform of Cryptosoft Limited and Device Authority Inc.
- The disruption created by the take over and consolidations of a number of our key reseller partners
- Delays in customer implementation schedules
- The extended length in the time estimated to complete proof of concepts (POC's) with customers

We believe these factors were critical in the company not achieving the early success anticipated in its fund-raising activities in the United States. As the company enters into 2018 we believe the product and POC issues have been resolved and key customers will begin shipping in their forecasted volumes.

Device Authority is valued at £9.69 million which is the same US dollar asset value as at 31 December 2016, the reduction is due to a foreign exchange movement due to the strengthening of the pound sterling between 2016 and 2017.

Key company milestones for Device Authority in 2017 are set out in the Investment Report on page 13.

**InVMA**

Since announcing the investment by Tern in September 2017, InVMA, an established and growing player in the market for IoT enablement, has launched its new product, AssetMinder. The launch builds on the underlying IoT trend within the industrial and facilities management sectors to move towards a proactive performance and maintenance strategy for assets. Customers across any industry can now monitor and manage data from all types of assets and be alerted when pre-determined thresholds or rules have been met.

AssetMinder delivers real-time insights from remote and unmanned equipment. According to a market research report1[1], the Remote Monitoring and Control Market is expected to be valued at USD27.11 billion by 2023, at a CAGR of 4.47% between 2017 and 2023.

As our portfolio grows, there is also an opportunity for synergistic strategy as evidenced by InVMA signing an OEM agreement with Device Authority, to integrate

1 Remote Monitoring and Control Market by Solutions (SCADA and Emergency Shutdown System), Field Instruments (Pressure Transmitter, Temperature Transmitter, Humidity Transmitter, Level Transmitter, Flowmeter), Industry and Region-Global Forecast to 2023

## CEO's Statement

For the year ended 31 December 2017

KeyScaler™ into InVMA's new product, AssetMinder, on a revenue share basis.

**flexiOPS**

We believe that flexiOPS may be the source of valuable technology expertise to assist current and future Tern portfolio companies. During 2017, flexiOPS used its resources to purchase a stake in Wyld Technologies, a MESH networking company.

Wyld's market opportunities are broad from both a technological perspective, where interest is being shown in their underlying MESH Networking Capabilities, as well as in terms of its ability to deliver an integrated solution which leverages MESH. This was demonstrated in the recently announced Emergency and Disruption Alert Network solution.

Wyld sees commercial opportunity for its solutions in Transport, Government, Military/Law Enforcement and the Retail markets among others and will launch an SDK in the coming months to allow third parties to leverage its underlying MESH Networking Capabilities.

**Investment and Portfolio Vision**

Tern's investment philosophy reflects all of the factors discussed above. In addition, we seek out companies with management teams that have the potential to build high growth businesses.

Generally, market investors lack the ability to directly participate in the high growth technology IoT services businesses of the type Tern has identified. Traditionally, investments in firms of this type have been limited to venture capital and private equity firms. In contrast, Tern is designed to give investors an opportunity to participate in the value associated with building exciting IoT product and service companies that meet the criteria detailed here. In addition, as a company whose shares are traded on AIM, Tern allows investors to continuously assess the success of our efforts, and increase or reduce their stake in our initiatives, at any time.

Our vision is that, in three to four years hence, Tern will have an established portfolio of companies. At the same time, we anticipate that during this period we will be building shareholder value through liquidity events by our portfolio companies. We expect these events to reflect the importance and relevance of our portfolio companies in the market and lead to increases to the net asset value of Tern.

**Year-End Funding and Related Activities**

In the third quarter, the Company raised £0.6 million in an over-subscribed funding conducted by Primary Bid. The proceeds from this activity were directed to the new investment made into InVMA. The board believed the Primary Bid vehicle provided the company the most efficient access to capital given the market conditions at the time.

Toward the end of 2017, the Directors concluded that Tern's shareholders would be best served if Tern ensured that Device Authority had adequate financial resources to operate the business while attempting to close its funding activity. Also, the Board wanted Tern itself sufficiently financed to continue its focused mission. We therefore secured a convertible loan note facility of £2.2 million and drew down £550,000 in 2017 to meet these two objectives. At the time of this funding, market conditions necessitated that we offer shares at a substantial discount to the then trading price of Tern stock. This facility has now been terminated.

**Communications Strategy**

Finally, the Directors have recognised that Tern's shareholders require the greatest possible transparency. Therefore, in 2017, Tern's Directors and management adopted a revised shareholder communications policy. The core of this policy is our commitment to discuss the accomplishments of portfolio companies after they have been fully realised, as compared to discussing anticipated results and to ensure there is a connection between the news flow of investee companies and Tern, as a key investor. Tern will also host shareholder calls three times a year.

**A Sustaining Vision for the Future**

On behalf of the Directors and management of the Company, we want to thank you for your continued interest and support of Tern Plc. We are approaching the future with increased confidence and our prospects for portfolio expansion appear significant. We are aware of the challenges and risks ahead but are confident that they are attainable. We believe we are at a tipping point and our refined strategy coupled with the size of the IoT opportunity provide a clear indication of our vision for renewed growth and shareholder value.

**Albert Sisto**
*Chief Executive Officer*
26 March 2018

# Our Markets

## Overview

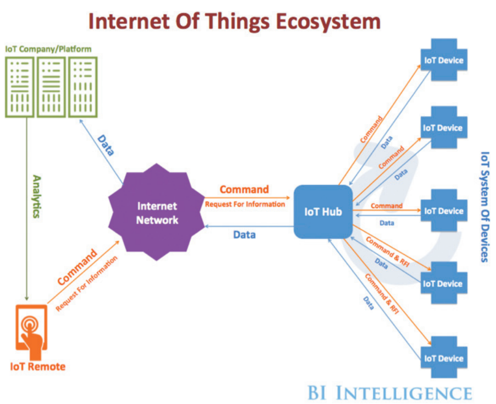
The Internet of Things (IoT) is a rapidly growing network of connected objects able to collect and share data via embedded sensors and gateways. The IoT turns "dumb" stand-alone devices into "smart" connected devices that can receive real-time operating instructions based on the information collected and shared.

Over the next several years, The Internet of Things (IoT) is expected to experience extraordinary growth. A *BI Intelligence* report, for example, projects that by 2025 there will be more than 55 billion IoT devices installed around the world, as compared to an estimated global base of fewer than 10 billion devices in 2017. [1] This same report anticipates that spending on IoT devices, solutions, and supporting systems will total $14.6 trillion by 2025, with total IoT spending exceeding $1 trillion annually in 2021.[1]

To date, the proliferation of IoT devices is upending traditional practices, creating new high-value business practices, and delivering previously unavailable efficiencies and capabilities, across a wide range of industries (notably in such diverse areas as industrial applications, healthcare, agriculture, the smart grid, the smart home, and connected vehicles). These activities cross a wide range of functions throughout industries (such as supply chain and logistics management, manufacturing, and inventory management).

The dramatic growth of the IoT envisioned by *BI Intelligence*, and others[2] reflect a widely recognised pattern in the evolution of significant technology advances: Initial uses focus on areas that generate immediate value. Then, new uses build on the experience of these initial applications and reflect increases in sophistication as well as growth in specialised activities to meet the specific needs of industries, functions, or large clients.

**Fig.1**




1 Newman, Peter, The Internet of Things 2018: *How The Iot Is Evolving to Reach The Mainstream With Businesses and Consumers (BI Intelligence,* January 2018), p. 19/20

2 See, Columbus, Louis, 2017 Roundup of Internet of Things Forecasts (Forbes online, Dec. 19, 2017) (https://www.forbes.com/sites/louiscolumbus/2017/12/10/2017-roundup-of-internet-of-things-forecasts/) (retrieved March 14, 2018)

***The IoT Ecosystem and Requirements for Successful IoT Implementation:*** The IoT creates value for businesses, healthcare, and consumers through the intelligent and secure management of the information reported by the network of devices that communicate with applications and their users. A communications network only works when all components are in place and function (fig.1). For example, a website offers no value to prospective users if it lacks Internet connectivity. The successful deployment of the IoT device communications network necessitates interdependent operating capabilities in five distinct areas, which comprise what is called the IoT ecosystem.

The five elements of the IoT ecosystem are:

1.) Hardware (the IoT devices themselves in any installation or solution);

2.) Communication Networks (that connect the IoT implementation to the user);

3.) Remotes (such as computers, tablets, or smartphones, that provide users with the interface for connecting with IoT devices and managing their activities);

4.) Platforms and Application Enablement (which provide the messaging, data analytics, data storage, and customised services associated with IoT solutions); and

5.) Security protocols (which protect IoT implementations from outside intrusion).[3]

## Tern's Focus on Segments Within the IoT Ecosystem

***Overview:*** Tern's sharpened focus on investment activities involves three segments of the IoT ecosystem. These aspects of the IoT ecosystem are all characterised by several factors; they are areas where:

- Innovative software solutions, with unique technologies and short development time frames are needed;
- Typically, customers will continuously require upgraded applications, security and device capabilities;
- Software solutions that meet customer needs that can rapidly scale their services;
- Fragmented markets ensure no single firm or group of firms dominate these areas;
- Capital requirements are low and ROI's high, particularly when compared to hardware-based aspects of the IoT ecosystem; and

3 See Newman, Peter, p.2.

## Our Markets

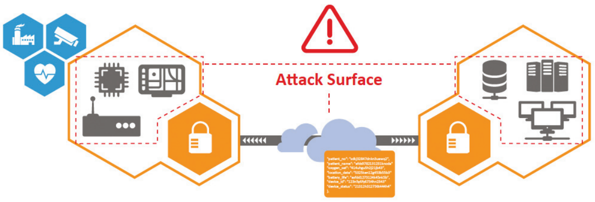
- Large, well-established, technology firms are seeking reseller or co-promotion partnerships with young companies to provide customers with end-to-end IoT implementations.

### IoT Security

In 2017 and beyond, the need for scalable, trustworthy IoT security solutions has become more apparent, with consequent growth in demand. The factors contributing to this demand, include:

- Widely publicised security breaches and ransomware attacks in 2017, which resulted in increased public awareness of the vulnerability of Internet connected data sources.
- Industry recognition that the growing implementation of IoT initiatives means far more opportunities for cybercriminals to play havoc with industrial and consumer activities.
- Industry recognition that the integrity of data communications (data in transit) is *critical to the successful operation* of the IoT activity. In contrast, 2017 security breaches involved data at rest (in storage), which were unrelated to essential day-to-day operations of the firms involved.

