Report & Accounts

For the year ended
31 December 2018

tern

Company Information

DIRECTORS	Ian Ritchie Albert Sisto Sarah Payne Bruce Leith Alan Howarth Richard Turner (resigned 15 January 2018)
SECRETARY	Sarah Payne
REGISTERED OFFICE	27/28 Eastcastle Street London W1W 8DH
COMPANY'S REGISTERED NUMBER	5131386
AUDITOR	Grant Thornton UK LLP 30 Finsbury Square London EC2A 1AG
NOMINATED ADVISER AND JOINT BROKER	Allenby Capital Limited 5 St. Helen's Place London EC3A 6AB
JOINT BROKER	Whitman Howard Limited 1-3 Mount Street London W1K 3NB
REGISTRARS	Share Registrars Limited The Courtyard 17 West Street Farnham Surrey GU9 7DR
BANKERS	Handelsbanken 5th Floor 13 Charles II Street London SW1Y 4QU
CORPORATE LAWYERS	Reed Smith The Broadgate Tower 20 Primrose Street London EC2A 2RS

Highlights of 2018

- New investment made in IoT business: FVRVS Limited (“FundamentalVR”)
- Notable commercial success in portfolio including new customer contracts for Device Authority Limited (“DA”) and a development agreement signed by FundamentalVR with the Mayo Clinic, USA. DA, FundamentalVR and InVMA Limited all continued to grow their revenues
- Year-on-year turnover of principal portfolio companies from 2017 to 2018 increased by 58% (2016 to 2017: 126%)
- Year-on-year increase in employees within principal portfolio companies from 2017 to 2018 was 52% (2016 to 2017: 55%)
- Placing in July 2018 to raise £2.9 million before expenses, brought total fundraising in 2018 to £6 million before expenses (excluding funds secured through convertible loan note)

Net asset value increased, overheads kept under control

31 December	**2018 £’000**	2017 £’000	2016 £’000
Total Assets	**17,009**	11,069	11,465
Net Assets	**16,752**	10,581	11,188
(Loss)/profit after tax	**(313)**	(1,690)	5,297

Contents

About Tern

Tern PLC is an AIM listed investment company focused on providing investors with an opportunity to capitalise on the rapid growth of the Internet of Things ("IoT") market.

IoT adoption is expected to underpin a significant technological revolution. According to Bain & Company in August 2018, the market is anticipated to grow from USD 235 billion in 2017 to USD 520 billion in 2021.

Tern takes long term influential interests in early stage businesses which provide commercial IoT solutions to the industrial and healthcare sectors. It looks for companies with an established product or platform, robust intellectual property and market validation.

Tern takes a proactive role in creating value by improving capital efficiencies, building sales models and developing global marketing strategies. It takes equity positions, offers support and mentoring in all areas of the company to maximise net asset value creation. This approach creates a collaborative environment for its portfolio companies which promotes faster growth.

Chairman's Statement

For the year ended 31 December 2018

"We look forward to another year of growth as we continue to build and diversify our portfolio of IoT companies."

In my second year as your non-executive Chairman I am pleased to report the continuing progress that we have made in growing our exciting portfolio of companies in the Internet of Things ("IoT") sector.

This year has seen us make a new investment in FundamentalVR (FVRVS Limited), a company which revolutionises surgical training, practice, insight and measurement through its leading global Software as a Service ("SaaS") immersive simulation platform for medical and surgical education. We have also increased our investment in InVMA Limited, which has further diversified our portfolio, and although Device Authority Limited remains our most significant holding, we have reduced its impact compared to 2017 and we expect to do so further in 2019.

Our management team has continued to work closely with our portfolio companies, providing operational support to give our investee companies a head-start in their plans to launch, to scale, to secure further funding and ultimately maximise returns on an eventual realisation.

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

I look forward to another year of growth as we continue to build and diversify our portfolio in this exciting and fast growing market.

Ian Ritchie
Chairman

18 March 2019

CEO's Statement

For the year ended 31 December 2018

"2018 has been a significant year for Tern, following our strategic transition. We added an exciting new business to our portfolio and all our investments have improved performance with a number of individually important strategic transactions."

I am pleased to report a year of substantial progress at Tern plc ("Tern") following the transformation of our investment strategy from taking long term controlling interests in businesses to focusing on an influential role. Tern provides investors with the opportunity to capitalise on the growth of IoT. We are building momentum and experiencing increased deal flow due to our ability to deploy our capital across a wider number of opportunities and reduce the potential reserve capital requirements as the investee company evolves. As a result, Tern is now working to build a broader base of high potential, value-creating portfolio companies with many opportunities being presented to us by other venture and risk capital investors.

Overview

Our investee companies continued to improve their performance with some notable commercial progress within the portfolio, including FVRVS Limited ("FundamentalVR") securing an agreement with the Mayo Clinic in the USA and Device Authority ("DA") securing a contract with 3D Systems to provide robust IoT security for 3D printers. At the corporate level, Tern completed several significant funding transactions which strengthened our balance sheet. During 2018, the company raised approximately £6 million in new capital, in addition to the funds secured through the convertible loan note, each placement progressing with more favourable economics. The last placement in July 2018 raised approximately £2.9 million before expenses. This fund raising demonstrates the benefit of our public listing and the flexibility it gives our balance sheet for funding the development of exciting growth businesses. The funds raised during 2018 enabled the company to expand its portfolio by investing in disruptive high-growth IoT businesses and the gross total invested capital, as at 31 December 2018, stood at £13.4 million. This includes our first investment in an IoT data analytics company, FundamentalVR, combined with several reinvestments into our existing portfolio resulting in a growth in our hard net asset value ("NAV") to £16.8 million, up 58% from £10.6 million in 2017. This fits with our strategy to deliver NAV growth for shareholders.

Turning to our trading performance, in 2018 we recognised a loss for the year of £0.3 million, compared to a loss of £1.7 million in 2017. As our investment in DA is based upon a US dollar value per share, the weakening of the pound resulted in a £0.4 million exchange rate gain compared to a £0.8 million exchange rate loss in 2017. We maintained the US dollar valuation of DA. Our administrative expenses were comparable to last year, reflecting a decrease in legal fees that was offset by other professional fees as we added new companies to our portfolio. Directors' fees increased as the scope of responsibilities expanded and time commitment to the company increased. Our remaining expenses were broadly flat. The Directors believe that 2019 will provide good opportunities for NAV growth. We anticipate this to be achieved via the business expansion of our portfolio companies, additional equity investments by third parties into our portfolio companies and one or more investments in new portfolio companies.

Investment Focus and Philosophy

At Tern, we see the size, potential and promise of the Internet of Things ("IoT") market as an opportunity to create shareholder value through investments in early-stage companies, by providing products and services associated with the IoT. Today, businesses are investing in cloud-based services and analytics, to make it easier and simpler to understand the performance of a product or a service offered that is IoT-enabled. Also, it will become increasingly seamless to gather real-time information so new products and services can be created. We believe that there are still challenges for the IoT market. The first is related to interoperability and the lack of a common connection layer. Many devices don't 'speak' using a common protocol to applications that rely on data being gathered, making the application design difficult and the data vulnerable. The second challenge is the inbound and outbound scale issue around device management, data collection, data storage and data analytics. We seek to invest in companies that address these issues.

CEO's Statement

For the year ended 31 December 2018

To solve these challenges requires the development of new commercial ecosystems to 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.

The IoT market is growing rapidly and is maturing and segmenting into specific verticals. Tern has refined its investment philosophy to address this change, with the goal of realising faster revenue growth and market share gains within our portfolio, to ultimately result in increased value. We have expanded our investment criteria beyond companies who are targeting IoT security, IoT enablement, and IoT analytics with a narrower scope, to companies who provide commercial solutions to the healthcare industry and industrial use cases where safety and regulatory compliance are important market requirements.

We believe that this will accelerate our development of a synergistic portfolio in which our companies can work together, learn from each other's market experiences and share industry connections. These market segments are global, speak a common language, have a large installed base of devices and are investing in all areas of IoT to create better products, customer satisfaction and patient outcomes.

Through our network, our website and attendance at IoT events, we saw many interesting companies during 2018 with a variety of business models and innovations focused on the IoT. The UK technology market continues to support our thesis that local UK entrepreneurs can and are creating companies with unique IoT products that satisfy our investment requirements and have global potential. Our approach remains the same; select the most promising companies with strong teams and disruptive ideas targeting large market opportunities. We then use our experience to invest in those companies where we not only deliver funding, but also operational support and access to our network, particularly in the United States. This helps to grow and scale our portfolio and aid our companies achieve their ambitions. In addition, by taking a Board seat, we can apply our expertise beyond the original investment decision, supporting companies into fulfilling their potential for growth and market leadership and driving strong exit multiples. This creates a valuable network for the companies, focused on collaboration and commercial development.

We believe that Tern is well positioned to provide investors access to high-growth private technology companies that they wouldn't otherwise be able to source or invest in directly.

Portfolio Progress

In 2018, the Tern team and our business partners worked extensively with the management of our investee companies as we looked to improve performance and accelerate growth. We supported a refinement of the go-to-market models of our companies to reflect a more narrowed focus on healthcare and specific areas of industrial IoT. We also hosted several CEO round-tables to help leverage synergies to drive business expansion and success.

Device Authority Limited ("DA")

2018 was a transitional year for DA. The company continued to expand its ecosystem of partners, which is a critical component of their go-to-market strategy, although we were disappointed by the delay in generating revenue during the first half of the year. DA did secure additional working capital of $2.9 million between November 2017 and December 2018 from its investor group, Alsop Louie Partners, George Samenuk and the Company, through a convertible loan note facility to execute its business plan, this enabled the development of blockchain support, key Thingworx interfaces and cloud platforms for AWS and Azure. DA also solved several critical product issues and introduced many new product enhancements to improve product market fit, particularly for the Healthcare market segment. As a result, proof of concept ("POC") time frames shortened and the company began securing new contracts in the second half of the year.

We also believe the concentrating of DA's primary market focus to healthcare and high value industrial IoT has and will continue to improve their commercial success. For example, the global IoT medical devices market is projected to reach USD 63.43 billion by 2023 from USD 20.59 billion in 2018, at a CAGR of 25.2% during the forecast period[1]. While the healthcare industry can benefit tremendously from the IoT, a number of stringent security, compliance and operational complexities need to be addressed for this market. Maintaining the privacy of patient records is paramount to

1 https://www.marketsandmarkets.com/Market-Reports/iot-medical-device-market-15629287.html

healthcare as it is to protecting the intellectual property of products and processes for industry. The first requirement is to have strong mutual authentication between devices, applications and users. The second is to ensure the sensitive information flows all the way from source to destination, encrypted to meet the compliance requirements such as HIPAA and EU GDPR. DA's KeyScaler platform is ideally suited to meet these challenges.

