tern

Report & Accounts

For the year ended
31 December 2020

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

We work with and invest in entrepreneurs who are passionate about creating ground-breaking IoT technologies which transform the healthcare, manufacturing and security sectors whilst benefiting business, the environment and society.

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

The size of our initial investment ranges from £250,000 to £5 million, but most often falls between £0.5 million and £2 million.

Leadership

Founded in 2013, Tern plc is an AIM quoted investment company based in London and Silicon Valley, which backs bold entrepreneurs who have a vision to drive change through IoT technology.

Our team includes former founders, CEOs and CTOs of successful technology companies who have domain expertise covering a range of different areas including cryptography, distributed systems to industrial controls, security and financial services.

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

Go-to-Market Expertise

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

One Team and a World of Opportunity

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

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

Key performance indicators

- Continued growth in NAV per share
- Third party (syndicated) investment in the portfolio companies
- A liquidity event for at least one portfolio company covering at least part of Tern's holding
- Instill ESG into our portfolio and new investments
- Growth in portfolio company performance: growth in aggregated turnover of portfolio companies
- Growth in portfolio company performance: growth in employee numbers, coupled with growth in turnover by employee

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

Company Information

DIRECTORS	Ian Ritchie Albert Sisto Sarah Payne Bruce Leith Alan Howarth Matthew Scherba (appointed on 30 March 2020)
SECRETARY	Sarah Payne
REGISTERED OFFICE	27/28 Eastcastle Street London W1W 8DH
COMPANY’S REGISTERED NUMBER	5131386
AUDITOR	Nexia Smith & Williamson 25 Moorgate London EC2R 6AY
NOMINATED ADVISER AND JOINT BROKER	Allenby Capital Limited 5 St. Helen’s Place London EC3A 6AB
REGISTRARS	Share Registrars Limited The Courtyard 17 West Street Farnham Surrey GU9 7DR
BANKERS	Handelsbanken plc 3rd Floor 86 Jermyn Street London SW1Y 6JD
CORPORATE LAWYERS	Reed Smith The Broadgate Tower 20 Primrose Street London EC2A 2RS

Highlights of 2020

- Robust reaction to the COVID-19 pandemic by Tern and its portfolio companies, safeguarding employees, investments and carefully managing liquidity
- Despite a challenging environment due to the global pandemic, there were notable commercial successes in each of the portfolio companies, particularly during the last quarter of the year
- Initiated a portfolio CEO round table twice a month, attended by Tern board members, to share experiences, initially in relation to COVID-19 and this has developed into ongoing strategy sessions to share vision and best practice
- Net asset growth of 27% and increase in net asset per share to 7.3p (2019: 7.0p)
- Even during a year of uncertainty, portfolio companies continued to deliver with aggregate year-over-year turnover growth of 18%
- Further validation of business model through a net £2 million fair value uplift, £2.6 million achieved for Wyld Networks, partially offset by £0.4 million foreign exchange loss on translation of Device Authority investment
- New investment in data technology company, Talking Medicines, in November 2020
- Additional capital raised of £4.5 million before expenses with £2.0 million of this invested in 2020 in portfolio companies including the £0.86 million investment in Talking Medicines, to enable growth and generate third-party interest.

31 December	**2020 £'000**	2019 £'000
Net Assets	**24,001**	18,913
Investments	**21,905**	17,883
Profit/(Loss) after tax	**804**	(781)
Net asset value (NAV) per share	**7.3p**	7.0p

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Chairman’s Introduction

For the year ended 31 December 2020

“Productivity has been maintained and all our portfolio companies have continued to win new business despite the difficult economic climate”

I am pleased to report that our portfolio of companies in the Internet of Things (IoT) sector continue to perform well despite the challenges thrown up by the global pandemic.

Our mission remains to identify, invest in and support entrepreneurial companies to develop IoT solutions which improve productivity, connectivity and security and within that objective we are increasingly embracing the strongly growing industrial and medical fields (IIoT and IoMT).