**Fig.2**




To summarise, the success of the IoT requires the ability to ensure essential IOT-powered business, healthcare, and consumer activities operate without malicious intruders interfering with essential operations (fig.2).

The IoT security services market is expected to grow rapidly over the next five years. In a September 2017 report, IoT Analytics estimated that the market for IoT security software will increase at an estimated CAGR (Compound Annual Growth Rate) of 44% between 2017 and 2022, with IoT security spending increasing from an estimated $700 million in 2017 to $4.4 billion in 2022[4]. This report also noted the “fragmented” nature of the IoT security market, and segments IoT security “into 4 layers,” which this report defined as device, communication, cloud and life-cycle management.[4]

Notably, a Boston Consulting Group analysis that seeks to assist companies in choosing development IoT platforms for new IoT initiatives stresses:

- The value of choosing IoT development platforms that meet the specialised needs of the proposed solution;
- Working with IoT development platforms that provide comprehensive solutions; and
- The value of platforms that offer vertical-specific applications and services (what Tern terms an ecosystem of partnerships), which can be particularly attractive to companies “starting to test the potential of new IoT based-services.”[5]

Tern’s approach to portfolio investments in the IoT security arena aligns with the many insights of these reports. Tern has sought and will continue to seek, portfolio companies offering IoT security services which:

- Combine the opportunity for rapid growth with the easy capability to partner with large technology companies and IoT platforms;
- Can be customised to develop value across industries; and
- Deliver solutions that run across the layers of IoT security needs (device, cloud, communication, and life-cycle).

### IoT Analytics

***The era of zettabytes:*** Every IoT connected device is a source of data, typically on a continuous, real-time basis. As a result, the growth of installed connected devices will, of necessity, create accompanying, dramatic growth in the volume of real-time data associated with IoT applications. In a whitepaper, *Data 2025*, commissioned by Seagate and issued in April 2017, IDC projected that by 2025, 163 zettabytes of data would be created annually (a zettabyte is one trillion gigabytes), as compared to 16.1 zettabytes created in 2016. IDC anticipates that by 2025, nearly 30% of this 163 zettabyte estimate will reflect real-time data, and the IoT will generate 95% of this total.[6]

***The era of value:*** The business transforming value of the IoT is directly related to the data it generates, and the ability of users to process and respond to this information. Last year, in an article titled, “The world’s most valuable resource is no longer oil, but data,” The Economist compared the value of data in the approaching era to the value of energy in the 20th century.[7] Data, like energy in

[4] IoT Security Market Report 2017 to 2022 (IoT Analytics, Sept. 2017). Findings summarised at https://iot-analytics.com/product/iot-security-market-report-2017-22/ (retrieved, March 14, 2018)

[5] Bhatia, Akash; Yusuf, Zia; Ritter, David; and Hunke, Nicholas; Who Will Win The Platform Wars? (BCG Perspectives: June, 2017), pages 4-5

[6] Reinsel, David; Gantz, John; Rydning, John; Data Age 2025: *The Evolution of Data to Life-Critical Don’t Focus on Big Data; Focus on the Data That’s Big* (IDC, April 2017), p. 2-3

[7] The world’s most valuable resource is no longer oil, but data, the Economist (May 6, 2017)

the previous century, will power the value and wealth of entire industries. IoT data and its analysis fall into three general categories: *Descriptive, predictive and prescriptive*[7]. While interrelated, these three categories represent increasing levels of value: For example:

- Initial IoT applications may provide useful *descriptive* information on shipment locations for logistics.
- Over time, expanded analysis enables *predictive* early-warning of supply shortages at specific locations, with associated enhancements to logistics.
- Finally, greater analysis leads to prescriptive findings: Ways of fundamentally revising logistics operations to build enterprise value.

**The data analytics challenge and opportunity**: At present, most IoT generated data is not examined. In one study, the Mckinsey Global Institute concluded that 99% of the data generated by 30,000 connected sensors on an oil rig remained unexamined, concluding "That's because this information is used mostly to detect and control anomalies—not for optimisation and prediction, which provide the greatest value".[8] The value of the IoT derives from the ability of users to make sense of the many new sources of information it enables. The challenge in realising this value involves the complexity of working with zettabytes of information, capturing and responding to the information generated in real-time, and analysing large quantities of information to identify meaningful relationships, that power business transformation or (through the sale of high-value information) create entirely new revenue streams.

Markets and Markets projects the IoT Analytics market will grow from $7.19 billion in 2017 to $27.78 in 2022, a Compound Annual Growth Rate (CAGR) of 31%.[9]

More significantly, the technical challenges associated with IoT analytics, and the meaningful, real-time processing of large quantities of data, are substantial. At the same time, a representative analysis by the Boston Consulting Group concludes that, as a core component of IoT business value creation, IoT Analytics services will capture a significant portion of the services revenue associated with IoT implementation.[10]

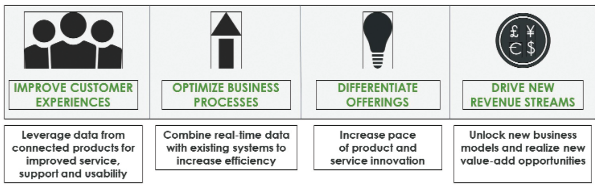
**Tern's Approach:** Tern believes the IoT data Analytics market is particularly attractive. Emerging potential portfolio companies are developing technologies with significant commercial potential. Moreover, the value delivered by these services, including their potential to create entirely new revenue streams for clients, means that the pricing of unique services has the potential to capture a portion of the the value created for clients (either directly or through partnerships), as opposed to confronting other constraints.

### IoT Enablement

The market for IoT enablement is typically discussed in connection with the market for IoT development platforms. Undoubtedly, this reflects a portion of this market. IoT enablement platforms offer a suite of services that facilitate the roll-out of IoT solutions, where the platform warrants the quality and interoperability of the participants.

However, Tern takes a broader view of this capability. From Tern's perspective, short time frames for implementations require specific use case expertise. Moreover, the shift to the cloud and growing specialisation, mean the supporting services, and necessary integrations, associated with IoT implementation will continuously evolve.

**Fig.3**
IoT creates business opportunity




Hence, Tern seeks IoT enablement services that work within specific platforms, derive scale through proprietary services that can be customised for each use case, while simultaneously providing the full-service integrations that new IoT customers require. In this latter context, these complete solution integrations are both an independent revenue generating opportunity, and a means of building the market for solutions owned by the integrator or potentially other Tern best-of-breed technology partners.

### Conclusion: Tern's Investment Focus and the IoT Ecosystem

The rapid growth and adoption of IoT implementation is an opportunity for Tern to create value by investing in companies with global reach that provide critical "must have" solutions for the IoT, in the specific high opportunity areas of the IoT ecosystem.

Tern looks forward to expanding its portfolio to capitalise on the success of the IoT in 2018 and subsequent years.

[8] Manyika, James; Chui, Michael; Bisson, Peter; Woetzel, Jonathan; Dobbs, Richard; Bughin, Jacques; and Aharon, Dan; Unlocking the potential of the Internet of Things (Mckinsey Global Institute, June 2015), online summary at https://www.mckinsey.com/business-functions/digital-mckinsey/our-insights/the-internet-of-things-the-value-of-digitizing-the-physical-world (retrieved March 14, 2018)

9 IoT Analytics Market by Application (Energy Management, Predictive Maintenance & Asset Management, Inventory Management, Remote Monitoring), Component, Analytics Type, Deployment, Organization Size, & Vertical - Global Forecast to 2022 (Markets and Markets, July 2017)(https://www.marketsandmarkets.com/Market-Reports/iot-analytics-market-52329619.html:) (retrieved March 14, 2018).

[10] Bhatia, Akash; Ritter, David; and Hunke, Nicholas; Yusuf, Zia; Ruessmann, Michael; Schmeig, Florian; Kalra, Nipun; Winning in IoT: It's All About the Business Process (BCG Perspectives: March 2017), p. 2.

# Strategic Report

For the year ended 31 December 2017

## Business review

The Company is positioned as a quoted platform to invest in, develop and sell private software companies with proven technology, based in the UK but with global opportunities and ambitions. These businesses are predominantly in the Internet of Things sector. A more detailed review of the activity and progress of the business, including the portfolio of investments, is contained in the CEO's Statement on pages 4-6 and Investment Report on pages 13-15, which form part of the Strategic Report.

The 2017 results have been materially impacted by an exchange rate loss (£0.8m) on the revaluation of the Device Authority investment at the balance sheet date. This, coupled with the gain recognised in 2016 on the Device Authority investment, has resulted in the movement in operating (loss)/profit between 2016 and 2017.

## Future developments

As explained in the CEO's Statement the Company has undertaken a series of initiatives to position the Company for lasting success in its focused market sector and has continued to build a portfolio of investments and a pipeline of investment opportunities in IoT enablement.

## Key performance indicators

The Company's principal activity is that of investing in companies. Accordingly, the Company's financial Key Performance Indicators (KPIs) are the return on investments and the net assets position of the Company including net assets per share. These indicators are monitored closely by the Board and the details of performance against these are given below.

- The return on investments:
    - Unrealised – Push Technology Limited has been revalued in line with IFRS to a level consistent with recent fund raisings. Seal Software Group Limited value remains unchanged. Device Authority's US dollar value remains unchanged, however a pound sterling reduction has been reflected when revaluing the investment using the 2017 year end exchange rate. InVMA Limited and flexiOPS Limited have been evaluated in line with recent Tern investment. InVMA Limited is valued at cost which is taken as fair value. flexiOPS Limited is valued at the cost of investment in Wyld Technologies Limited which is taken as fair value. Device Authority is an early stage business in an emerging market where there is a lack of comparative businesses available on which to provide a comparable valuation and therefore value has been based on an assessment of numerous factors: the underlying value of the patent portfolio, the multiples achieved in comparable markets on recent transactions, and an assessment by the Board on the strength of the sales pipeline and achievability of the 2018 sales forecast.
- The net assets of the Company at 31 December 2017 were £10,580,802 (2016: £11,187,739). The net assets per ordinary share as at 31 December 2017 were 7.38p (2016: 9.44p).