Tern, in its role as Board advisor, worked with DA to address the issues under its control and as the company enters 2019, we believe the product and POC issues have been tackled. This has been reflected by the company's commercial traction and announcement in December 2018 that it had secured a five-year contract with a leading medical device manufacturer, which has an anticipated value to DA of in excess of $1 million over the life of the contract.

Sales wins achieved in the fourth quarter will begin shipping in volumes during 2019 and we believe that this will form the corner-stone of sustainable commercial success.

FVRVS Limited ("FundamentalVR")

During 2018, Tern was excited to have the opportunity to invest in FundamentalVR, a leading Virtual Reality ("VR") training and data analysis technology platform. FundamentalVR is led by surgical training experts and leading technologists with a mission to revolutionise surgical training by bringing simulation into the hands of medical professionals around the world, using low cost, easily accessible technology. FundamentalVR's unique software platform takes advantage of readily available VR software and devices, such as the Facebook owned Oculus Rift, and combines it with cutting edge haptics to create a simulation system that can be used on any modern PC set up. Using computer learning, the software platform works together with haptic hardware devices to simulate the physical sensation of operating on human tissue. It also has the capability to provide artificial intelligence ("AI") driven real-time feedback, procedure correction data and best practice insight. The result is a simulation system that provides surgeons with a more hands-on experience to be better prepared professionals, resulting in better patient outcomes.

FundamentalVR's goal is to transform the way surgeons prepare, practice and refine their skills. The company has built an immersive, surgical simulation application platform, Fundamental Surgery, to provide medical professionals with the opportunity to rehearse, practice and test themselves within a safe, controllable space that is as close to real life as possible. Additionally, this same platform enables healthcare companies, to create a new way to develop, train and measure the introduction of new medical devices and drug delivery systems to surgeons in a safe and repeatable way.

The cost of medical care and mistakes continues to grow across the globe, with the industry lacking an effective practice and rehearsal solution and quality data on medical and surgical capability, which Fundamental Surgery can now provide.

During 2018, Tern made two direct investments totalling £1.9 million into FundamentaVR, our second following FundamentalVR's signing of a three year term joint development agreement with the Mayo Foundation for Medical Education and Research ("the Mayo Clinic"), the U.S. leading academic medical centre, which will see the two parties collaborating on a range of simulation and education products with an initial focus on the general surgery area. Additionally, the current release of the Fundamental Surgery platform is now live in the Mayo Clinic's world-renowned simulation centres located in Rochester, Arizona and Florida.

InVMA Limited ("InVMA")

InVMA continued to make progress during the year. Since our initial investment in 2017, we have seen the business grow its revenue year on year in 2018 compared to 2017, with ten new customer engagements including important wins at industrial leaders like ESAB (part of Colefax), Bernard Matthews, GKN and Kohler Mira. Also, their new partnership with DMS, a UK industrial maintenance company, has generated more than a dozen AssetMinder opportunities with important wins at Yorkshire Water and JLR.

AssetMinder is a strategic product for InVMA as it builds on the trend within the Industrial IoT ("IIoT") to use intelligent sensors to connect and collect important data to create a proactive performance and maintenance strategy for assets. AssetMinder allows companies across all industries to monitor and manage critical equipment and resources from the data gathered and to generate alerts to intervene and protect their operations from costly down-time and potential costly catastrophic outcomes. The AssetMinder product is positioned in the Remote Monitoring and Control Market which is estimated to be growing at a CAGR of 4.47% and is expected to be valued at USD 27.11 billion by 2023[2].

2 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 published by Markets and Markets (TM)

CEO's Statement

For the year ended 31 December 2018

During 2018, InVMA, with the support of the Tern investment director, acquired the intellectual property and other assets from AMIHO Technology of Cambridge. AMIHO Technology was founded in 2009 to solve difficult environmental logistical problems of remote connectivity for smart sensors and data collection gateways, for example, smart meters in the energy industry. Their intellectual property is a series of wireless radio frequency modules, specifically, long range ("LoRa") and meter-bus ("MBus") protocols, stand-alone protocol stacks and evaluation kits. Prior to its acquisition, the product suite achieved commercial success and is currently installed in over 250,000 smart meters in Eastern Europe. We believe these products add to the design service capabilities of InVMA to help customers integrate the technology into their products and to the many facets of our other portfolio companies where robust IoT connectivity is a requirement.

flexiOPS Limited ("flexiOPS")

2018 has proved to be a pivotal year for flexiOPS. We originally believed that the business could have been a source of valuable technology expertise to assist current and future Tern portfolio companies. Unfortunately, the company has been seriously affected by the political situation in Europe and the UK and its ability to participate in European grants and therefore the company decided to exit that part of its business. They are now focusing on the company's IoT mesh networking assets and expanding its mission following the purchase of a controlling interest in Wyld Technologies Limited ("Wyld Technologies"), a mesh networking company in 2017.

During 2018, as part of its expanded role and mission, Wyld began expanding its product platform base by developing the application, thus enabling Wyld Fusion to support the adoption and use of their Wyld Mesh networking product. Wyld Fusion allows devices and people to receive individual or aggregated data from an application, or series of applications, in real time. Wyld Fusion delivers timely, actionable information across the mesh to the right people, things and locations, securely. It enables informed business decisions and reduces operational risk (real time data selection) with a high degree of flexibility and complexity. As an outcome from this expansion of the Wyld Technologies' mission in flexiOPS, we believe Wyld Mesh, with Wyld Fusion, will enable flexiOPS to offer a Content Delivery Network combining real-time data streaming with our powerful device-to-device mesh network.

Their vision is to make Wyld software the platform of choice for large enterprise companies, governments and smart cities to leverage the power of crowds to automate and accelerate their tailored messaging in large retail facilities and large entertainment venues, in response to critical events in what are typically challenging and hostile environments.

Subsequent to the year end, the AMIHO Technology assets were purchased by flexiOPS from InVMA to form a new compelling proposition in the IoT embedded communications industry and flexiOPS was renamed Wyld Networks Limited.

Summary

The investment portfolio made good progress in 2018, leaving Tern well positioned for 2019 and beyond. I would like to thank our staff, business partners and portfolio companies for their commitment and contribution to this positive performance. As ever, I would also like to extend the Board's thanks to all our stakeholders for their continued support. With a larger and maturing portfolio and an expanded pipeline of opportunities, we look to 2019 with continued confidence.

Albert Sisto
CEO

18 March 2019

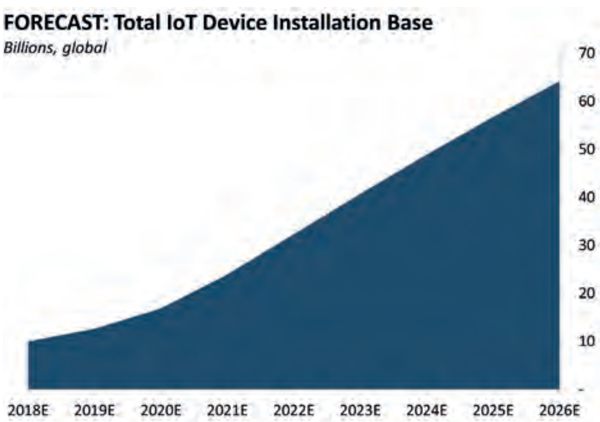
Our Markets

Overview

The Internet of Things is widely recognised as a transforming market, that is upending traditional practices, creating new high-value, business practices, and delivering previously unavailable efficiencies and capabilities, across a wide range of industries. Many have referred to it as the Next Industrial Revolution.

The adoption of the IoT turns previously "dumb" stand-alone devices into networks of "smart" connected devices that provide real-time information related to their activities, and simultaneously receive real-time operating instructions based on the rapid processing of the information these devices collect and report.

The applications of the IoT cut across a wide range of industries. As with all technology-based transformations, the IoT is expected to have a greater impact on specific industries, and the timing of this impact varies by industry and regulatory requirements.



Forecast of total IoT device installation base[1]

The IoT Ecosystem

The IoT ecosystem is composed of five areas:

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).

1 Business Insider Intelligence, 2019

In 2017, we indicated that management had focused Tern's investment activities on areas within the IoT ecosystem: *IoT security, data analytics and enablement*.

Our work in 2018, reinforced our belief in the opportunities associated with these three areas, and their potential to rapidly create shareholder value. We initially focused on these three areas because of common characteristics. In 2018, we further refined our investment criteria, to focus on firms whose businesses possess the attributes listed below:

- Customers who will typically require continuously upgraded applications, security and device capabilities;
- When the software solutions meet customer needs, the businesses can rapidly scale their services;
- Successful solutions realise sustained, competitive advantage by meeting evolving customer needs through the ability to deliver continuously upgraded solutions;
- Where customers are satisfied, the disruptive nature of switching suppliers will minimise the impact of new competitive entrants; and
- Successful firms offer low capital requirements with high ROIs, particularly when compared to hardware-based aspects of the IoT ecosystem.

Augmented Reality, Enablement and Data Analytics

As IoT technologies have evolved, they are increasingly merging with high-value applications of augmented reality. Tern's management identified the significance of this emerging trend, as a natural extension of the value created by the IoT. Through augmented reality, insights created through IoT-derived data can be translated into actionable diagnosis, operating scenarios can be effectively investigated in new ways, and remote activities can be performed by less highly skilled technicians, guided by highly skilled experts located in entirely different geographies. From this perspective, high-value IoT applications of augmented reality appear both as services that enable the implementation of the IoT and as services within data analytics; as platforms that make sense of IoT derived data and as platforms that, like other IoT implementations, generate new types of high-value data.

Tern's Refined Investment Focus

The IoT market is rapidly advancing and with this new maturity, Tern continues to review its approach to portfolio development. Over the past year, management has refined our primary investment criteria to businesses providing software solutions in these three areas of IoT ecosystem, with a focus in two areas: *Healthcare and the Industrial Internet of Things* ("IIoT") in high value manufacturing.

Our Markets

This refined investment criteria aligns with a well-recognised pattern associated with the introduction of a new, transforming technology. Initial uses focus on areas that generate immediate value. Then, new uses build on the experience of these initial applications, reflecting increases in sophistication, and evolving to meet the specialised needs of large market segments, which may be defined by specific industries (such as healthcare) or specific high value functions that cut across multiple industries (such as the IIoT).