As with all other companies, our businesses activities have been affected by the COVID-19 pandemic and since the pandemic began, almost all work for the last year has been performed by staff working from their homes. I am pleased to report, however, that productivity has been maintained and that all our portfolio companies have continued to win new business despite the difficult economic climate.

The strength of our management teams has helped our businesses to progress and cope with the uncertainty that has arisen and the Tern team has taken an active role in helping our portfolio companies, particularly through the difficult first half of the year when most adjustments had to be made quickly. As part of these support mechanisms, we instituted a regular video call attended by all the company CEOs where they have an opportunity to share their progress and challenges with their peers and share practical advice, support and identify opportunities to partner on projects.

I was particularly pleased that we were able to add to our portfolio this year with our new investment in Talking Medicines, a company that promises to revolutionise the ability of the world’s pharmaceutical companies to engage more effectively with their customers. With much of their technology already in place, our investment is aimed at enabling them to productise and grow their market substantially. I would also like to highlight the exciting developments at Wyld Networks, which through its Wyld Connect Satellite IoT solution it has developed, and is now undertaking, a key part of the delivery of communications technology via emerging constellations of low earth orbit satellites.

As a board, we have been examining our portfolio with a view to the ESG (environmental, social and governance) criteria they exhibit. These standards measure the ethical impact and sustainability of investment in a company. I am pleased to say that our portfolio’s activities score well in this regard. It was particularly welcome that our latest investment, Talking Medicines, is a female-led business.

I would like to take this opportunity to thank all of our Tern executives for their hard work over the year as, along with most other enterprises, we have been unable this year to meet together in person. Their determination to manage ‘business as usual’ in these circumstances has been admirable.

We remain proud to enable access for our shareholders to share in the opportunities and value offered by exciting high-growth IoT companies, and we look forward to the further development of our portfolio companies and identifying new attractive investment opportunities in the future.

Ian Ritchie
Chairman

CEO's Statement

For the year ended 31 December 2020

"In 2021 we accelerated our transformation to becoming a leader in IoT investments by pooling our expertise and networks to help our companies adapt to an ever-changing world"

Introduction

2020 was an important year strategically for Tern. Our portfolio companies demonstrated increased traction as we accelerated our transformation to becoming a leader in IoT investments by pooling our expertise and networks to help our companies adapt to an ever-changing world. We accomplished this without compromising on results, to generate value for our shareholders. In these unprecedented times our portfolio companies have demonstrated resilience and their teams the proven agility to maintain the momentum needed to grow and build great companies. We continued to progress the honing of our business model to create a portfolio of synergistic companies that leverage each other's resources, experiences and technologies to facilitate growth, reduce risk to our shareholders and attract new investment opportunities. We remain committed to providing UK entrepreneurs with more than just the capital they need to become global leaders. With our hands-on approach, the benefit of our experience, our network of industry specialists and access to the resources they require to become global leaders, we believe that we can facilitate significant value creation. At the same time, we provide investors in Tern with exposure to a diversified range of investments in the fast-growing IoT markets of healthcare and industrial 4.0, by giving them access to high growth, privately owned technology companies, while still providing liquidity to this generally unavailable class of assets.

During the year we maintained our emphasis on building on this momentum, despite the hardships created by the pandemic. In 2020, we have assisted our companies to recruit the best talent in their segments to ensure that they have the infrastructure to support growth. We achieved success in finding the best resources available across the portfolio, including the addition of Peter Stephens as the new CEO of InVMA, while maintaining our dedication to the founding teams. We also remained committed to building best-in-class practices and processes at Tern, to strengthen the integrity and agility of our investment methodology. A methodology that is built upon sharing our know-how with our exciting businesses to help them successfully navigate through the very challenging current environment and prepare to operate in the 'new normal'.