The Company has non-financial KPIs which are also monitored regularly by the Board. These non-financial KPIs are focused around the number and quality of investment opportunities seen, the time taken to reach the decision to move forward with a potential investee company and the employee turnover in our portfolio companies. We believe these factors help serve as leading indicators of the future performance and our impact on our stakeholders.

## Financial risk management objectives and policies

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

### Principal business risks and uncertainties

The management of the business and the nature of the Company's strategy are subject to a number of risks. The directors have set out below the principal risks facing the business. Where possible, processes are in place to monitor and mitigate such risks. The Company operates a system of internal control and risk management in order to provide assurance that the Board is managing risk whilst achieving its business objectives with the assistance of the Audit Committee. No system can fully eliminate risk and therefore, the understanding of operational risk is central to the management process.

Identifying, evaluating and managing the principal risks and uncertainties facing the Company is an integral part of the way the business operates. The Company has policies and procedures in place throughout its operations, embedded within the management structure and as part of the normal operating processes. Market and economic conditions are recognised as one of the principal risks in the current trading environment. This risk is mitigated by the close monitoring of trading conditions and the performance of the Company's investment portfolio. The Company is affected by a number of risks and uncertainties, not all of which are wholly within its control as they relate to the wider macroeconomic and legislative environment within which the Company operates.

To enable shareholders to appreciate what the business considers are the main operational risks, they are briefly outlined below:

| | **Risk** | **Potential impact** | **Strategy** |
|---|---|---|---|
| Reliance on key people | The Company is unable to retain key individuals | • Loss of knowledge and expertise<br>• Disruption for the Company or its investment companies | The Company offers a remuneration package designed to attract, motivate and retain key individuals<br><br>Key individuals in the investment companies are offered an attractive remuneration package and either shares or share option incentives |
| Investment risk | An investment fails to perform as anticipated:<br>• Investee companies may be operating in highly competitive markets with rapid technological change<br>• Investee companies may be companies in early stage of commercial development. Generation of significant revenues is difficult to predict and not guaranteed<br><br>The Company is unable to maintain its holding when the investee company requires significant additional funding<br><br>The portfolio is dominated by one or two investments | • Investment may require additional finance<br>• Inability to create maximum value in a timely fashion<br>• Difficulty in realising investment<br>• The Company's influence reduces<br>• The value of the Company's holding falls<br>• If one dominant investment fails it has a disproportionate impact on the Company | The Company actively takes an influential role in the strategic direction of its investments and monitors all investments regularly<br><br>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<br><br>The Company is building a portfolio of investments to insulate itself against poor performance of any one |

# Strategic Report

For the year ended 31 December 2017

| | Risk | Potential impact | Strategy |
|---|---|---|---|
| Liquidity | The Company is unable to raise new funds | • May have a detrimental effect on the Company's ability to cover administration and other costs<br>• May adversely affect returns of investee companies if they need to raise further funds | The Company will maintain a sufficient cash balance to finance itself for a prudent period, or ensure that it has access to funds |
| Legal & regulatory risk | Legal claims and change to regulation | • Financial and reputational impact | Maintain strong advisory base. Legal advice taken on all investment and employment issues |
| Foreign exchange risk | The valuation of investments may be impacted by foreign exchange movements | • The value of the Company's holding falls | The Company actively reviews the value of investments and will consider action on foreign exchange risk where relevant, following advice from advisors. |

## 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 investments;
- reports on selection criteria of new investments;
- discussion with senior personnel; and
- consideration of reports prepared by third parties.

The Strategic Report was approved and authorised for issue by the Board of Directors on 26 March 2018 and was signed on its behalf by:

**Bruce Leith**
*Director*

26 March 2018

# Investment Report

For the year ended 31 December 2017

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

## Device Authority Limited

Market segment: Data Security software

Equity ownership: 56.8% 'A' Shares | Cost: £4.34 million | Valuation: £9.69 million

Valuation is based on the price of shares in the most recent fund raise (April 2016), which is taken as fair value, translated at the exchange rate at the balance sheet date. This was supported by an evaluation of a combination of factors including the independent valuation of Device Authority's patent portfolio, a comparison to transaction multiples in comparable market sectors and an evaluation of sales pipeline and 2018 trading forecast.

Device Authority Limited ("Device Authority") is an Internet of Things (IoT) security automation company. Device Authority provides simple, innovative solutions to address the challenges of securing applications and their devices while using the Internet with a robust, end-to-end security architecture that delivers efficiencies at scale. The Device Authority KeyScalerTM IoT security platform is purpose-built to address these challenges through automated device provisioning, credential management, secure updates and policy-driven data encryption.

Device Authority will continue to focus on building its contract base and device registrations, as well as developing its strategic alliances and OEM integration of the KeyScaler platform. Focus is also being driven to the thoughts around developing a white labelled version of KeyScaler and co-branding with other IoT platform providers.

Key announcements in 2017 included:

- Announcement of a three-year global agreement to power Comodo CA's IoT security service, which represents a significant milestone and revenue opportunity for DA;
- The integration of Device Authority's core KeyScaler™ product with Intel® Secure Device Onboard (SDO);
- The signing of a three-year agreement with MultiTech, a leading ARM-based developer and manufacturer of communications equipment for the industrial IoT, for DA to provide KeyScaler™ for its gateway products;
- The signing of an agreement with GCE Healthcare Products Group, whose products range from medical gas regulators and oxygen concentrators, to resuscitation and hospital ward equipment used in emergency, hospital and homecare environments;
- Entered into a new partnership with Super Micro Computer, Inc., a global leader in computing, storage and networking technologies to enable an on-boarding model, through which applications identify devices and automatically onboard them to their IoT management application; and
- Secured $1.7 million in convertible loan note funding from its significant investors, Alsop Louie Partners, George Samenuk and Tern.
- Online Trust Alliance names Device Authority to the 2017 Online Trust Honor Roll for the second consecutive year.
- Device Authority named Innovator in Access Control for second consecutive year.
- Device Authority accelerates IoT deployments as a founding member of EdgeX Foundry.

For more information visit: www.deviceauthority.com.

# Investment Report

For the year ended 31 December 2017

## InVMA Limited

Market segment: IOT Systems Integrator

| | | |
|---|---|---|
| Equity ownership: 50% | Cost: £375,000 | Valuation: £375,000 |

Valuation is based on cost, which is taken as fair value.

InVMA Limited ("InVMA") builds solutions that link connected products to their customers' systems to create new revenue streams, enhance customer satisfaction and improve operational efficiency. InVMA enables an Internet of Things that delivers real business value and competitive advantage.

- InVMA works closely with PTC, a $1.1 billion revenue software company, and is one of the only European integrators certified for PTC's Thingworx platform, a leading IoT development platform.

Key announcements in 2017 include:

- InVMA unveiled AssetMinder, its new turnkey asset performance solution. AssetMinder delivers real-time insights from remote and unmanned equipment and integrates with Device Authority's KeyScaler(TM).
- InVMA announced £1 million committed sales orders in 2017 through securing new customers in OEM, Oil and Gas, Asset Rental and Manufacturing markets.
- InVMA secured a number of repeatable annual contract wins including with a UK/International Airport, Howden Process Compressors, MSE Hiller, MEMS and GCE.

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

## flexiOPS Limited

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

| | | |
|---|---|---|
| Equity ownership: 100% | Cost: £37,500* | Valuation: £78,000 |

* Cost is 50% of the purchase price of two business units flexiOPS and Concerto. Concerto was sold in 2016. Valuation is based on cost of Wyld Technologies Limited, a 90% subsidiary of flexiOPS Limited, which is taken as fair value.

flexiOPS Limited ("flexiOPS") runs project management and innovation technology projects with associated grant funding. It works across a portfolio of projects including Horizon 2020, the European Commission's EU Framework Programme for Research and Innovation, whose purpose is securing Europe's global competitiveness.

In September 2017, Wyld Technologies Limited ("Wyld"), a wholly owned subsidiary of flexiOPS, acquired the assets of Wyld Research Limited for £78,000 and a 10% holding in Wyld. Wyld has developed a proven mesh networking software platform.

In November 2017 Wyld launched its EDEN (Emergency and Disruption Alert Network) solution at the World Rail Conference in Amsterdam. Wyld is actively working with key strategic partners and prospects to deploy this critical component of delivering disruption information in challenging environments in 2018.

For more information visit: www.flexiOPS.com.

# Investment Report

For the year ended 31 December 2017

## Push Technology Limited

Market segment: Data distribution software

Equity ownership: <1% Cost: £120,197 Valuation: £11,326

Valuation is based on the price of shares in the most recent fundraise, which is taken as fair value.

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

Key announcements in 2017 included:

- Release of enterprise-grade, data streaming and messaging solution.

For more information visit: www.pushtechnology.com.

## Seal Software Group Limited

Market segment: Database Analytics and Search software

Equity ownership: <1% Cost: £50,000 Valuation: £62,714

Valuation is based on the price of shares in the most recent fundraise, which is taken as fair value.

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

In 2017 the notable events included:

- Contracts signed with Parker Hannifin, a Fortune 250 company and PwC.
- Strategic partnerships announced with State of Flux, the global procurement and supply chain management consultancy, TractManager Inc and Coin Sciences, the open source blockchain company.
- Continued expansion of worldwide operations with a new office opened in Egypt, as well as bolstering its team in Sweden.
- Aragon Research, a technology-focused research and advisory firm based in Silicon Valley, identified Seal as a key provider in the emerging Intelligent Content Analytics (ICA) market.
- Seal was ranked 310th on Deloitte's Technology Fast 500™, a ranking of the 500 fastest growing technology, media, telecommunications, life sciences and energy tech companies in North America.

Customers include Dropbox, Microsoft, Bosch, hp, Merck, Vodafone and many other multi-national organisations.

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

# Board of Directors

## Ian Ritchie
*Chairman*

Ian is the non-executive Chairman of Iomart plc, Computer Applications Service, and Krotos. He founded OWL in 1984, which pioneered hypertext application development (a forerunner to the world wide web) selling the company to Panasonic in 1989. Since then he has been involved in over 40 start-up high-tech businesses. Ian has a degree in Computer Science from Heriot-Watt University (1973) and holds Honorary Doctorates from Robert Gordons, Abertay, Heriot-Watt and Edinburgh Universities. He writes a monthly column in Scottish Business Insider magazine and his TED talk has been viewed over 500,000 times.