Now, although the IoT is still evolving, its rapid growth has created large opportunities within specific market segments, and the need for specialised solutions to fill the unique needs of these sectors.

As growth of the IoT accelerates, the need for IoT capabilities offering different types of security solutions, data and predictive analytics, and enablement also increases, in order to meet the evolving needs of high growth market segments. The high growth markets are being targeted by governments seeking to improve their services and large enterprises looking to leverage the benefits created by the IoT.

Tern's Market Segment Focus

Tern's sharpened focus on two market segments within the IoT, healthcare and the IIoT, reflect criteria that are common to both areas, and which management believes provide unique opportunities for portfolio company growth and investment in new opportunities to provide for the rapid creation of shareholder value. The market segments of interest to Tern are characterised by:

- A significant established market size today, with anticipated high growth;
- The rapid creation of entirely new digitally based businesses or the significant recreation of existing business processes with unique intellectual property (IP);
- A particularly critical and mandated need for security solutions;
- The transforming value of data analytics;
- The need for flawless implementation for safety and quality;
- A high value potential with pricing power and value, to increase efficiency with significant cost-savings; and
- A bias toward identifiable, high value applications that combine augmented reality and the IoT.

Notably, Intel projects that by 2025, the total global worth of IoT technology could be as much as USD 6.2 trillion, most of the value coming from devices in healthcare (USD 2.5 trillion) and manufacturing (USD 2.3 trillion).

Healthcare

Market size and anticipated growth: The transforming value of the IoT in healthcare is widely recognised, and the coming years are expected to be marked by high-growth and a wide range of new, IoT-enabled capabilities. According to Grandview Research, the global IoT healthcare market was valued at USD 120 billion in 2017, will grow at a CAGR of 20.2%, and reach a global market size of USD 524 billion in 2025[2].

The Rapid Creation of Entirely New Digital Business Models: The IoT creates fundamentally new opportunities for the creation of businesses that monitor, treat, and manage the health of patients. IoT devices, often called "connected care" are at the heart of capabilities to remotely monitor and treat a wide range of the high risk and chronic illness patients that account for a significant portion of current healthcare spending. Via remote monitoring, smart IoT implementations recognise deteriorating patient health, and provide for interventions before the occurrence of acute events; thereby improving health outcomes and reducing overall healthcare costs. At the same time, for chronic illnesses and other diseases, connected care devices provide real-time information on patient health, intelligently change the medication administered to patients (such as those using an infusion pump) and advise chronic care patients (such as those with diabetes) on changes in their health status and potentially provide intelligent advice for ongoing improvement.

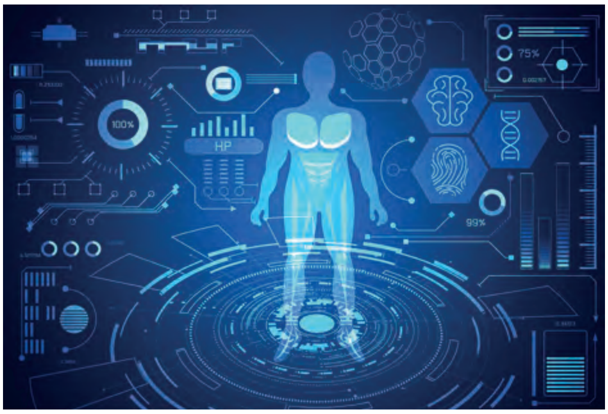
Notably, the real-time information collected via connected care devices will provide doctors and researchers with previously unavailable information on patient health over time. As a result, data analytics will inevitably lead to a greater understanding of the effectiveness of specific treatments and the likelihood of dangerous acute events.

2 Grandview Market Research, *Internet of Things (IoT) in Healthcare Market Size, Share & Trends Analysis Report By End Use, By Component, By Connectivity Technology (Cellular, Wi-Fi, Satellite), By Application, And Segment Forecasts, 2018 – 2025* (November, 2018).

Our Markets

A Particularly High Need for Security Solutions: Healthcare requires a higher level of security than other IoT implementations for several reasons: First, healthcare devices which adjust medication in real-time, or remotely monitor patients with acute illnesses, require effective security to ensure patient safety. If a third-party were able to gain control of devices of this type, patient safety could be compromised, through the generation of false readings or dangerous commands associated with the medication being dispensed. Second, a range of government regulations are designed to ensure the privacy of individuals receiving treatment and the safety of the treatments involved. For example, HIPAA (the Health Insurance Privacy and Accountability Act) in the United States demands a level of data privacy that is rarely required, by law, in other industries.

Within hospital and healthcare settings, the overall security of IoT devices is recognised as a paramount concern. This reflects the unique nature of hospitals and other healthcare settings, with a large number of new and returning patients, doctors and other practitioners (who may not be employees) caring for patients and utilising an extraordinary range of IoT devices, and the needs of networks to accommodate the real-time exchange of information on these networks. For IoT device security, the multilayered approach, such as that offered by DA, to ensure ongoing device security is generally recognised as a "Best Practice[3]" providing management with high confidence in the value of DA moving forward.



A Transforming Value with Data Analytics: Healthcare systems across the globe share several inter-linked objectives: to improve healthcare outcomes, reduce costs, reduce the burden of care on the medical system, and drive the development of improved therapies and procedures, which range from the treatment of chronic illnesses and other diseases, to shorter time from diagnosis to recovery, to reduced errors. In healthcare the role of data analytics is central to achieving these objectives. The capture of information, associated with connected care and other IoT devices, enables the development of new standards of care, greater personalisation of care, and analyses that will deepen our ability to develop new therapies, enhance existing treatments, and reduce medical errors. To summarise, data analytics has the potential to drive a revolution in medicine. In fact, one market research firm anticipates that by 2025, healthcare will account for over 70 percent of the market for global analytics software[4]. For example, using the FundamentalVR platform, surgical performance data provides invaluable insight into surgical capability, preference and performance with many potential market applications.

The Need for Flawless Implementation: To ensure patient safety, healthcare implementations of the IoT must be flawless. The failure of a healthcare-related IoT device could compromise patient safety and health, create potential governmental scrutiny, lead to civil liability and (depending on the scope of the error or failure) threaten the ongoing viability of the business deploying the poorly implemented solution.

The High-Value of New Efficiencies: The increasing cost of healthcare, particularly in the United States, is creating a business environment that is aggressively seeking new efficiencies in treatment. It's anticipated that healthcare spending in the United States will soon rise to 20% of U.S. GDP[5]. With this backdrop, the lower costs and improved health outcomes offered by IoT enabled healthcare activities are expected to achieve rapid market acceptance, in a high-growth market.

The Merging of the IoT and Augmented Reality: The potential, high-value applications of augmented reality to healthcare innovations is widely recognised. It is anticipated that augmented reality applications, merged with the IoT, will play a growing role in boosting medical training, speeding the adoption of new technologies (through faster demonstrations of new services using remote technologies, and faster training in their uses), assisting in the delivery of treatment, empowering patients to understand their diagnoses, conditions and treatments, and enhancing at-home treatments, such as patient physical rehabilitation enhanced with augmented reality visualizations.

A key market driver for the combining of these technologies is the increased investment in all aspects of virtual and mixed reality hardware by the major technology such as Google, Facebook and Microsoft being the most notable. Also, the investment into the Cloud infrastructure by Amazon Web Services ("AWS") is driving new capability for SaaS products. These trends and

3 Hamilton, Dean, *Best Practices for IoT Security, Network World*, (March 27, 2018).

4 Bresnick, Jennifer, *AI, Big Data, IoT Bring Growth to Multiple Healthcare Markets,* Health IT Analytics (May 18, 2018).

5 Walker, Joseph, *Why Americans Spend So Much on Health Care – In 12 Charts,* The Wall Street Journal, July 31, 2018.

technology breakthroughs have enabled our portfolio company, FundamentalVR, to bring robust capabilities onto the FundamentalVR platform to market at marginal costs. This allows for the adoption of low cost "off the shelf" hardware solutions and enables FundamentalVR to focus on the software layer only.

The Industrial Internet of Things ("IIoT") in Manufacturing

In manufacturing, the IIoT is rapidly driving the reinvention of processes leading to dramatic increases in efficiency, quality and customer satisfaction. The Company's focus on the manufacturing aspect of the IIoT reflects this market's heightened security needs, resulting from requirements associated with intellectual property protection. Manufacturers are seeking solutions that enable the IoT, while simultaneously ensuring the security of their proprietary knowledge and that of their customers who consume the resultant products or services.

Current Market Size and Anticipated Growth: The "all in" global IIoT market in Manufacturing, according to one research firm, will increase in size from USD 13 billion in 2017 to USD 45 billion in 2022, with a CAGR of 29%[6].

The Reinvention of Existing Processes: The IIoT is poised to revolutionise processes, product reliability and product services, through new visibility into operations and smart activities of all types. The result will be significant improvements in productivity and life time operating costs and safety. Moreover, these gains are not limited to large facilities. One small factory IIoT implementation, boosted efficiency by 15% to 20%, and created significant savings in capital expenditure[7].

With connected, real-time information on performance, combined with predictive analytics, manufacturers are poised for gains through automation, enhanced optimization and monitoring in the manufacturing process, as well as predictive asset management and maintenance. In many cases, this monitoring and smart measurement may contribute to ensuring the health and safety of workers through a lengthy list of implementations, including real-time health monitoring, and smart capabilities associated with air quality management, environmental measurement, the measurement of liquids, gases, radiation or other dangerous materials and other risk analyses. Accomplishing these gains requires an expansion in the investment in the intellectual property required to create these advancements. We see an opportunity in finding the exciting new companies who enable the creation, protection, communications and servicing of the IP used as an area of our focus. InVMA and Wyld Technologies are examples within our portfolio who are targeting these business opportunities.

A Particularly High Need for Security Solutions: As applications of the IIoT recreate the operations of factories, security is a central concern. First, factory automation systems, by necessity, incorporate the value of intellectual property in the design of products. This intellectual property often represents a central part of a firm's competitive advantage. With ineffective security solutions, firms implementing IIoT processes are at risk that their networks will be penetrated, and their associated intellectual property will be stolen. In addition, worker protections, incorporated in health and safety laws and regulations, mandate that factory equipment must operate in specific ways to ensure worker safety. Ineffective security, and the loss of control of factory processes, could put the safety of workers at risk, with attendant governmental scrutiny, liability, and other damaging consequences. DA brings significant value with its platform, which enables secure life cycle management and data/IP protection.

The transforming value of data analytics: by turning "dumb" devices into "smart", connected systems manufacturers gain insights into processes that were previously unavailable. At the same time, by linking information from the many activities in the manufacturing process, an unprecedented opportunity for smart enhancements, via data analytics, is created. This capability extends beyond the already discussed high value of monitoring and predictive capabilities. Manufacturers will gain new insights into processes that have an effect on product quality; the optimization of shop-floor processes and throughput implementation; the elements driving costs for existing and hence new businesses; and the ability to create faster turnaround time for custom orders by customers. In short, data analytics applied to smart manufacturing will become a new source of competitive advantage for the manufacturers.

6 Markets and Markets, IoT in Manufacturing Market by Solution (Network Management, Data Management, Device Management, Application Management, Smart Surveillance), Platform, Service (Professional and Managed), Application, Vertical Market, and Region - Global Forecast to 2022 (January 2018).

7 Hitch, John, A Proven Plan for Industrial IoT Success, Industry Week (July 11, 2018)

Our Markets

The Need for Flawless Implementation: The issues discussed above, associated with the need to ensure worker safety, similarly require flawless implementation of factory-related IIoT processes. Moreover, mistakes in this arena will also lead to factory down-time, with high costs associated with delays in the manufacturing process. InVMA and its Asset Minder product has been specifically designed to address this problem and market opportunity.

The High Value of New Efficiencies: The central value of the IIoT is the ability to bring significant new efficiencies to factory operations, across a wide range of processes and to secure product life cycle management to products deployed anywhere and at anytime.

The Merging of the IoT and Augmented Reality: As smart factories emerge, augmented reality will increasingly play a central role in training, and combining data analytics to present information in an actionable format that enables real time responses[8]. With augmented reality, digital data is placed in a context that humans can rapidly and easily understand. A central aspect of these applications is the use of augmented reality to provide a superior customer experience.

8 See, for example, *Augmented Reality Is Becoming a Focus in Maintenance Technology*, IoT For All, January 4, 2019.

Strategic Report

For the year ended 31 December 2018

"The Company has initiatives in place to position itself for lasting success in its focused market sector."

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 and Europe but with global opportunities and ambitions. These businesses are predominantly in the Internet of Things sector. The business model moves through three stages:

Stage 1 Infrastructure

Review >> Plan Business >>Model, Product Recruitment

12-18 months to review, prepare plan and implement infrastructure changes to make the business a commercial success within three years

Stage 2 Growth

Strategic partners >> Marketing, Awards >> Exports

18-24 months to create awareness, build commercialisation and a case for the company to be acquired by a trade buyer

Stage 3 Realise

Complete >> Add Value >> Target Buyers

Up to 2 years to continue building whilst sale of business process is sought and executed

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 4-7 and Investment Report on pages 18-21, which form part of the Strategic Report.

The 2018 results have been materially impacted by a fair value uplift of £0.8 million, of which £0.4 million is due to an exchange rate gain on the revaluation of the Device Authority investment at the balance sheet date. Directors fees increased and legal fees were lower but offset by other one-off professional fees. Overall, administrative expenses were comparable to 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 Security, IoT enablement and IoT analytics.

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

Key performance indicators

The Company's principal activity is that of investing in companies. Accordingly, the Company's financial Key Performance Indicators (KPIs) are focused on return on investment; delivering consistent investee company turnover growth; and focusing on year-on-year net asset growth. These indicators are monitored closely by the Board and the details of performance against these are given below.

- The return on investments:

  Unrealised

  - Device Authority's underlying US dollar value remains unchanged, however the fair value is based on the probability of each of the various conversion options, with the value of each conversion option being weighted based on the probability of its exercise. A pound sterling increase has been reflected due to the weakening currency when revaluing the investment using the 2018 year end exchange rate;
  - flexiOPS Limited is valued at fair value which takes into account the cost of investment in Wyld Technologies Limited. InVMA Limited is valued at fair value and the price of the most recent valuation is taken into account;
  - FVRVS Limited ("FundamentalVR") is held at fair value where the price of the most recent valuation has been taken into account;
  - Push Technology Limited has been revalued in line with IFRS to a level consistent with recent fund raisings. Seal Software Group Limited's US dollar fair value remains unchanged, although a weakening of the pound sterling has resulted in a small increase in its pound sterling valuation; and
  - These investee companies are early stage businesses in emerging markets where there is a lack of comparative businesses available on which to provide a comparable valuation and therefore value has been based on an assessment of numerous factors: the underlying value of the Device Authority patent portfolio, the multiples achieved in comparable markets on recent transactions, and an assessment by the Board on the strength of the sales pipeline and achievability of the 2019 sales forecast.

The net assets of the Company at 31 December 2018 were £16,751,773 (2017: £10,580,802). The net assets per ordinary share as at 31 December 2018 were 7.1p (2017: 7.38p).

Investee company turnover growth: the year-over-year growth in the aggregate revenue of our principal portfolio companies (excluding Seal and Push) increased by 58% from calendar year 2017 to 2018 (126% from calendar year 2016 to calendar year 2017) which provides an indication of growth in the overall portfolio.

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, as assessed by reviewing all opportunities at the monthly Board meeting and the investee company employee number growth in our portfolio companies. We believe these factors help serve as leading indicators of the future performance and our impact on our stakeholders.

Investee company employee number growth (excluding Seal and Push) increased by 52% from calendar year 2017 to calendar year 2018 (55% from calendar year 2016 to calendar year 2017), highlighting a continuing growth in the portfolio overall.

Financial risk management objectives and policies

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

Principal business risks and uncertainties

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

Identifying, evaluating and managing the principal risks and uncertainties facing the Company is an integral part of the way the business operates. The Company has policies and procedures in place throughout its operations, embedded within the management structure and as part of the normal operating processes. A formal risk register is maintained

Strategic Report

For the year ended 31 December 2018

and reviewed by the Board at least quarterly, with key risks identified, discussed and mitigation agreed. Market and economic conditions are recognised as one of the principal risks in the current trading environment. This risk is mitigated by the close monitoring of trading conditions and the performance of the Company's investment portfolio. The Company is affected by a number of risks and uncertainties, not all of which are wholly within its control as they relate to the wider macroeconomic and legislative environment within which the Company operates. To enable shareholders to appreciate what the business considers are the main operational risks, they are briefly outlined below:

	Risk	**Potential impact**	**Strategy**
Reliance on key people	The Company is unable to retain key individuals	• Disruption for the Company or its investment companies as new individuals take time to gain an understanding of the investment company's strategy and requirements.	• The Company offers a remuneration package designed to attract, motivate and retain key individuals • Key individuals in the investment companies are offered an attractive remuneration package and either shares or share option incentives
Investment risk	An investment fails to perform as anticipated: • Investee companies may be operating in highly competitive markets with rapid technological change • Investee companies may be companies in early stage of commercial development. Generation of significant revenues is difficult to predict and not guaranteed • Investee company management is performing underpar The Company is unable to maintain its holding when the investee company requires significant additional funding The portfolio is dominated by one or two investments	• Investments may require additional finance • Inability to create maximum value in a timely fashion • Difficulty in realising investment • The Company's influence reduces • The value of the Company's holding falls • 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. A Company director holds a non-executive Board position on all investment company boards where the Company has a significant (>10%) holding • The Company's strategy has been formulated by the management team with a strong track record of generating gains from early stage companies within the technology sector • The Company is building a portfolio of investments to insulate itself against poor performance of any single investment
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 • 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 UK exit from European Union	• Financial and reputational impact • Potentially increase costs of compliance which makes it harder to raise funds • Detrimental impact on performance of investment companies with exposure to the European Union	• Maintain strong advisory base • Legal advice taken on all investment and employment issues • The Company monitors its working capital to ensure it has sufficient funds to maintain operations during any economic slow down
Foreign exchange risk	The valuation of investments may be impacted by foreign exchange movements	• The value of the Company's holding falls	• The Company actively reviews the value of investments and will consider action on foreign exchange risk where relevant, following advice from advisors

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;
- quarterly review of risk register;
- discussion with senior personnel; and
- consideration of reports prepared by third parties.

Investing policy (established July 2013)

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

The Directors see IT as having considerable growth potential for the foreseeable future and many of the prospects they have identified are in this sector. They believe there are opportunities to invest in and acquire established IT businesses which have good technology, marquee customers and could better exploit their assets with the injection of experienced management and new funds with the intention of creating value for Shareholders.

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

It is anticipated that the main driver of success for the Company will be expertise that can be provided by the Directors to the management involved in the potential investee companies and the value creation that the team of people is capable of realising. The Company intends to be an active investor. Accordingly, it may seek representation on the board of investee companies.

In the first instance, the new capital available to the Company will be used to locate, evaluate and select investment opportunities that offer satisfactory potential capital returns for Shareholders. Once the Directors have identified the most attractive investments, the Company may require further funds in order to take up these opportunities. It is the intention of the Directors to undertake further fundraising, if such an opportunity should arise. The Company's investments may take the form of equity, debt or convertible instruments. Investments may be made in all types of assets falling within the remit of the Investing Policy and there will be no investment restrictions.

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

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

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

Strategic Report
For the year ended 31 December 2018

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

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

The Strategic Report was approved and authorised for issue by the Board of Directors on 18 March 2019 and was signed on its behalf by:

Bruce Leith
Director

18 March 2019

Investment Report

For the year ended 31 December 2018

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

Device Authority Limited

Market segment: Data Security software

Fair value:	Cost: £5.61 million	Valuation: £11.7 million
Consists of:		
Equity ownership: 56.8% 'A' shares:	Cost: £4.34 million	Valuation: £6.2 million
Convertible loan:	Cost: £1.27 million	Valuation: £5.5 million

Valuation is based on a probability analysis of the potential outcomes relating to the conversion or redemption of the convertible loan note, translated at the exchange rate at the balance sheet date. The fair value was supported by an evaluation of a combination of factors, including the price of shares in the most recent fund raise (April 2016), 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 2019 trading forecast.

Device Authority Limited ("DA") is an Internet of Things (IoT) security automation company. DA 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. DA's KeyScaler™ IoT security platform provides trust for IoT devices and the IoT ecosystem, including key partners such as Certificate Authorities, HSM vendors, IoT platforms, system integrators and cloud platforms. KeyScaler delivers automated device provisioning and registration, token-based authentication, credential management for certificates and passwords, and end-to-end data security. KeyScaler also protects private keys and crypto keys, prevents unauthorised access and delivers end-to-end data security and confidentiality for Enterprise Blockchain.

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

In 2018, DA continued to build on a strong base of strategic partners, including TeamViewer, SyroCon Consulting and Eonti, Larsen and Toubro Infotech ('LTI') and Gemalto. Furthermore, it announced support for the Microsoft Azure IoT Hub. DA also continued to be recognised as a critical force in the global IoT security market, for example, gaining recognition as a 2018 Emerging Star in the IoT Security Market by Quadrant Knowledge Solutions.