## Albert Sisto
*Chief Executive Officer*

Al's an IT industry veteran with more than 25 years 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. Al was Chairman, President and CEO of Phoenix Technologies Limited, the global BIOS software company. He revitalised Phoenix through the acquisition of Internet appliance business, Ravisent Technologies; investing in semiconductor and microprocessor designer Transmeta and spinning off Silicon Corporation.

## Sarah Payne
*Finance Director*

Sarah qualified with Ernst & Young as a Chartered Accountant before joining its corporate finance team. She then spent six years with the BBC, firstly within commercial and investment strategy 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.

## Bruce Leith
*Business Development Director*

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

## Alan Howarth
*Non-Executive Director*

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

# Directors' Report

For the year ended 31 December 2017

The directors present their annual report and the audited financial statements of Tern plc (the "Company") for the year ended 31 December 2017.

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

## Principal activities

The principal activity of the Company is investing in unquoted and quoted companies to achieve capital growth.

## Results and dividends

The results for the period are shown in the income statement and statement of comprehensive income on page 28.

The loss for the year was £1,689,555 (2016: £5,296,633 profit).

The directors do not recommend payment of a dividend.

## Events after the reporting period

On 5 January 2018, the outstanding convertible unsecured loan note was converted into 15,714,285 ordinary shares of 0.02p each at a price of 1.75p. On 9 January 2018, a second tranche of convertible loan notes totalling £550,000 was issued, pursuant to the convertible unsecured loan note facility. On 17 January 2018, £275,000 of the convertible loan note was converted into 11,000,000 ordinary shares of 0.02p each at a price of 2.5p. On 16 February 2018 the remaining £275,000 convertible loan note was converted into 13,750,000 ordinary shares of 0.02p each at a price of 2p. On 8 March 2018, the convertible loan note facility was terminated and a £650,000 equity placing was announced.

On 29 January 2018, a further £125,000 was invested in InVMA to maintain Tern's 50% shareholding.

On 1 March 2018 a further $360,581 was paid to Device Authority, representing the second tranche of the convertible secured loan announced on 28 December 2017.

## Political and charitable contributions

No political or charitable donations were made during the period.

## Control procedures

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

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

## Going concern

The financial statements have been prepared on the going concern basis because, as set out in detail in Note 1.3, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

## Directors and directors' interests

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

| | At 31 December 2017 Ordinary shares | At 31 December 2016 Ordinary shares |
|---|---|---|
| A M Howarth | – | – |
| B H Leith | 5,957,233 | 5,957,233 |
| S L Payne | – | – |
| I C Ritchie | – | – |
| A E Sisto | 9,183,333 | 6,263,333 |
| R K Turner | – | – |

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

# Directors' Report

For the year ended 31 December 2017

### Significant shareholdings

As at 26 March 2018, the company had been notified of the following shareholdings of 3% or more of the share capital.

| | Number of Ordinary Shares | Percentage of Issued Shares Held |
|---|---|---|
| John Mahtani | 12,730,000 | 6.0% |
| A E Sisto | 9,583,333 | 4.5% |
| Bruce H Leith | 8,857,233 | 4.2% |
| Canaccord Genuity Group Inc | 7,423,808 | 3.5% |
| City Financial Absolute Equity Fund | 7,142,857 | 3.4% |

### Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

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

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

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

### Disclosure of information

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

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

### Publication of accounts on the company website

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

# Directors' Report

For the year ended 31 December 2017

**Independent auditors**

The auditor, Grant Thornton UK LLP, was appointed on 15 December 2016 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 Grant Thornton UK LLP as auditor will be put to the members at the annual general meeting to be held on 24 April 2018.

Signed on behalf of the board

**Sarah Payne**
*Director*

26 March 2018

# Corporate Governance and Compliance

For the year ended 31 December 2017

The Company's shares are traded on AIM and, accordingly, adoption of the revised UK Corporate Governance Code is not mandatory. Whilst the Company does not voluntarily adopt all provisions of the Code, the Company has drawn upon best practice available and has sought to comply with a number of the provisions of the Code in so far as it considers them to be appropriate for a company of this size and nature. Over the past four years as the Company developed from early stage to established, steps have been taken to increase compliance with more provisions of the Corporate Governance Code. In 2016 the first Board Committees were established. The Board is accountable to the Company's shareholders for good corporate governance. This report and the Report on Directors' Remuneration describe how the Company applies the provisions of good corporate governance. A fuller version is available on the Company's website (www.ternplc.com) under Investors.

**Directors**

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

The Board consists of three executive directors and two non-executive directors. The non-executive directors are independent of management and any business or other relationship which could interfere with the exercise of his independent judgement.

The Board members are listed on page 16.

**Board committees**

*Audit Committee*

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

There was one Audit Committee meeting in 2017.

*Remuneration Committee*

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

There were three Remuneration Committee meetings in 2017.

**Relations with shareholders**

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

The Company's website (www.ternplc.com) maintains up to date news flow for shareholders and other interested parties.

The AGM provides an opportunity for shareholders, particularly private investors, to question the Board on issues arising.

Three shareholder calls per annum provide an opportunity for shareholders to put their questions to the Board.

The notice convening the AGM is the notice of the meeting sent to shareholders with this report. A separate motion will be put to the meeting on each substantial issue.

**Appointment of directors**

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

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

# Corporate Governance and Compliance

For the year ended 31 December 2017

**Accountability and audit**

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

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

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

The Audit Committee advises the Board on the appointment, reappointment and removal of the external auditor, considers its effectiveness and approves its remuneration and terms of engagement, which includes developing and implementing a policy on the provision of non-audit services by the external audit firm. It also reviews and monitors the independence and objectivity of the external auditor.

**Alan Howarth**
*Director*

26 March 2018

# Report on Directors' Renumeration (Unaudited)

For the year ended 31 December 2017

The Remuneration Committee submits its Unaudited Report on Directors' Remuneration for the year ended 31 December 2017.

### Remuneration policy

The Remuneration Committee is responsible for agreeing the framework and remuneration policy for the executive directors and is chaired by Alan Howarth.

The following Remuneration Report is presented for the year ended 31 December 2017.

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 return. It aims to provide sufficient levels of remuneration to do this but to avoid paying more than is necessary.

There are three main elements of the directors' remuneration package being basic annual salary, performance related bonus and share option incentives.

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

### Unaudited Directors' remuneration

The remuneration of each director, excluding share options awards, during the year ended 31 December 2017 is detailed in the table below:

| | Salary and fees £ | Pension payments £ | Other benefits £ | Annual bonuses £ | 2017 Total £ | 2016 Total £ |
|---|---|---|---|---|---|---|
| A G P Forrest | 48,117 | 33 | – | – | 48,150 | 48,000 |
| A M Howarth | 23,250 | – | – | – | 23,250 | 15,000 |
| B H Leith | 46,000 | – | – | – | 46,000 | 24,000 |
| S L Payne | 55,999 | 195 | – | – | 56,194 | 54,500 |
| I C Ritchie | 17,500 | – | – | – | 17,500 | – |
| A E Sisto | 68,445 | – | – | – | 68,445 | 52,490 |
| R K Turner | 27,461 | 130 | – | – | 27,591 | – |
| | 286,772 | 358 | – | – | 287,130 | 193,990 |
| Share based payment charge | 118,048 | – | – | – | 118,048 | 15,317 |
| Total remuneration | 404,820 | 358 | – | – | 405,178 | 209,307 |

### Unaudited Directors' share options

The Director's outstanding share options as at 31 December 2017 are shown in the table below:

| | Outstanding at 31 December 2016 | Granted during the period | Exercised during the period | Expired during the period | Outstanding at 31 December 2017 | Option Price | Exercise period |
|---|---|---|---|---|---|---|---|
| A G P Forrest | 500,000 | 2,500,000 | – | 3,000,000 | – | | |
| A M Howarth | 250,000 | – | – | – | 250,000 | 13p | 23 Feb 2016 – 22 Feb 2023 |
| B H Leith | 500,000 | 2,500,000 | – | 500,000 | 2,500,000 | 8.5p | 19 May 2017 – 18 May 2027 |
| S L Payne | 500,000 | 2,500,000 | – | 500,000 | 2,500,000 | 8.5p | 19 May 2017 – 18 May 2027 |
| Ian C Ritchie | – | – | – | – | – | | |
| A E Sisto | 500,000 | 2,500,000 | – | 500,000 | 2,500,000 | 8.5p | 19 May 2017 – 18 May 2027 |
| R K Turner | – | – | – | – | – | | |
| | 2,250,000 | 10,000,000 | – | 4,500,000 | 7,750,000 | | |

Further detail on options granted in the year is set out in Note 19.

**Alan Howarth**

26 March 2018

# Independent Auditor's Report

For the year ended 31 December 2017

## Opinion

### Our opinion on the financial statements is unmodified

We have audited the financial statements of Tern Plc (the 'company') for the year ended 31 December 2017 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 notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the company financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

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

### Who we are reporting to

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.