During the year, DA announced the launch of KeyScaler As A Service, providing IoT Security in the Cloud. This service enables IoT service providers and manufacturers to offer their customers the best security for IoT devices without the infrastructure or running costs associated with on-premise environments, expanding its ability to make markets for its platform by simplifying customer deployment options.

Fundraising activities continue with US Capital in search for a key strategic US partner. In addition, the DA Board is considering additional advisors to review DA's strategic opportunities.

Other key announcements in 2018 included:

- Announcing a customer success story, providing robust IoT Security for 3D Systems' cloud-based service for 3D printers;
- Provision of a new solution for securing Enterprise Blockchain infrastructure which is powered by KeyScaler;

- Announcing the launch of their joint blueprint to secure the connected health industry, following the announcement of a strategic partnership with Thales (nCipher). This IoT market is a strategic focus for DA as healthcare forecasts predict growth to reach USD 524 billion by 2025, according to a report by Grand View Research, Inc published in 2018; and
- DA's KeyScaler Platform announced that it now secures InVMA's (another portfolio company) AssetMinder Performance Management Solution for IoT, with the product due to launch in early 2019.

For more information visit: www.deviceauthority.com.

InVMA Limited

Market segment: IOT Systems Integrator

Equity ownership: 50% Cost: £1.0 million Valuation: £1.0 million

Valuation is based on fair value. This was evaluated by a combination of factors including an assessment of sales pipeline and 2019 trading forecast.

InVMA Limited ("InVMA") delivers IoT applications, based on the industry leading PTC/Thingworx development platform that deliver real business value and competitive advantage to its customers.

Since the Company's investment in late 2017, InVMA, as part of its business transformation, has launched AssetMinder, a product which monitors and manages data from all types of sensors and provides alerts when pre-determined thresholds or rules have been met or broken. In 2018, InVMA has focused on generating AssetMinder product sales to drive value creation. InVMA also announced the integration of InVMA's AssetMinder with Device Authority's KeyScaler which is an important proof point of the Company's influence in integrating the products and technologies of its portfolio companies.

In 2018, InVMA announced it had developed Clarity for GCE Healthcare using PTC's ThingWorx® Industrial Innovation Platform. The global market for real time health monitoring devices is expected to reach USD 67,982.2 million by 2022 and is expected to grow at a CAGR of 14.29% during the forecast period 2016-2022 according to Global Real Time Health Monitoring Devices Market Research Report – Forecast to 2022 published in April 2017.

InVMA have secured new strategic partnerships and contract wins in key segments of the Industrial IoT market already, including the announcement of a contract with ESAB, part of the Colfax Group, to support the architecture of a new ESAB WorldCloud platform which will be powered by Microsoft Azure IoT and PTC's ThingWorx platform.

Other key announcements in 2018 include:

- Partnering with ARM to deliver connected IoT. The new partnership will enable enterprise customers to manage, connect, provision and update devices through an end-to-end IoT platform that is easily scalable and flexible;
- New capabilities for AssetMinder®, its turnkey asset performance management solution which will significantly reduce the cost of maintenance using new high frequency wireless sensors; and
- Acquiring the intellectual property and assets of IoT communications company AMIHO Technology Limited. This software will enable customers to integrate the IP technology into their products to enable them to robustly connect on the LoRA and M-Bus protocols.

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

FVRVS Limited ("FundamentalVR")

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

Equity ownership: 34.7% Cost: £1.9 million Valuation: £1.9 million

Valuation is based on fair value. This was evaluated by a combination of factors including an assessment of sales pipeline and 2019 trading forecast.

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

Key announcements in 2018 include:

- Since the Company invested in May 2018, FundamentalVR has launched in the USA, Australia and New Zealand and appointed Hybrid Health as its channel partner for Australian and New Zealand markets;
- FundamentalVR has been recognised as having made significant impact on this market. This has been evidenced by winning the prestigious Auggie Award for 'Most Impactful Breakthrough'; being named as one of the best 50 inventions in 2018 by Time magazine and more recently being nominated for the Immersive Healthcare of the Year award;
- FundamentalVR has also celebrated commercial success by launching a strategic collaboration and joint development agreement with the Mayo Clinic, resulting in the Fundamental surgery platform being installed in their US centres; and
- Two ground-breaking surgical simulators have been installed at UCLH's flagship University College Hospital, one of the UK's leading teaching hospitals, as well as the UCLH staff training centre. UCLH are the first in Europe to have adopted the VR and Haptic simulation system for Spine and Orthopaedic training.

For more information visit: www.fundamentalvr.com

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 fair value. This was evaluated by a combination of factors including an assessment of sales pipeline and 2019 trading forecast.

flexiOPS completed its portfolio of EU funded research and development cloud projects during 2018 and with the changing political landscape in the UK, securing new EU grants has been very difficult. As a result, the company has now re-focused on supporting the networking element of Tern's IoT enablement strategy by aiding the growth and development of the Wyld Technologies Limited ("Wyld Technologies") ad-hoc mesh networking offering following their acquisition in late 2017.

During 2018, Wyld Technologies focused on building out its development team and product platform, and now has a product roadmap that is in line with current market requirements with its ability to deliver and collect critical data with its ad-hoc mesh networking platform in the all critical "last mile".

Mesh networks enable data to be transmitted from different devices simultaneously. This topology can withstand high traffic and even if one of the components fail, an alternative is always available, ensuring data transfer is not affected. As mesh network topology is self-forming and self-healing it is more efficient at creating robust ad-hoc networks; providing assured quality to ensure continuity of service.

Post year-end, flexiOPS changed its name to Wyld Networks Limited.

For more information visit: www.wyldnetworks.com.

Investment Report

For the year ended 31 December 2018

Push Technology Limited

Market segment: Data distribution software

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

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 2018 included:

- New software release to increase security authentication and authorisation handling

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: £130,377

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 2018 the notable events included:

- Unveiling a global partnership with DocuSign to automate and connect the process of how agreements are prepared, signed, enacted and managed.
- Winning the 2018 Aragon Research Innovation Award for Content Analytic, winning the award for Outstanding Data Analytics Solution at the annual Big Data Excellence awards in May 2018 and being named a 2018 Cool Vendor in Content Services by Gartner.
- Being named within the Deloitte's Technology Fast 500™ for a third consecutive year. Seal was named the 64th fastest growing tech company in the San Francisco Bay Area, and 337th overall with 239 percent year-over-year growth. Seal Software was also included by Inc magazine within the 5000 List of America's Fastest-Growing Private Companies for the second consecutive year.

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

Committee membership: Member of Audit committee and Remuneration committee

Albert Sisto
Chief Executive Officer

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

Sarah Payne
Finance Director

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

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 eighteen years he has been managing a portfolio of non-executive appointments.

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

Directors' Report

For the year ended 31 December 2018

The directors present their annual report and the audited financial statements of Tern plc (the "Company") for the year ended 31 December 2018.

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 year are shown in the income statement and statement of comprehensive income on page 34.

The loss for the year was £312,564 (2017: £1,689,555).

The directors do not recommend payment of a dividend.

Events after the reporting period

On 14 January 2019, USD 240,000 was paid to Device Authority in the form of a convertible loan note.

On 19 February 2019, a further USD 160,000 was paid to Device Authority in the form of a convertible loan note.

Providers of these loan notes were also issued with 2.6 warrants for each USD 1 of loan notes subscribed.

Political and charitable contributions

No political or charitable donations were made during the year.

Control procedures

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

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

Going concern

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

Directors and directors' interests

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

	At 31 December 2018 Ordinary shares	At 31 December 2017 Ordinary shares
Alan Howarth	–	–
Bruce Leith	8,857,233	5,957,233
Sarah Payne	–	–
Ian Ritchie	677,000	–
Albert Sisto	9,683,333	9,183,333
Richard Turner (resigned 15 January 2018)	–	–

Directors' Report

For the year ended 31 December 2018

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

Significant shareholdings

As at 18 March 2019, 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	16,489,545	7.0%
Albert Sisto	9,683,333	4.1%
Bruce Leith	8,857,233	3.7%
Canaccord Genuity Group Inc	7,423,808	3.1%

Statement of directors' responsibilities

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

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

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

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

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 2018

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 25 April 2019.

Signed on behalf of the board

Sarah Payne
Director

18 March 2019

Corporate Governance and Compliance

For the year ended 31 December 2018

> "The stewardship and good governance of our Company remains a high priority for the Board."
>
> Ian Ritchie – Chairman and Senior Independent Director

Chairman's Corporate Governance Statement

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

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

Ian Ritchie has been Chairman, senior independent director and a director of the Board for 18 months. He has extensive experience as an independent director of listed companies and technology start up companies. Albert Sisto has been a Director of the Board for almost five years and CEO for over two years. He has over 25 years of experience at senior executive level and with security software companies.

The Board members are listed on page 22.

Board Evaluation

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

Board committees

Audit Committee

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

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

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

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

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

There were three Audit Committee meetings in 2018. These were fully attended by all members.

Remuneration Committee

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

The Committee's role is to set the remuneration for the Board including basic pay, any bonus awards and share incentive schemes; to agree the terms of employment of all Board members, including those on cessation of employment, ensuring all payments are fair to both the employee and the Company; to continue to review the appropriateness of the remuneration policies, with reference to the conditions across the Company and up to-date information in other companies and to ensure that all requirements on the disclosure of remuneration are fulfilled.

There were two Remuneration Committee meetings in 2018. One meeting was attended by the Chairman and one by all members.

During the year the Board and Audit Committee sought external advice on accounting policy and treatment. No other advice was sought by the Board or its Committees on a significant matter.

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

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. A dedicated email address is provided (info@ternplc.com) which is managed by the Company's financial public relations advisors. The Company may exercise discretion as to which questions will receive a response and all information provided will be freely available in the public domain. If necessary, the enquiries will be brought to the Board's attention.

The AGM provides an opportunity for shareholders, particularly private investors, to question the Board on issues arising in a formal setting and then informally immediately following the AGM.

Corporate Governance and Compliance

For the year ended 31 December 2018

Three shareholder calls per annum provide an opportunity for shareholders to put their questions to the Board. These calls provide a helpful way of presenting an update to the shareholders on a regular basis and addressing their questions by taking and answering questions posed to the directors through this forum.

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.

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

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

Ian Ritchie
Chairman

18 March 2019

Report on Directors' Renumeration (Unaudited)

For the year ended 31 December 2018

The Remuneration Committee submits its Unaudited Report on Directors' Remuneration for the year ended 31 December 2018.

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 2018.

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 2018 is detailed in the table below:

	Salary and fees £	Pension payments £	Other benefits £	Annual bonuses £	2018 Total £	2017 Total £
Alan Howarth	24,000	–	–	–	24,000	23,250
Bruce Leith	65,000	898	–	–	65,898	46,000
Sarah Payne	65,000	703	–	–	65,703	56,194
Ian Ritchie	30,000	–	–	–	30,000	17,500
Albert Sisto	84,473	–	–	–	84,473	68,445
Richard Turner	3,533	–	–	–	3,553	27,591
	272,026	1,601	–	–	273,627	238,980
Share based payment charge	165,267	–	–	–	165,267	118,048
Total remuneration	437,293	1,601	–	–	438,894	357,028

Unaudited Directors' share options

The Director's outstanding share options as at 31 December 2018 are shown in the table below:

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

Alan Howarth

18 March 2019

Independent auditor's report to the members of Tern Plc Opinion

For the year ended 31 December 2018

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 2018, 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 their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Overview of our audit approach

- Overall materiality: £164,000 based on draft figures, which represents 1% of the company's net assets;
- Key audit matters were identified for the company was the valuation of investments; and
- We performed a fully substantive based audit over the company's financial statements.

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.

Independent auditor’s report to the members of Tern Plc Opinion

For the year ended 31 December 2018

Key Audit Matters	How the matter was addressed in the audit
Valuation of investments A significant balance on the statement of financial position is Investments of £14.7 million as detailed in Note 11. Included in the Investments is an investment in Device Authority Limited that represents 79% of the total investments. The remaining value of investments relates largely to a new investment in the year of £1.9 million in Fundamental VR. These investments are in early stage businesses 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. There is a risk that the fair value of investments has 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:** • Challenging the methodologies used by management in conducting the investments valuation and challenging management to consider other valuation models in line with industry practice. We utilised the International Private Equity and Venture Capital Valuation (IPEV) guidelines to determine the reasonableness of methods used by management. The IPEV has been prepared with the goal that Fair Value measurements derived when using these guidelines are compliant with IFRS; • Testing the mathematical accuracy of the valuation calculations; • Testing the key inputs to the assumptions in the valuation methodologies, which were the price of the most recent funds raised, valuation of underlying assets and forecasts of future revenue. This was carried out by agreeing management’s analysis to supporting evidence and carrying out sensitivity analysis; • Considering the above methods in aggregate to gain comfort over the ultimate fair value recognised by management; • Incorporating our internal valuation experts into our team to assess the appropriateness of the valuation models used and the inputs and assumptions incorporated within those models; and • Evaluating the sufficiency of the disclosures for critical accounting estimates and judgements related to the valuation of the investments. 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. **Key observations** With respect to the company’s investments, management has used the aforementioned valuation models to estimate their fair value. We concur with management that there is no change in the value of the underlying Device Authority business.

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 work and in evaluating the results of that work.

We determined materiality for the audit of the financial statements as a whole to be £164,000 based on draft figures, which is 1% of net assets. This benchmark is considered the most appropriate when considering the nature of the business as the client have a significant value of investments on the statement of financial position. Moreover, this is used by readers of the financial statements to judge the performance of the company and is a key performance indicator for management.

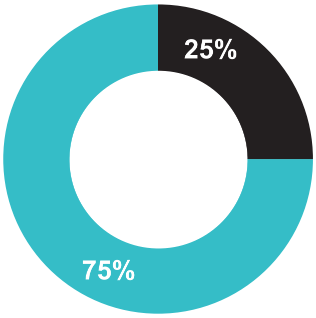
We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality.

Independent auditor's report to the members of Tern Plc Opinion

For the year ended 31 December 2018

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality



- Tolerance for potential uncorrected misstatements
- Performance materiality

We determined the threshold at which we will communicate misstatements to the audit committee to be £8,000. 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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, 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
- strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Independent auditor's report to the members of Tern Plc Opinion

For the year ended 31 December 2018

Matter 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, 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 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Nick J Watson
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
30 Finsbury Square, London, EC2A 1AG

18 March 2019

Income Statement and Statement of Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 £	2017 £
Turnover		106,117	97,940
Movement in fair value of investments		775,910	(757,705)
Gross profit/(loss)		882,027	(659,765)
Administration costs		(792,534)	(740,923)
Other expenses	6	(476,716)	(289,680)
Operating loss	7	(387,223)	(1,690,368)
Finance income	8	74,659	1,020
Finance costs		–	(207)
Loss before tax		(312,564)	(1,689,555)
Tax	9	–	–
Loss and total comprehensive income for the period		(312,564)	(1,689,555)

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

EARNINGS PER SHARE:

Basic and diluted earnings per share	10	(0.1) pence	(1.4) pence

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

Statement of Financial Position

As at 31 December 2018

	Notes	2018 £	2017 £
ASSETS			
NON-CURRENT ASSETS			
Investments	11	14,856,239	10,218,625
		14,856,239	10,218,625
CURRENT ASSETS			
Trade and other receivables	12	239,180	576,849
Cash and cash equivalents	13	1,913,801	273,826
		2,152,981	850,675
TOTAL ASSETS		17,009,220	11,069,300
EQUITY AND LIABILITIES			
Share capital	14	1,348,903	1,330,225
Share premium	14	19,660,434	13,237,362
Loan note equity reserve		–	123,482
Share option and warrant reserve		–	175,982
Retained earnings		(4,257,564)	(4,286,249)
		16,751,773	10,580,802
CURRENT LIABILITIES			
Trade and other payables	15	257,447	277,164
TOTAL CURRENT LIABILITIES		257,447	277,164
NON-CURRENT LIABILITIES			
Borrowings	17	–	211,334
TOTAL NON-CURRENT LIABILITIES		–	211,334
TOTAL LIABILITIES		257,447	488,498
TOTAL EQUITY AND LIABILITIES		17,009,220	11,069,300

The financial statements were approved and authorised for issue by the Board of Directors on 18 March 2019 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 2018

	Share capital £	Share premium £	Loan note equity reserve £	Warrant reserve £	Retained earnings £	Total equity £
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 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
Total comprehensive income	–	–	–	–	(312,564)	(312,564)
Transactions with owners						
Issue of share capital	18,678	6,861,072	–	–	–	6,879,750
Share issue costs	–	(603,000)	–	–	–	(603,000)
Conversion of convertible loan note	–	–	(123,482)	–	–	(123,482)
Transfer of lapsed warrants	–	–	–	(175,982)	175,982	–
Share based payment charge	–	–	–	–	165,267	165,267
Transfer on conversion of loan notes	–	165,000	–	–	–	165,000
Balance at 31 December 2018	1,348,903	19,660,434	–	–	(4,257,564)	16,751,773

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.

Warrant reserve

This represents the calculated value of the 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 2018

	Notes	2018 £	2017 £
OPERATING ACTIVITIES			
Net cash used in operations	21	(752,350)	(783,866)
Purchase of investments		(2,523,309)	(375,000)
Loan to investee companies		(1,033,316)	(402,436)
Net cash used in operating activities		(4,308,975)	(1,561,302)
FINANCING ACTIVITIES			
Proceeds on issues of shares		6,010,000	603,110
Share issue expenses		(603,000)	(125,156)
Proceeds from exercise of warrants		–	34,303
Proceeds from exercise of options		8,500	9,000
Proceeds on issue of loan note		550,000	550,000
Repayment of loan stock		(20,000)	–
Interest received		3,450	1,020
Net cash from financing activities		5,948,950	1,072,277
Increase/(Decrease) in cash and cash equivalents		1,639,975	(489,025)
Cash and cash equivalents at beginning of year		273,826	762,851
Cash and cash equivalents at end of year		1,913,801	273,826

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 2018

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 2018.

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

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

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

1.3 GOING CONCERN

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

The directors have a reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Company's financial statements. This has been assessed using detailed cash flow analysis so that the Board can conclude that the Company has sufficient working capital resources to continue for at least 12 months without any additional financing requirement. In the event that opportunities are presented such that additional funding was required, management are confident that they would be able to obtain additional funds from various sources.

Notes to the Financial Statements

For the year ended 31 December 2018

1. ACCOUNTING POLICIES (continued)

1.4 STATEMENT OF COMPLIANCE

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

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

- IFRS 16 Leases (issued on 13 January 2016 and effective for periods on or after 1 January 2019)
- 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 23 Uncertainty over Income Tax Treatments (issued in June 2017 and not yet endorsed)
- Amendments to References to the Conceptual Framework in IFRS Standards (issued in March 2018)
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) issued in February 2018
- Prepayment Features with Negative Compensation (Amendments to IFRS 9) effective for periods on or after 1 January 2019
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) effective for periods on or after 1 January 2019
- 1 January 2021 IFRS 17 Insurance Contracts effective for periods on or after 1 January 2021
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) effective date deferred

1.5 ADOPTION OF NEW AND REVISED STANDARDS

On 1 January 2018, the Company adopted International Financial Reporting Standard 9 Financial Instruments (IFRS 9). IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for: the classification and measurement of financial instruments, the recognition and measurement of credit impairment provisions, and provides for a simplified approach to hedge accounting. The Company has adopted the transition approach and therefore the option has been taken not to restate any comparatives. There has been no material change to the carrying value of any financial instruments or on any financial statement line items as a result of adopting this new IFRS.

On 1 January 2018, the Company adopted International Financial Reporting Standard 15 Revenue from Contracts with Customers (IFRS 15). The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period. The Company has adopted the transition approach and therefore the option has been taken not to restate any comparatives. There has been no material change to net assets or on any financial statement line items as a result of adopting this new IFRS.

1. ACCOUNTING POLICIES (continued)

1.6 TURNOVER

The Company has applied IFRS 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under IAS 18.

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

There is no variable consideration within the transaction price.

Rendering of services

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

1.7 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)

1.8 IMPAIRMENT OF FINANCIAL ASSETS

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

Under IFRS 9 no impairment testing is required for equity investments which are measured at fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). This is a change from the treatment under IAS 39, when assets were carried at fair value, but does not result in a material change in the net asset value or on any financial statement line items for the Company.

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

1.9 INVESTMENTS

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

In accordance with IFRS 10, par 4, investments are recognised at FVTPL in line with guidance set out in IFRS 9. In the prior year, the investments were recognised at fair value in line with guidance set out in IAS 39. The treatment in 2018 has not resulted in a material change to the accounting treatment adopted previously under IAS 39. Changes in foreign exchange rates impact investments valued in a foreign currency.