### Conclusions relating to going concern

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

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

### Overview of our audit approach

- Overall materiality: £211,616, which represents 2% of the company's net assets
- The key audit matter identified for the company was the valuation of investments held for trading
- We performed a fully substantive based audit on the company

# Independent Auditor's Report

For the year ended 31 December 2017

## 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) that we identified. These matters included those that 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 | How the matter was addressed in the audit |
|---|---|
| **Valuation of investments held for trading**<br><br>A significant balance on the statement of financial position is investments held for trading of £10.2 million as detailed in Note 11.<br><br>Included in the investments held for trading is a single investment that represents 95% of the total investments. This investment is an early stage business in an emerging market where there is a lack of observable inputs and as such the company has considered multiple valuation techniques to measure fair value. The models used were:<br><br>1. Performance of the business;<br>2. Price of comparable companies; and<br>3. Valuation of the underlying patent portfolio.<br><br>There is a risk that the fair value of investments have not been appropriately estimated. We therefore identified the valuation of investments held for trading as a significant risk, which was one of the most significant assessed risks of material misstatement. | Our audit work included, but was not restricted to:<br><br>• An assessment of the methodology and the internal control environment relating to the investments valuation. This involved assessing the design of key controls relevant to the audit, that changes are monitored, scrutinised by appropriate personnel and the final assumptions used in valuation models have been appropriately approved;<br><br>• Challenging the methodologies and assumptions used by management in conducting the investments valuation. This was carried out by challenging management's valuations models and challenging management to consider other valuation models in line with industry practice;<br><br>• Testing the mathematical accuracy of the valuation calculations;<br><br>• Testing the key inputs to the assumptions in the valuation methodologies, which were performance and projections of the investments, price of comparable companies, valuation of underlying patents, discount rates and long term growth rates. This was carried out by agreeing management's analysis to supporting evidence and carrying out sensitivity analysis;<br><br>• Liaising with valuation experts to review the valuation models used including assessing the appropriateness of valuation models used and assessing the inputs to the assumptions; and<br><br>• Evaluating the sufficiency of the disclosures for critical accounting estimates and judgements related to the valuation of the investments held for trading.<br><br>The Company's accounting policy on investments held for trading is shown in note 1 to the financial statements, critical accounting judgements and estimates included in note 3 to the financial statements and related disclosures are included in note 11.<br><br>**Key observations**<br><br>With respect to the company's significant investment, management has used the aforementioned valuation models to estimate the fair value of the investment. |

# Independent Auditor’s Report

For the year ended 31 December 2017

| Key Audit Matter | How the matter was addressed in the audit |
|---|---|
| | • Given the nature of the investment being an early stage business, other valuation methods such as discounted cash flow analysis used to derive fair value estimates cannot always be substantiated.<br><br>• Management has therefore evaluated the reasonableness of a range of values indicated by the results from the models used. Management’s fair value measurement is the point within that range that is most representative of fair value in the circumstances and management has concluded that the fair value of this investment has maintained its valuation since the prior year.<br><br>• We have considered the valuation techniques in aggregate and concur with management’s conclusion that the valuation techniques in aggregate indicates the investment has maintained its valuation since the prior year.<br><br>With respect to the valuation of the remaining investments, these were based on the price paid in those investments or price paid on recent transactions as that is the best indicator of fair value. We concur with management’s valuation of the remaining investments. |

**Our application of materiality**

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

We determined materiality for the audit of the financial statements as a whole to be £211,616, which is 2% of net assets. This benchmark is considered the most appropriate because this is used by readers of the financial statements to judge the performance of the company and is a key performance indicator for management.

Materiality in the prior year was determined as 3% of total assets. Materiality in the current year was determined as 2% of net assets as we deemed net assets to be the most appropriate benchmark. Materiality for the current year is lower than the level that we determined for the year ended 31 December 2016 as a result of changing the materiality benchmark.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality. We have also determined a lower level of specific materiality for certain areas being directors' remuneration and related party transactions due to the sensitive nature of these transactions.

We determined the threshold at which we will communicate misstatements to the audit committee to be £10,580. In addition, we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

**An overview of the scope of our audit**

Our audit approach was a risk-based approach founded on a thorough understanding of the company's business, its environment and risk profile and in particular included:

- gaining an understanding of and evaluating the company's internal controls environment including its financial and IT systems and controls;
- a fully substantive based audit over the significant investment and other material balances; and
- there have been no significant changes to the key business operations and hence no changes to the audit scope for the current year.

# Independent Auditor's Report

For the year ended 31 December 2017

**Other information**

The directors are responsible for the other information. The other information comprises the Report on Directors' Remuneration included in the annual report set out on page 22, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Our opinion on other matters prescribed by the Companies Act 2006 is unmodified**

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 under the Companies Act 2006**

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

**Matters on which we are required to report by exception**

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 by the parent company, 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 for the financial statements**

As explained more fully in the Statement of directors' responsibilities set out on page 18, 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

# Independent Auditor's Report

For the year ended 31 December 2017

are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Nicholas Watson

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

26 March 2018

# Income Statement and Statement of Comprehensive Income

For the year ended 31 December 2017

| | Notes | 2017<br>£ | 2016<br>£ |
|---|---|---|---|
| Turnover | | 97,940 | 69,715 |
| Movement in fair value of investments | 7 | (757,705) | 6,043,158 |
| Gross (loss)/profit | | (659,765) | 6,112,873 |
| Administration costs | | (740,923) | (609,680) |
| Other expenses | 6 | (289,680) | (191,299) |
| Operating (loss)/profit | 7 | (1,690,368) | 5,311,894 |
| Finance income | | 1,020 | 1,198 |
| Finance costs | 8 | (207) | (16,459) |
| (Loss)/profit before tax | | (1,689,555) | 5,296,633 |
| Tax | 9 | – | – |
| (Loss)/profit for the period | | (1,689,555) | 5,296,633 |

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

| | | | |
|---|---|---|---|
| EARNINGS PER SHARE: | 10 | | |
| Basic (loss)/profit per share | | (1.4) pence | 6.4 pence |
| Fully diluted (loss)/profit per share | | (1.4) pence | 6.4 pence |

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

# Statement of Financial Position

As at 31 December 2017

| | Notes | 2017 £ | 2016 £ |
|---|---|---|---|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Investments held for trading | 11 | 10,218,625 | 10,601,330 |
| | | 10,218,625 | 10,601,330 |
| CURRENT ASSETS | | | |
| Trade and other receivables | 12 | 576,849 | 100,515 |
| Cash and cash equivalents | 13 | 273,826 | 762,851 |
| | | 850,675 | 863,366 |
| TOTAL ASSETS | | 11,069,300 | 11,464,696 |
| EQUITY AND LIABILITIES | | | |
| Share capital | 14 | 1,330,225 | 1,325,270 |
| Share premium | 14 | 13,237,362 | 12,390,310 |
| Loan note equity reserve | | 123,482 | 20,650 |
| Share option and warrant reserve | | 175,982 | 1,088,595 |
| Retained deficit | | (4,286,249) | (3,637,086) |
| | | 10,580,802 | 11,187,739 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 15 | 277,164 | 172,517 |
| TOTAL CURRENT LIABILITIES | | 277,164 | 172,517 |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 17 | 211,334 | 104,440 |
| TOTAL NON-CURRENT LIABILITIES | | 211,334 | 104,440 |
| TOTAL LIABILITIES | | 488,498 | 276,957 |
| TOTAL EQUITY AND LIABILITIES | | 11,069,300 | 11,464,696 |

The financial statements were approved and authorised for issue by the Board of Directors on 26 March 2018 and were signed on its behalf by:

Sarah Payne
*Director*

*Company number 05131386*

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

# Statement of Changes in Equity

For the year ended 31 December 2017

| | Share capital £ | Share premium £ | Loan note equity reserve £ | Option and warrant reserve £ | Retained deficit £ | Total equity £ |
|---|---|---|---|---|---|---|
| Balance at 31 December 2015 | 1,314,118 | 8,393,536 | 20,650 | 897,296 | (8,933,719) | 1,691,881 |
| Total comprehensive income | – | – | – | – | 5,296,633 | 5,296,633 |
| Transactions with owners | | | | | | |
| Issue of share capital | 11,152 | 4,210,311 | – | – | – | 4,221,463 |
| Share issue costs | – | (213,537) | – | – | – | (213,537) |
| Share based payment charge | – | – | – | 191,299 | – | 191,299 |
| Balance at 31 December 2016 | 1,325,270 | 12,390,310 | 20,650 | 1,088,595 | (3,637,086) | 11,187,739 |
| Total comprehensive income | – | – | – | – | (1,689,555) | ( 1,689,555) |
| Transactions with owners | | | | | | |
| Issue of share capital | 4,955 | 972,208 | – | – | – | 977,163 |
| Issue of convertible loan note | – | – | 112,563 | – | – | 112,563 |
| Share and loan issue costs | – | (125,156) | – | – | – | (125,156) |
| Transfer on conversion of convertible loan notes | – | – | (9,731) | – | 9,731 | – |
| Transfer of lapsed and exercised warrants | – | – | – | (713,326) | 713,326 | – |
| Transfer of option reserve | – | – | – | (199,287) | 199,287 | – |
| Share based payment charge | – | – | – | – | 118,048 | 118,048 |
| Balance at 31 December 2017 | 1,330,225 | 13,237,362 | 123,482 | 175,982 | (4,286,249) | 10,580,802 |

**Share capital**

The amount subscribed for shares at nominal value.

**Share premium**

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

**Loan note equity reserve**

This represents the equity component of convertible loans issued. During 2017, the balance relating to lapsed or converted options and warrants was transferred to retained deficit.

**Option and warrant reserve**

This represents the calculated value of the options and warrants issued.

**Retained earnings**

Cumulative loss of the Company.

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

## Statement of Cash Flows

For the year ended 31 December 2017

| | Notes | 2017<br>£ | 2016<br>£ |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Net cash used in operations | 21 | (783,866) | (64,729) |
| Purchase of investments | | (375,000) | (3,460,000) |
| Loan to investee companies | | (402,436) | – |
| Net cash used in operating activities | | (1,561,302) | (3,524,729) |
| FINANCING ACTIVITIES | | | |
| Proceeds on issues of shares | | 603,110 | 4,217,500 |
| Share issue expenses | | (125,156) | (213,537) |
| Proceeds from exercise of warrants | | 34,303 | 3,963 |
| Proceeds from exercise of options | | 9,000 | – |
| Proceeds on issue of loan note | | 550,000 | – |
| Interest received | | 1,020 | 1,198 |
| Net cash from financing activities | | 1,072,277 | 4,009,124 |
| (Decrease)/increase in cash and cash equivalents | | (489,025) | 484,395 |
| Cash and cash equivalents at beginning of year | | 762,851 | 278,456 |
| Cash and cash equivalents at end of year | | 273,826 | 762,851 |

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 2017

## 1. ACCOUNTING POLICIES

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

### 1.1 GENERAL INFORMATION

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

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

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

### 1.2 BASIS OF PREPARATION

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

IFRS is subject to amendment and interpretation by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) and there is an ongoing process of review and endorsement by the European Commission. The financial statements have been prepared on the basis of the recognition and measurement principles of the IFRS that were applicable at 31 December 2017.

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. 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, par 4 the Company has taken the exemption not to present consolidated financial statements as it is an investing company that measures all of its investments at fair value through the income statement.