1.10 TRADE RECEIVABLES

Trade receivables are classified as a financial asset and are valued at amortised cost in accordance with IFRS 9. Previously, trade receivables were also measured at amortised cost under the category loans and receivables in accordance with IAS 39. Therefore, there is no material change in their treatment in the transition. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is calculated as the change in lifetime expected credit losses and recognised in the income statement, in accordance with IFRS 9.

1.11 CASH AND CASH EQUIVALENTS

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

1.12 TRADE PAYABLES

Trade payables are financial liabilities measured at amortised cost in accordance with IFRS 9. In previous years trade payables were measured at amortised cost in accordance with IAS 39 and therefore there is no material change in their treatment in 2018.

1.13 EQUITY INSTRUMENTS

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

1.14 CONVERTIBLE LOANS

Financial assets

Convertible loans provided to investment companies are evaluated with reference to IFRS 9. The convertible loan facility issued to Device Authority is a financial asset with multiple embedded derivatives and a warrant instrument. IFRS 9 permits the entire contract to be designated at FVTPL. The loan facility provided to flexiOPS is a financial asset designated at FVTPL. Assets are measured at fair value at each reporting date, with any movement in fair value taken to profit or loss for the year. In previous years the loans to investment companies were valued at fair value in accordance with IAS 39. There has been no material change in treatment with the transition to IFRS 9.

1. ACCOUNTING POLICIES (continued)

1.14 CONVERTIBLE LOANS (continued)

Financial liabilities

Convertible loans obtained as a means of finance for the Company are accounted for in line with IFRS 9. The convertible loan facility taken out in 2017 was a financial liability with multiple embedded derivatives. IFRS 9 (paragraph 4.3.5) permits the entire contract to be designated at FVTPL. The facility was available to draw down in tranches and fair value was assumed to be face value on issue of each tranche as the debt was issued at arms length and any fair value movement taken to profit or loss for the year. There has been no material change in treatment with the transition to IFRS 9. On issue of convertible loan notes with an obligation to issue a variable number of shares the Company accounts for the loan notes in their entirety as a liability. On receipt of a conversion notice from the convertible loan note holder, which results in the number of shares becoming fixed at that point, the company considers the liability to have been settled with an obligation instead to deliver to the note holders equity (i.e. a fixed number of shares). Therefore the total expense is calculated as the difference between the proceeds received on issue and the value of the fixed number of shares to be issued measured on the date the conversion notice is received.

This is a change in policy from the prior year, in 2017 the conversion point for the convertible loan note was assessed as the date admission of the shares took place. This year, the conversion point has been taken as the date the conversion notice was received. If this has been applied in the prior year, the £162,437 convertible loan balance in borrowings would have been reflected in an equity reserve. This is believed to be a more accurate reflection of the release of the legal obligation for the liability. The change in policy does not have a material impact on the prior year results.

1.15 SHARE BASED PAYMENTS

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

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

1.16 WARRANTS

All warrants are accounted for in accordance with IAS 32 – Financial Instruments. From time to time, the company issues warrants with a right to acquire a fixed number of the company’s own equity instruments for a fixed amount of currency. The warrants are assessed as equity instruments under IAS 32, based on the statement that a contract that will be settled by the entity delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash (IAS 32.22) is an equity instrument.

2. FINANCIAL RISK MANAGEMENT

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

Notes to the Financial Statements

For the year ended 31 December 2018

2. FINANCIAL RISK MANAGEMENT (continued)

2.1 FINANCIAL RISK FACTORS

The Company's financial instruments comprise its investment portfolio, loans to portfolio companies, cash balances, debtors and creditors that arise directly from its operations. There are also loan notes that do not arise from operations and are funding from investors. The Company is exposed to market risk through the use of financial instruments and specifically to liquidity risk, market price risk and credit risk, which result from the Company's operating activities.

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

Liquidity risk

The Company makes investments in private companies for the medium term. The Company manages this risk by holding cash to support its investments and for working capital. The Company ensures it has sufficient cash through a combination of means including proceeds from asset sales, equity raises and, in the past, the use of convertible loan notes. The financial performance and position of the investee companies are regularly monitored to assess when further investment may be required, this includes a review of cash flow forecasts. Whilst the Company has no quoted investments at present, if it holds such investments these may be sold to meet the Company's funding requirements.

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

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

As at 31 December 2018	Trade and other Payables £	Total £
6 months or less	257,447	257,447
6 months to 2 years	–	–
Total contractual cash flows	257,447	257,447

Market price risk

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

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

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

Foreign exchange risk

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

Credit risk

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

2. FINANCIAL RISK MANAGEMENT (continued)

2.1 FINANCIAL RISK FACTORS (continued)

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

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

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

2.2 CAPITAL RISK MANAGEMENT

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

The Company monitors capital on the basis of 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 to their fair values. The fair value of financial assets is based on an assessment of returns from the conversion or repayment of the loans. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

ESTIMATES

Fair value of financial instruments

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Device Authority has maintained its US dollar valuation compared to 2017 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 2019 trading forecast. This supported a valuation in line with 2017, although an exchange rate gain was recognised on translation at the balance sheet date. Although the US capital raise has not yet closed, fundraising activities continue in search for a key strategic US partner. The higher price used for these fundraising activities has not been reflected in the fair value assessment.

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

JUDGEMENTS

Investments held at FVTPL

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

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

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

4. SEGMENTAL REPORTING

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

In identifying its operating segments, management generally follows the Company's service lines which represent the main products and services provided by the Company. The directors believe that the Company's continuing investment operations comprise one segment.

Notes to the Financial Statements
For the year ended 31 December 2018

5. STAFF COSTS

Staff costs for the Company during the year, including directors	2018 £	2017 £
Wages and salaries	279,521	203,864
Consultancy fees	24,000	82,908
Social security costs	31,860	22,943
Share based payment charge	165,267	118,048
Total staff costs	500,648	427,763

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

	2018 No	2017 No
Directors	5	5
Employees	1	–
Total	6	5

DIRECTORS' AND REMUNERATION

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

	2018 £	2017 £
Directors' remuneration		
– Salaries and benefits	249,627	203,864
– Consultancy fees	24,000	82,908
– Share based payment charge	165,267	118,048
– Social Security costs	28,393	22,943
Total directors' remuneration	467,287	427,763
Total remuneration of the highest paid director (including share based payment charge) was	139,562	97,957

A summary of remuneration paid to each director, including pension payments, is included in the Report on Directors' Remuneration (page 29).

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

6. OTHER EXPENSES

	2018 £	2017 £
Share based payment (options)	165,267	118,048
Other provisions	88,868	71,000
One-off legal costs	57,581	100,632
Transaction costs associated with convertible loan note	55,000	–
Discount on issue of convertible loan note	110,000	–
	476,716	289,680

Notes to the Financial Statements

For the year ended 31 December 2018

7. OPERATING LOSS

	2018 £	2017 £
Loss from operations has been arrived at after charging:		
Remuneration of directors	467,287	427,763
Fees payable to the Company's auditor for services provided to the Company:		
– Audit services	27,400	25,000
– Audit related services	20,000	–
– Tax compliance services	3,500	3,500
– Tax advisory services	45,675	18,750
Fees payable by Device Authority to the Company's auditor for services provided to Device Authority[1]		
– Audit related services	8,250	8,000
– Tax compliance services	8,500	3,500
– Tax advisory services	–	5,500

[1] Device Authority fees are noted for information. They are paid by Device Authority Limited.

8. FINANCE INCOME

	2018 £	2017 £
Bank interest	3,450	1,020
Interest income in respect of shareholder convertible loan notes	3,567	–
Interest accrued on investment company's convertible loan notes	67,642	–
	74,659	1,020

9. TAXATION

	2018 £	2017 £
Taxation attributable to the Company	–	–

Domestic income tax is calculated at 19% (2017: 20%) of the estimated assessable profit for the year. The charge for the year can be reconciled to the loss per the income statement as follows:

	2018 £	2017 £
Loss before tax	(312,564)	(1,689,555)
Tax at domestic income tax rate	(59,387)	(337,911)
Expenses not deductible for tax purposes	65,409	179,835
Income not deductible for tax purposes	(123,479)	(3,524)
Unutilised tax losses	117,457	161,600
Tax (credit)/expense	–	–

The Company has unutilised losses of approximately £5.9 million (2017: £5.9 million) resulting in a deferred tax asset of approximately £1.2 million (2017: £1.2 million). The losses do not have an expiry date. The Company has not recognised a deferred tax asset in respect of these losses as there is insufficient evidence of future taxable profits. Most asset sales are expected to be exempt from taxation due to the substantial shareholding exemption (SSE).

10. EARNINGS PER SHARE

	2018 £	2017 £
Loss for the purposes of basic and fully diluted loss per share	(312,564)	(1,689,555)

	2018 Number	2017 Number
Weighted average number of ordinary shares:		
For calculation of basic earnings per share	217,221,165	124,586,665
For calculation of fully diluted earnings per share	221,079,230	124,586,665

	2018	2017
Loss per share:		
Basic and diluted loss per share	(0.1) pence	(1.4) pence

Note: The fully diluted loss per share for 2018 and 2017 is the same as the basic loss per share as the loss for the year has an anti-dilutive effect on earnings per share.

11. NON-CURRENT ASSETS

INVESTMENTS

	2018 £	2017 £
Cost of investments brought forward	10,218,625	10,601,330
Reclassification of convertible loan note from other debtors	1,270,753	–
Interest accrued on convertible loan note	67,642	–
Additions	2,523,309	375,000
Cost of investments carried forward	14,080,329	10,976,330
Fair value adjustment to investments	775,910	(757,705)
Fair value of investments carried forward	14,856,239	10,218,625
Fair value of equity investments	9,337,041	10,218,625
Fair value of convertible loans	5,519,198	–
Fair value of investments	14,856,239	10,218,625

The convertible loan facility issued to Device Authority is a financial liability with multiple derivatives and the entire contract has been designated at FVTPL, with any movement in fair profit or loss for the year. The convertible loan note has been secured with a charge over Device Authority's intellectual property.