### 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.

### 1.4 STATEMENT OF COMPLIANCE

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

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

- IFRS 9 Financial Instruments (issued on 24 July 2014 and effective for periods after 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014) including amendments to IFRS 15: Effective date of IFRS 15 (issued on 11 September 2015 and effective for periods on or after 1 January 2018)

## 1. ACCOUNTING POLICIES (continued)

- IFRS 16 Leases (issued on 13 January 2016 and effective for periods on or after 1 January 2019)
- Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016 and effective for periods on or after 1 January 2018)
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016 and not yet endorsed)
- Amendments to IFRS 9: Prepayment features with negative compensation (issued 12 October 2017 and effective for periods on or after 1 January 2018)
- Annual improvements to IFRS 2014-2016 Cycle (issued 8 December 2016) – Relating to IFRS 1 First time adoption of IFRS and IAS 28 Investment in associates and joint ventures
- Annual improvements to IFRS 2014-2016 Cycle (issued 8 December 2016) – Relating to IFRS 12 Disclosure of interest in other entities
- Annual improvements to IFRS 2015-2017 Cycle (issued 12 December 2017) – Relating to IAS 12 Income taxes, IAS 23 Borrowing costs, IFRS 3 Business combinations and IFRS 11 Joint Arrangements
- IFRIC Interpretation 22 Foreign currency transactions and advance considerations (issued on 8 December 2016 and not yet endorsed)
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (issued in June 2017 and not yet endorsed)

Management have additionally performed a review to identify the impact of IFRS9 'Financial Instruments' (effective 1 January 2018). The new standard is based on the concept that financial assets should be classified and measured at fair value, with changes in fair value recognised in profit and loss as they arise ("FVPL"), unless restrictive criteria are met for classifying and measuring the asset at either Amortised Cost or Fair Value Through Other Comprehensive Income ("FVOCI"). The financial assets which the Company holds are loans and receivables, for which changes to the fair value are posted to the income statement. Similarly, any changes to the fair value of investments held for trading at the year end are also posted to the income statement.

### 1.5 TURNOVER

Turnover is recognised, as amounts are invoiced, earned and become payable, with adjustment for any amount that is considered uncollectable. Turnover reflects fees charged for management services and is recognised rateably over the life of the contract and the provision of such services.

### 1.6 TAXATION

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

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

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

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

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

## 1. ACCOUNTING POLICIES (continued)

### 1.7 IMPAIRMENT OF FINANCIAL ASSETS

**Assets carried at cost**

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

**Assets carried at amortised cost**

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment charge was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

### 1.8 INVESTMENTS

Investments are recognised at fair value through the income statement. Changes in foreign exchange rates impact investments valued in a foreign currency.

### 1.9 TRADE RECEIVABLES

Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

### 1.10 CASH AND CASH EQUIVALENTS

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

### 1.11 TRADE PAYABLES

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

### 1.12 EQUITY INSTRUMENTS

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

### 1.13 CONVERTIBLE LOANS

Convertible loans are accounted for as compound instruments. The fair value of the liability portion of the convertible loan notes is determined using a market interest rate for an equivalent non-convertible loan note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the loan notes. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in shareholders' equity, net of tax effects, and is not subsequently re-measured.

# Notes to the Financial Statements

For the year ended 31 December 2017

## 1. ACCOUNTING POLICIES (continued)

### 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, based on the Company's estimate of shares that will eventually vest.

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

## 2. FINANCIAL RISK MANAGEMENT

The Company uses a limited number of financial instruments, comprising cash, short-term deposits, loans and overdrafts 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, cash balances, debtors and creditors that arise directly from its operations. The Company is exposed to market risk through the use of financial instruments and specifically to liquidity risk, market price risk and credit risk, which result from the Company's operating activities.

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

### 2.1 FINANCIAL RISK FACTORS (continued)

**Liquidity risk**

The Company makes investments in private companies for the medium term. The Company manages this risk by holding cash to support its investments and for working capital. The Company has convertible loans from the directors and a convertible unsecured loan note. Whilst the Company has no quoted investments at present, if it holds such investments these may be sold to meet the Company's funding requirements.

As the Company has no significant interest bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

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

| As at 31 December 2017 | Trade and other Payables £ | Convertible Loans £ | Total £ |
|---|---|---|---|
| 6 months or less | 75,584 | 162,437 | 238,021 |
| 1 to 2 years | – | 48,897 | 48,897 |
| Total contractual cash flows | 77,584 | 211,334 | 286,918 |

## 2. FINANCIAL RISK MANAGEMENT (continued)

**Market price risk**

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

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

**Credit risk**

The Company's primary credit risk arises from cash and cash equivalents and deposits with banks and other financial institutions. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

### 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 carrying amount of equity, less cash and cash equivalents as presented on the face of the statement of financial position. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

### 2.3 FAIR VALUE ESTIMATION

The nominal value less impairment provision of trade receivables and payables is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

## 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.

**Income taxes**

Judgement is required in determining the Company's provision for income tax. Where the final tax outcome is different from the amounts that were initially recorded, the differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

**Fair value of financial instruments**

The Company holds investments 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 assess estimates of future cash flows to derive fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realised immediately.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Device Authority has maintained its US dollar valuation compared to 2016 without a bid price comparison in the year. It is an early stage business in an emerging market where there is a lack of comparative businesses available on which to provide a comparable valuation and therefore valuation was based on a combination of factors including the independent valuation of Device Authority's patent portfolio, a comparison to transaction multiples in comparable market sectors and an evaluation of sales pipeline and 2018 trading forecast. This supported a valuation in line with 2016, although an exchange rate loss was recognised on translation at the balance sheet date.

**Share based payments**

The calculation of the fair value of equity-settled share based awards and the resulting charge to the statement of comprehensive income requires assumptions to be made regarding future events and market conditions. These assumptions include the future volatility of the Company's share price. These assumptions are then applied to a recognised valuation model in order to calculate the fair value of the awards. Details of these assumptions are set out in Notes 18 and 19.

The critical judgement that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is the assessment that investments should be held at fair value through the profit and loss rather than being consolidated.

## 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.

# Notes to the Financial Statements
For the year ended 31 December 2017

## 5. STAFF COSTS

| Staff costs for the Company during the period, including directors | 2017 £ | 2016 £ |
|---|---|---|
| Wages and salaries | 203,864 | 117,052 |
| Consultancy fees | 82,908 | 76,938 |
| Social security costs | 22,943 | 6,681 |
| Share based payment charge | 118,048 | 15,317 |
| Total staff costs | 427,763 | 215,988 |

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

| | 2017 No | 2016 No |
|---|---|---|
| Directors | 5 | 5 |
| Total | 5 | 5 |

DIRECTORS' AND REMUNERATION

Other than directors the Company had no employees. Total remuneration paid to directors during the period was as follows:

| | 2017 £ | 2016 £ |
|---|---|---|
| Directors' remuneration | | |
| – Salaries and benefits | 203,864 | 117,052 |
| – Consultancy fees | 82,908 | 76,938 |
| – Share based payment charge | 118,048 | 15,317 |
| Total directors' remuneration | 404,820 | 209,307 |
| Total remuneration of the highest paid director (including share based payment charge) was | 97,957 | 54,500 |

A summary of remuneration paid to each director, including pension payments, is included in the Report on Directors' Remuneration (page 20).

## 6. OTHER EXPENSES

| | 2017 £ | 2016 £ |
|---|---|---|
| Share based payment (options and warrants) | 118,048 | 191,299 |
| Other provisions | 71,000 | – |
| One-off legal costs | 100,632 | – |
| | 289,680 | 191,299 |

# Notes to the Financial Statements

For the year ended 31 December 2017

## 7. OPERATING PROFIT/(LOSS)

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Profit/(Loss) from operations has been arrived at after charging: | | |
| Remuneration of directors | 404,820 | 209,307 |
| Auditor's remuneration | | |
| – Audit services | 25,000 | 20,000 |
| – Tax compliance services | 3,500 | 3,500 |
| – Tax advisory services | 18,750 | – |
| Device Authority auditors' remuneration | | |
| – Other non-audit services | 8,000 | 14,000 |
| – Tax compliance services | 3,500 | 3,500 |
| – Tax advisory services | 5,500 | 5,000 |

| Operating profit/(loss) reconciliation | £ |
|---|---|
| 2016 operating profit | 5,296,633 |
| Adjust for impact of Device Authority fair value revaluation | (6,129,885) |
| Adjust for exchange loss on revaluation of Device Authority in 2017 | (757,705) |
| Other movements | (98,598) |
| 2017 operating loss | (1,689,555) |

## 8. FINANCE COSTS

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Interest charge in respect of shareholder convertible loan notes | 207 | 7,046 |
| Write back of interest charged on investee company convertible loan note | – | 9,413 |
| | 207 | 16,459 |

## 9. TAXATION

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Taxation attributable to the Company | – | – |

## 9. TAXATION (continued)

Domestic income tax is calculated at 20% (2016: 20%) of the estimated assessable profit for the period. The charge for the period can be reconciled to the loss per the income statement as follows:

| | 2017 £ | 2016 £ |
|---|---|---|
| (Loss)/profit before tax | (1,689,555) | 5,296,633 |
| Tax at domestic income tax rate | (337,911) | 1,059,327 |
| Expenses not deductible for tax purposes | 1,161 | 996 |
| Share based payment charge | 23,609 | 38,260 |
| Fair value movement | (3,524) | (1,151,696) |
| Exchange rate loss | 155,065 | – |
| Unutilised tax losses | 161,600 | 53,113 |
| Tax (credit)/expense | – | – |

The Company has unutilised losses of approximately £5.9 million (2016: £5.1 million) resulting in a deferred tax asset of approximately £1.2 million (2016: £1.0 million). The Company has not recognised a deferred tax asset in respect of these losses as there is insufficient evidence of future taxable profits.

## 10. EARNINGS PER SHARE

| | 2017 £ | 2016 £ |
|---|---|---|
| (Loss)/profit for the purposes of basic and fully diluted earnings per share | (1,689,555) | 5,296,633 |

| | 2017 Number | 2016 Number |
|---|---|---|
| Weighted average number of ordinary shares: | | |
| For calculation of basic earnings per share | 124,586,665 | 82,298,281 |
| For calculation of fully diluted earnings per share | 124,586,665 | 82,298,281 |

| | 2017 | 2016 |
|---|---|---|
| Earnings per share: | | |
| Basic (loss)/earnings per share | (1.4) pence | 6.4 pence |
| Fully diluted (loss)/earnings per share | (1.4) pence | 6.4 pence |

# Notes to the Financial Statements

For the year ended 31 December 2017

## 11. NON-CURRENT ASSETS

INVESTMENTS HELD FOR TRADING

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Cost of investments brought forward | 10,601,330 | 810,350 |
| Additions | 375,000 | 3,460,000 |
| Conversion of loan note to equity | – | 610,000 |
| Sale of investment | – | (37,500) |
| Cost of investments carried forward | 10,976,330 | 4,842,850 |
| Fair value adjustment to investments | 17,621 | 5,758,480 |
| Exchange loss | (775,326) | – |
| Fair value of investments carried forward | 10,218,625 | 10,601,330 |

All the investments held by the Company are Level 3 investments as defined in Note 16.