Notes to the Financial Statements

For the year ended 31 December 2018

12. TRADE AND OTHER RECEIVABLES

	2018 £	2017 £
Trade receivables	38,958	100,714
Prepayments	22,874	5,683
Loan to investee companies	165,000	402,436
Other receivables	12,348	68,016
Total	239,180	576,849

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

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

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

13. CASH AND CASH EQUIVALENTS

	2018 £	2017 £
Cash at bank	1,913,801	273,826

14. ISSUED SHARE CAPITAL

	Number of shares No.	Nominal value £	Share premium £
ISSUED AND FULLY PAID:			
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 issued for cash	49,925,747	9,985	6,000,015
Ordinary shares issued on conversion of loan stock	43,364,285	8,673	852,577
Ordinary shares issued on exercise of share options	100,000	20	8,480
Share issue expenses	–	–	(603,000)
Transfer on conversion of loan notes	–	–	165,000
	271,264,206	1,348,903	19,660,434
At 31 December 2018			
Ordinary shares of £0.0002	236,676,887	47,335	
Deferred shares of £29.999	42,247	1,267,368	
Deferred shares of £0.00099	34,545,072	34,200	
	271,264,206	1,348,903	19,660,434

On 5 January 2018, 15,714,285 ordinary shares of 0.02p were issued on conversion of loan stock at 1.75p per share.

On 18 January 2018, 2,900,000 ordinary shares of 0.02p were issued to a director of the Company on conversion of loan stock at 1.25p per share.

On 22 January 2018, 11,000,000 ordinary shares of 0.02p were issued on conversion of loan stock at 2.5p per share.

On 22 February 2018, 13,750,000 ordinary shares of 0.02p were issued on conversion of loan stock at 2p per share.

On 13 March 2018 25,490,196 ordinary shares were issued at 2.55p per share for cash as the result of an unconditional placing raising £650,000 before expenses.

On 8 May 2018 3,783,784 ordinary shares were issued at 18.5p per share for cash as the result of a private placing, raising £700,000 before expenses.

On 14 May 2018, 9,459,460 ordinary shares were issued at 18.5p per share for cash as the result of a private placing, raising £1,750,000 before expenses.

On 19 June 2018, 100,000 ordinary shares of 0.02p were issued on exercise of options at 8.5p per share to an employee of a portfolio company as part of their remuneration package.

On 30 July 2018, 11,192,307 ordinary shares were issued at 26p per share for cash as the result of a private placing, raising £2,910,000 before expenses.

15. TRADE AND OTHER PAYABLES

	2018 £	2017 £
Trade payables	64,370	47,600
Accruals	185,138	201,580
Payroll control	–	18,699
Other taxes and social security	7,939	9,285
Total	257,447	277,164

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.

FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

Investments

All investments are determined upon initial recognition as held at fair value through profit or loss. Investment transactions are accounted for on a trade date basis. Asset sales are recognised at the trade date of the disposal. Assets are sold at their fair value, 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 measured at fair value in accordance with IFRS 9. This is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. Details of the valuation technique for each individual investment is set out in the Investment Report on pages 18 to 21.

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 arms 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.

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 2018 and 31 December 2017:

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

See note 11 for more detail.

31 December 2017	Level 1	Level 2	Level 3	Total
Investments (£)	–	–	10,218,625	10,218,625
Convertible loan notes (£)	–	–	382,436	382,436

The fair value assessment was made by the directors' using the price of the shares in the most recent fundraise, where this was available as well as an assessment of market valuations placed on comparable businesses, a review of the underlying asset values and a review of the sales pipeline and forecast to support any valuation applied. The fair value of the investment in Device Authority includes an assessment of the probability of each possible redemption or conversion scenario and accounting for this within the overall fair value assessment. This includes conversion on a qualifying fundraise, conversion on an exit and redemption at a premium. If the probability of the most sensitive variable varies by 1% the impact on the overall valuation is approximately £40,000.

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

Financial instruments at amortised cost

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

17. BORROWINGS

	2018 £	2017 £
Shareholder Loans	–	48,897
Convertible unsecured loan note	–	162,437
	–	211,334

CONVERTIBLE LOAN NOTE	2018 £	2017 £
Liability brought forward	162,437	–
Loan notes issued	550,000	550,000
Loan notes converted	(712,437)	(275,000)
Loan notes transferred to equity	–	(112,563)
Liability at 31 December	–	162,437

17. BORROWINGS (continued)

SHAREHOLDER LOANS	2018 £	2017 £
Liability brought forward	48,897	104,440
Loan notes converted	(48,897)	(55,336)
Interest charge	–	(207)
Liability at 31 December	–	48,897

18. SHARE BASED PAYMENTS

OPTIONS

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

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

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

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

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

The table below lists the inputs to the model used for the options granted in 2017:

	Directors
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 £165,267 was expensed in 2018 (2017: £118,048) in respect of the options granted, of this £165,267 (2017: £118,048) related to equity settled options issued to directors in 2017.

18. SHARE BASED PAYMENTS (continued)

The share options held as at 31 December 2018 are set out in the table below:

	Outstanding at 31 December 2017	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2018	Option Price	Exercisable on or before
Directors	7,500,000	–	–	–	7,500,000	8.5p	18 May 2027
	250,000	–	–	–	250,000	13p	22 Feb 2023
Total Directors	7,750,000	–	–	–	7,750,000		
Other	900,000	–	–	–	900,000	9p	15 Feb 2022
	200,000	–	100,000	–	100,000	8.5p	18 May 2027
	250,000	–	–	–	250,000	15p	16 Dec 2020
Total Options	9,100,000	–	100,000	–	9,000,000		

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

19. WARRANTS

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

The number of warrants outstanding at 31 December 2018 was as follows:

Date of issue	At 31 Dec 2017	Issued	Exercised	Lapsed	At 31 Dec 2018	Exercise Price per share	Exercisable on or before
07.10.16	18,214,277	–	–	18,214,277	–	12.0p	12.04.18
	18,214,277	–	–	18,214,277	–		

20. RELATED PARTY TRANSACTIONS

Device Authority Limited, a company in which Tern has a controlling shareholding, is also considered a related party. During the year Tern invoiced Device Authority Limited £20,000 (2017: £20,000) in respect of management services. At the year-end Tern was owed £36,000 in trade receivables by Device Authority Limited (2017: £12,000). Tern has also provided a convertible loan note to Device Authority Limited. As at 31 December 2018, £1,270,753 was outstanding (2017: £382,436).

flexiOPS Limited, a company wholly owned by Tern, is also considered a related party. During the year Tern invoiced flexiOPS £30,000 (2017: £60,000) in respect of management services. As at 31 December 2018 Tern was owed £nil in trade receivables by flexiOPS Limited. Tern has also provided a working capital loan to flexiOPS Limited. As at 31 December 2018, £165,000 was outstanding (2017: £20,000).

InVMA Limited, a company in which Tern has a 50% shareholding, is also considered a related party. During the year, Tern invoiced InVMA Limited £39,700 (2017: £67,651) in respect of management services. As at 31 December 2018, Tern was owed £2,958 in trade receivables by InVMA Limited.

FVRVS Limited, a company in which Tern has a 34.7% shareholding, is also considered a related party. During the year, Tern invoiced FVRVS Limited £19,249 (2017: nil) in respect of legal services. There were no amounts outstanding to or from the company at 31 December 2018.

20. RELATED PARTY TRANSACTIONS (continued)

During the year, Alan Howarth & Associates Limited, a company in which Alan Howarth has a controlling shareholding, invoiced the Company £24,000 for management services (2017: £23,250). There were no amounts outstanding to or from the company at 31 December 2018.

Some of the executive directors made payments of £27,950 in total to the Company in respect of tax liabilities resulting from gains accrued on the conversion of directors' convertible loan notes.

21. CASH FLOW FROM OPERATIONS

	2018 £	2017 £
Loss for the year	(312,564)	(1,689,555)
Adjustments for items not included in cash flow:		
Movement in fair value of investments	(775,910)	757,705
Share based payment charge	165,267	118,048
Transaction costs associated with convertible loan note	55,000	–
Discount on issue of convertible loan note	110,000	–
Interest income accrued	(71,209)	–
Finance expense	–	207
Finance income	(3,450)	(1,020)
Operating cash flows before movements in working capital	(832,866)	(814,615)
Adjustments for changes in working capital:		
(Increase)/decrease in trade and other receivables[1]	100,233	(73,898)
Increase/(decrease) in trade and other payables	(19,717)	104,647
Cash used in operations	(772,350)	(783,866)

[1] Excludes loans to investee companies

22. OPERATING LEASE COMMITMENTS

	Year to 31 Dec 2018 £	Year to 31 Dec 2017 £
Lease payments under operating leases recognised as an expense in the year	42,855	18,600

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

	31 Dec 2018 £	31 Dec 2017 £
Land and Buildings:		
Within one year	27,181	26,040

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 IFRS 9 categories of financial asset included in the statement of financial position and the headings in which they are included are as follows:

	2018 £
FINANCIAL ASSETS:	
Cash at bank	1,913,801
Financial instruments at amortised cost	
Trade receivables	38,958
Loans	165,000
Other receivables	12,348
Fair value through profit or loss (FVTPL)	
Investments	14,856,239

The IAS 39 categories of financial asset included in the statement of financial position and the headings in which they were included in 2017 are as follows:

	2017 £
FINANCIAL ASSETS:	
Cash and bank balances	273,826
Loans and receivables	
Loans	402,436
Other receivables	168,730
Fair value through income statement	
Investments held for trading	10,218,625

23. FINANCIAL INSTRUMENTS (continued)

FINANCIAL LIABILITIES MEASURED AT AMORTISED COST:

The IFRS 9 categories of financial liabilities included in the statement of financial position and the headings in which they are included are as follows:

	2018 £
Trade and other payables	64,370
Accruals	185,138
Borrowings	–

The IAS 39 categories of financial liabilities included in the statement of financial position and the headings in which they were included in 2017 are as follows:

	2017 £
Trade and other payables	66,299
Accruals	201,580
Borrowings	211,334

24. EVENTS AFTER THE REPORTING PERIOD

On 14 January 2019, $240,000 was paid to Device Authority in the form of a convertible loan note.

On 19 February 2019, a further $160,000 was paid to Device Authority in the form of a convertible loan note.

Providers of these loan notes were also issued with 2.6 warrants for each USD 1 of loan notes subscribed.

25. ULTIMATE CONTROLLING PARTY

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

Notice of 2019 Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2019 Annual General Meeting of Tern plc ("the Company") will be held at 9.30 am on Thursday 25 April 2019 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 2018, 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. Sarah Payne retires by rotation, in accordance with the Articles of Association of the Company, having consented to be considered for re-appointment, and is hereby re-appointed as a director of the Company.

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

SPECIAL BUSINESS

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

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

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

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

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

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

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

Notice of 2019 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
18 March 2019

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 23 April 2019, 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 23 April 2019, 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 23 April 2019.

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.

Perivan Financial Print 253353

tern

27/28 Eastcastle Street
London W1W 8DH

e: info@ternplc.com
t: 020 3807 0222
ternplc.com