## 12. TRADE AND OTHER RECEIVABLES

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Trade receivables | 100,714 | 1,034 |
| Prepayments | 5,683 | 32,033 |
| Social security and other taxes | – | 6,472 |
| Loan to investee companies | 402,436 | – |
| Other receivables | 68,016 | 60,976 |
| Total | 576,849 | 100,515 |

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

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

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Company does not hold any collateral as security.

Loan to investee companies includes a £382,436 secured convertible loan note to Device Authority which has been valued at cost, which is taken as fair value.

## 13. CASH AND CASH EQUIVALENTS

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Cash at bank and on hand | 273,826 | 762,851 |

# Notes to the Financial Statements

For the year ended 31 December 2017

## 14. ISSUED SHARE CAPITAL

| | Number of shares No. | Nominal value £ | Share premium £ |
|---|---|---|---|
| ISSUED AND FULLY PAID: | | | |
| At 31 December 2016 | | | |
| Ordinary shares of £0.0002 | 118,511,443 | 23,702 | |
| Deferred shares of £29.999 | 42,247 | 1,267,368 | |
| Deferred shares of £0.00099 | 34,545,072 | 34,200 | |
| | 153,098,762 | 1,325,270 | 12,390,310 |
| Ordinary shares issued for cash | 9,138,027 | 1,828 | 601,282 |
| Ordinary shares issued on exercise of warrant | 1,077,385 | 215 | 34,088 |
| Ordinary shares issued on conversion of loan stock | 14,460,000 | 2,892 | 327,858 |
| Ordinary shares issued on exercise of share options | 100,000 | 20 | 8,980 |
| Share issue expenses | – | – | (125,156) |
| | 177,874,174 | 1,330,225 | 13,237,362 |
| At 31 December 2017 | | | |
| Ordinary shares of £0.0002 | 143,286,855 | 28,657 | |
| Deferred shares of £29.999 | 42,247 | 1,267,368 | |
| Deferred shares of £0.00099 | 34,545,072 | 34,200 | |
| | 177,874,174 | 1,330,225 | 13,237,362 |

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

On 13 August 2017, 9,138,027 ordinary shares were issued at 6.6p per share for cash as the result of a private placing, raising £603,110 before expenses.

On 19 December 2017, 10,000,000 ordinary shares of 0.02p were issued on conversion of loan stock at 2.75p per share.

During the year 4,460,000 ordinary shares of 0.02p were issued to directors of the Company on conversion of loan stock at 1.25p per share.

During the year 100,000 ordinary shares of 0.02p were issued to a previous director of the Company on exercise of options at 9p per share.

During the year 879,234 ordinary shares of 0.02p were issued to warrant holders on exercise of warrants at 3p per share and 198,151 ordinary shares of 0.02p were issued to warrant holders on exercise of warrants at 4p per share.

# Notes to the Financial Statements

For the year ended 31 December 2017

## 15. TRADE AND OTHER PAYABLES

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Trade payables | 47,600 | 73,554 |
| Accruals | 201,580 | 94,950 |
| Payroll control | 18,699 | – |
| Other taxes and social security | 9,285 | 4,013 |
| Total | 277,164 | 172,517 |

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

## 16. FAIR VALUE MEASUREMENT

FINANCIAL ASSETS

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, held to maturity, loans and receivables, and available-for-sale. 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. See the Investment Report on pages 13-15.

**Investments held for trading**

All investments determined upon initial recognition as held at fair value through profit or loss are designated as investments held for trading. Investment transactions are accounted for on a trade date basis. Asset sales are recognised at the trade date of the disposal. Assets are sold at their fair value, which comprises the proceeds of sale less any transaction cost. The fair value of the financial instruments in the statement of financial position is based on the quoted bid 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, last price and net asset value. 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 initially measured at fair value plus incidental acquisition costs. Subsequently, they are measured at fair value in accordance with IAS 39. This is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted.

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.

# Notes to the Financial Statements

For the year ended 31 December 2017

## 16. FAIR VALUE MEASUREMENT (continued)

The following table shows the Levels within the hierarchy of investments measured at fair value on a recurring basis at 31 December 2017 and 31 December 2016:

| 31 December 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments held for trading (£) | – | – | 10,218,625 | 10,218,625 |
| Investee company convertible loan (£) | – | – | 382,436 | 382,436 |

| 31 December 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments held for trading (£) | – | – | 10,601,330 | 10,601,330 |

The fair value assessment was made by the directors' using the price of the shares in the most recent fundraise, where this was available. This was coupled with an assessment of market valuations on recent transactions and a review of underlying asset values to support the valuation applied. If no such fundraise had occurred then the cost of the investment was used, which the directors assessed equated to fair value.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit or loss or available-for-sale. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

## 17. BORROWINGS

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Shareholder Loans | 48,897 | 104,440 |
| Convertible unsecured loan note | 162,437 | – |
| | 211,334 | 104,440 |

SHAREHOLDER LOANS

On 16 August 2013, the Company entered into an agreement for the issue of £200,000 convertible loan notes repayable on 1 January 2015 if not converted prior to that date, this date was subsequently extended to 1 January 2016 in December 2014. The Shareholder Loans are interest free and unsecured and may be converted at 2.016p per share at any time prior to the redemption date. In December 2016 the repayment date for the balance of the loan outstanding was extended to 1 January 2019. On 1 January 2017 and 31 December 2017, £15,000 of this loan was outstanding. Assuming full conversion, this would convert into 744,047 ordinary shares.

On 30 July 2014, the Company issued a convertible loan note for £100,000, interest free and repayable on 1 January 2016. In December 2016, the repayment date for the balance of the loan outstanding was extended to 1 January 2019. The loan is convertible at 1.25p per share at any time prior to the redemption date. On 31 December 2017 £5,000 of the loan was outstanding (2016: £41,500). Assuming full conversion, this would convert into 400,000 ordinary shares.

On 17 September 2014, the Company issued £200,000 convertible loan notes, interest free and repayable on 1 January 2016. The loan is convertible at 1.25p per share at any time prior to the redemption date. In December 2016 the repayment date for the balance of the loan outstanding was extended to 1 January 2019. On 31 December 2017 £36,250 of the loan was outstanding (2016: £55,500). Assuming full conversion, this would convert to 2,900,000 ordinary shares.

## 17. BORROWINGS (continued)

The net proceeds from the issue of the Shareholder Loans have been split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Company.

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Liability brought forward | 104,440 | 97,394 |
| Loan notes converted | (55,336) | – |
| Interest charge | (207) | 7,046 |
| Liability at 31 December | 48,897 | 104,440 |

| LOAN MATURITY ANALYSIS | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Non-current liabilities – More than one year, but not more than five years | – | 104,440 |
| | – | 104,440 |

### CONVERTIBLE UNSECURED LOAN NOTE

In November 2017, the Company agreed a Convertible Unsecured Loan Note facility of up to £2.2 million (“CULN”). The CULNs were to be issued in principal amounts of £25,000 and aggregated into four tranches (the “Tranches”). The first tranche was issued in November 2017.

The CULNs are convertible at any time before the maturity date, being the third anniversary of the relevant issue of the CULNs at the lesser of : a) 125% of the closing mid-price one trading day before the date of any Issue; or b) the lowest closing bid price from the three previous trading days prior to notice of conversion being served. The CULNs shall not bear interest. In certain events of default or a change of control, a redemption of up to a maximum of 120 per cent. would be payable. The Company can redeem at any time one or more CULNs at a price equal to 105 per cent. of the CULNs.

£275,000 of the issued CULN had been exercised by the year end with £275,000 remaining.

The binomial method was used to calculate the fair value of the CULN. The table below lists the inputs to the model used for the options granted during the year:

| | Directors (2017) |
|---|---|
| Stock price | 2.5 pence |
| Strike price | 2.25 pence |
| Expected volatility | 100% |
| Time to maturity in years | 3 |
| Binomial steps | 20 |

The debt element of the CULN was assessed as £162,437, with £112,563 held in an equity reserve.

## 18. SHARE BASED PAYMENTS

WARRANTS

On 15 September 2014, 396,302 warrants were issued to the vendor of Device Authority, exercisable at any time prior to 12 September 2017. 198,151 of the warrants were exercisable at 2p per share and 198,151 were exercisable at 4p per share. At 1 January 2017 198,151 of the warrants remained and these were exercised in full during the year at 4p per share.

On 25 November 2014, 1,260,000 warrants were issued on a one for ten basis to subscribers to the placing for 12,600,000 shares at 3p per share on that date. The warrants were exercisable at 3p per share at any time prior to 3 December 2017. As at 1 January 2017 905,645 warrants remained outstanding. During the year, 879,234 warrants were exercised and 26,411 lapsed.

On 7 October 2016, 18,214,277 warrants were issued on a one for every two shares to subscribers in the fund¬raising round on that date. In that round, 36,428,557 shares were issued at 7p per share. The warrants are exercisable at 12p per share at any time prior to 12 April 2018. None of these warrants were exercised during the year.

The estimated fair value of the warrants issued in 2016 was calculated by applying the Black-Scholes option pricing model. The assumptions used in the calculation were as follows:

| | |
|---|---|
| Share price at date of grant | 8.0 pence |
| Exercise price | 12.0 pence |
| Expected dividend | Nil |
| Contractual life | 1.5 years from vesting date |
| Risk free rate | 2.5% |
| Estimated fair value of each warrant | 0.97 pence |

A total share based payment charge of £175,982 was expensed in 2016 in respect of the warrants issued.

The number of warrants outstanding at 31 December 2017 was as follows:

| Date of issue | At 31 Dec 2016 | Issued | Exercised | Lapsed | At 31 Dec 2017 | Exercise Price per share | Exercisable on or before |
|---|---|---|---|---|---|---|---|
| 12.09.14 | 198,151 | – | 198,151 | – | – | 4.0p | 12.09.17 |
| 25.11.14 | 905,645 | – | 879,234 | 26,411 | – | 3.0p | 3.12.17 |
| 07.10.16 | 18,214,277 | – | – | – | 18,214,277 | 12.0p | 12.04.18 |
| | 19,318,073 | – | 1,077,385 | 26,411 | 18,214,277 | | |

## 19. 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 issued during the year, options may be granted to purchase shares which must be exercised within ten years from the date of the grant.

The options will be capable of exercise on the third anniversary of the grant date according to the increase in share price on the vesting date. If the share price has increased by 100% then 100% of the shares will vest and if there has been no increase in share price, then 0% of the shares will 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.

# Notes to the Financial Statements

For the year ended 31 December 2017

## 19. SHARE BASED PAYMENT CHARGES (continued)

In 2015 share options were issued to a professional adviser as part of their fees. Under the advisors' scheme options may be granted to purchase shares which must be exercised within five years from the date of grant. The advisor options vest quarterly over the first twelve months.

The binomial method was used to calculate the fair value of the new director and employees' scheme. The Black Scholes method was used for all other schemes to calculate the fair value of options at the date of grant. The table below lists the inputs to the model used for the options granted during the year:

| | Directors (2017) |
|---|---|
| Stock price | 2.5 pence |
| Strike price | 8.5 pence |
| Expected volatility | 100% |
| Time to maturity in years | 3 |
| Binomial steps | 20 |

A total share based payment charge of £118,048 was expensed in 2017 (2016: £15,317) in respect of the options granted, of this £118,048 (2016: £15,317) related to options issued to directors during the year.

The share options held as at 31 December 2017 are set out in the table below:

| | Outstanding at 31 December 2016 | Granted during the period | Exercised during the period | Lapsed During the period | Outstanding at 31 December 2016 | Option Price | Exercisable on or before |
|---|---|---|---|---|---|---|---|
| Directors | 1,500,000 | 10,000,000 | – | 4,000,000 | 7,500,000 | 8.5p | 18 May 2027 |
| | 500,000 | – | – | 500,000 | – | 15.25p | 28 Oct 2022 |
| | 250,000 | – | – | – | 250,000 | 13p | 22 Feb 2023 |
| Total Directors | 2,250,000 | 10,000,000 | – | 4,500,000 | 7,750,000 | | |
| Other | 1,000,000 | – | 100,000 | – | 900,000 | 9p | 15 Feb 2022 |
| | – | 200,000 | – | – | 200,000 | 8.5p | 18 May 2027 |
| | 250,000 | – | – | – | 250,000 | 15p | 16 Dec 2020 |
| Total Options | 3,500,000 | 10,200,000 | 100,000 | 4,500,000 | 9,100,000 | | |

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

## 20. RELATED PARTY TRANSACTIONS

During 2014, £300,000 was advanced by the directors by way of interest free convertible loans. At 31 December 2017, the balance of loans unconverted was £48,897 (2016: £104,440), plus an additional £10,919 relating to equity (2016: £20,650).

Device Authority Limited, a company in which Tern has a controlling shareholding, is also considered a related party. During the year Tern invoiced Device Authority Limited £20,000 (2016: £39,715) in respect of management services. At the year-end Tern was owed £12,000 in trade receivables by Device Authority Limited (2016: nil). Tern has also provided a convertible loan note to Device Authority Limited. As at 31 December 2017, £382,436 was outstanding (2016: nil).

## 20. RELATED PARTY TRANSACTIONS (continued)

flexiOPS Limited, a company wholly owned by Tern, is also considered a related party. During the year Tern invoiced flexiOPS £60,000 (2016: £30,000) in respect of management services. As at 31 December 2017 Tern was owed £6,000 in trade receivables by flexiOPS Limited. Tern has also provided a working capital loan to flexiOPS Limited. As at 31 December 2017, £20,000 was outstanding (2016: nil).

InVMA Limited, a company in which Tern has a 50% shareholding, is also considered a related party. During the year, Tern invoiced InVMA Limited £67,651 (2016: nil) in respect of management and legal services. As at 31 December 2017 Tern was owed £81,181 in trade receivables by InVMA Limited.

Wyld Technologies Limited, a company in which flexiOPS Limited has a 90% shareholding, is also considered a related party. During the year Tern invoiced Wyld Technologies Limited £1,333 (2016: nil). As at 31 December 2017 Tern was owed £1,533 in trade receivables by Wyld Technologies Limited.

During the year, Leith Partners Limited, a company in which Bruce Leith has a controlling shareholding, invoiced the Company £14,000 for management services (2016: £24,000). There were no amounts outstanding to or from the company at 31 December 2017.

During the year, Sixth Bridge LLC, a company in which Al Sisto has a controlling shareholding, invoiced the Company £45,658 for management services (2016: £37,938). There were no amounts outstanding to or from the company at 31 December 2017.

During the year, Alan Howarth & Associates Limited, a company in which Alan Howarth has a controlling shareholding, invoiced the Company £23,250 for management services (2016: £15,000). There were no amounts outstanding to or from the company at 31 December 2017.

## 21. CASH FLOW FROM OPERATIONS

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| (Loss)/profit for the year | (1,689,555) | 5,296,633 |
| Adjustments for items not included in cash flow: | | |
| Movement in fair value of investments | (17,621) | (5,758,480) |
| Exchange rate loss | 775,326 | – |
| Share based payment charge | 118,048 | 191,299 |
| Cost of investment sold | – | 37,500 |
| Finance expense | 207 | 16,459 |
| Finance income | (1,020) | (1,198) |
| Operating cash flows before movements in working capital | (814,615) | (217,787) |
| Adjustments for changes in working capital: | | |
| (Increase)/decrease in trade and other receivables[1] | (73,898) | 16,527 |
| Increase/(decrease) in trade and other payables | 104,647 | 136,531 |
| Cash used in operations | (783,866) | (64,729) |

[1] Excludes loan to investee companies

## 22. OPERATING LEASE COMMITMENTS

| | Year to 31 Dec 2017 £ | Year to 31 Dec 2016 £ |
|---|---|---|
| Minimum lease payments under operating leases recognised as an expense in the period | 18,600 | 3,125 |

At the period end date, the Group had outstanding commitments for future minimum lease payments under non-cancellable leases which fall due as follows:

| | 31 Dec 2017 £ | 31 Dec 2016 £ |
|---|---|---|
| Land and Buildings: | | |
| Within one year | 26,040 | 3,125 |

## 23. FINANCIAL INSTRUMENTS

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

### CATEGORIES OF FINANCIAL INSTRUMENTS

The IAS 39 categories of financial asset included in the statement of financial position and the headings in which they are included are as follows:

| | 2017 £ | 2016 £ |
|---|---|---|
| FINANCIAL ASSETS: | | |
| Cash and bank balances | 273,826 | 762,851 |
| *Loans and receivables* | | |
| Loans | 402,436 | – |
| Other receivables | 168,730 | 62,010 |
| *Fair value through income statement* | | |
| Investments held for trading | 10,218,625 | 10,601,330 |

### FINANCIAL LIABILITIES AT AMORTISED COST:

The IAS 39 categories of financial liabilities included in the statement of financial position and the headings in which they are included are as follows:

| | 2017 £ | 2016 £ |
|---|---|---|
| Trade and other payables | 66,299 | 73,554 |
| Accruals | 201,580 | 94,950 |
| Borrowings | 211,334 | 104,440 |

## 24. EVENTS AFTER THE REPORTING PERIOD

On 5 January 2018, the outstanding convertible unsecured loan note was converted into 15,714,285 ordinary shares of 0.02p each at a price of 1.75p. On 9 January 2018, a second tranche of Convertible Loan Notes totalling £550,000 was issued, pursuant to the convertible unsecured loan note facility. On 17 January 2018, £275,000 of the convertible loan note was converted into 11,000,000 ordinary shares of 0.02p each at a price of 2.5p. On 16 February 2018 the remaining £275,000 convertible loan note was converted into 13,750,000 ordinary shares of 0.02p each at a price of 2p. On 8 March 2018 the convertible loan note facility was terminated and a £650,000 equity placing was announced.

On 29 January 2018, a further £125,000 was invested in InVMA to maintain Tern's 50% shareholding.

On 1 March 2018 a further $360,581 was paid to Device Authority, representing the second tranche of the convertible secured loan announced on 28 December 2017.

## 25. ULTIMATE CONTROLLING PARTY

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

# Notice of 2018 Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2018 Annual General Meeting of Tern plc ("the Company") will be held at 9.30 am on Tuesday 24 April 2018 at the offices of Reed Smith, The Broadgate Tower, 20 Primrose Street, London, EC2A 2RS for the following purposes:

## 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 2017, together with the Directors' Report and Auditors' Report on those accounts.

2. To re-appoint Grant Thornton UK LLP 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. Mr Bruce Leith retires by rotation, in accordance with the Articles of Association of the Company, having consented to be considered for re-election, and is hereby re-appointed as a director of the Company.

4. Mr Ian Ritchie to the extent he has been appointed as a director of the Company since the date of the last annual general meeting, becomes subject to retirement by rotation in accordance with the Company's Articles of Association, 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 £50,000 provided that this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the next annual general meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require relevant equity securities to be allotted after such expiry and the board may allot relevant equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

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

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

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

   6.2 the allotment (otherwise than pursuant to sub-paragraph 6.1 of this resolution (6) of equity securities up to an aggregate nominal value of £50,000.

   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.

## Notice of 2018 Annual General Meeting

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 2019; 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*
Dated 26 March 2018

### Notes to the AGM notice

1. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001 and by paragraph 18(c) of The Companies Act (Consequential Amendments) (Uncertificated Securities) Order 2009, only those members entered on the Company's register of members not later than 9.30 am on 20 April 2018, or if the meeting is adjourned, Shareholders entered on the Company's register of members not later than 2 days before the time fixed for the adjourned meeting (excluding non-business days) shall be entitled to attend and vote at the meeting.

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

3. To be effective, the Form of Proxy must be deposited at the office of the Company's registrars, Share Registrars Limited, The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR so as to be received not later than 9.30 am on 20 April 2018, or if the meeting is adjourned, not later than 48 hours before the time fixed for the adjourned meeting.

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

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

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

   In either case, the revocation notice must be received by the Company's registrars, Share Registrars Limited, The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR no later than 9.30 am on 20 April 2018.

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

   Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

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

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

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

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