Performance

I am very pleased with the performance of the Company and how the portfolio performed in the year. Early in the year, we were pleased to see Seal Software acquired by DocuSign, providing an almost two times return on investment. We set aggressive targets for our KPIs at the start of the year in the areas we believe demonstrate business growth and expansion, prior to the pandemic impacting every aspect of business and society. Despite the market backdrop, the Tern portfolio still delivered critical growth. During the year, we recorded a net asset growth of 27% and increased our net asset per share to 7.3p from 7.0p. Gross year-over-year turnover of the portfolio companies grew by 18%, a key metric, while maintaining a cautious eye towards expenses. During the year the employee base of the portfolio companies was unchanged, reflecting the quality and 31% expansion of the employee base in 2019. All of these metrics exclude the incremental growth in Talking Medicines since investment.

At the year end, Tern's assets under management were £21.9 million, up from £17.9 million at the end of 2019, following investments in portfolio companies amounting to £2 million. Our total operating costs for 2020 were £1.5 million compared to £1.3 million in 2019, driven by an increase in administration costs. The majority of this cost increase compared to 2019 was due to a new investment director, Matthew Scherba, joining the Company in December 2019.

Income from our portfolio companies was comparable to the previous year at £151,159 (2019: £124,766). As an operating principle, the Company does not charge high fees for access to our expertise or as invested capital is put to work within our portfolio companies to drive growth and value creation. Total investment income increased by £1.7 million, or 412%, from £0.4 million in 2019 to £2.1 million in 2020. The fair value increase was driven primarily by the Wyld Networks fair value uplift recognised of £2.6 million after an offset of foreign exchange losses. Specifically, Device Authority is valued in US dollars and because of the pound strengthening during 2020 this resulted in a £0.4 million non-cash exchange rate loss as compared to a £0.6 million non-cash exchange rate loss in 2019.

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Other expenses include costs relating to share based payment charges and recharged legal costs to the portfolio companies which increased in the year primarily due to our investment into Talking Medicines.

As a result, the Company is pleased to recognise a profit of £803,891 in 2020 compared to a loss of £780,643 in 2019, resulting in an earnings per share of 0.3p.

Early in the year and of critical importance, the Company was able to strengthen its balance sheet with a capital raise of £0.8 million, before expenses, despite the challenging environment created by the global pandemic. This, along with the £1.5 million fundraise in July 2020, helped protect the portfolio from the business uncertainties as a result of the pandemic.

Additionally, we were delighted to successfully complete an oversubscribed fundraise via our broker and a PrimaryBid retail offer, raising a total of £2.2 million, before expenses, in November 2020. We were very pleased by the broad interest in this fundraise and we appreciated the strong interest by retail investors who participated. We are humbled by their support and look forward to continuing to put our expertise to work for our shareholders by generating significant value from our unique assets.

We are in a strong financial position entering 2021 with total capital raised during 2020 of £4.5 million, before expenses, with £2.0 million of this invested during 2020 to enable growth, generate outside interest and to take advantage of disruptive opportunities in the fast-growing IoT environments of Healthcare and Industry 4.0.

COVID-19

COVID-19 became world news in January 2020 and it has since grown to affect nearly every country on earth, becoming a global pandemic. We have all experienced the impact personally in the ways we live and work. Governments around the world implemented lock downs and controls in attempts to limit the spread of the disease. These necessary actions by governments, however, dramatically upended the operations of many businesses across the globe, creating the necessity to rapidly adapt, use new working methods and constantly innovate to achieve their business ambitions.

Tern was quick to react to this challenge of COVID-19 and leveraged the synergies of our portfolio by creating a round table of our portfolio CEOs and Tern's Board to share ideas, measure employee welfare and respond to what has become the 'new normal'. We established a solidarity between our portfolio company leaders and quickly created safe and productive working environments to maintain momentum. In particular, we focused our ecosystem's customers and partners on the new opportunities created by the accelerated adoption of digital IoT technology due to the pandemic.

As is often attributed to Albert Einstein, "in the midst of every crisis, lies great opportunity" and we endeavoured with the management of our portfolio companies to address the changing needs and reflect the opportunities available. Participating with our companies individually and at our round table has enabled Tern to solidify its important advisory role by helping our CEOs maintain their core teams and to rapidly create new solutions for their customers to address the digital transformation and contactless requirements.

The CEO round tables continue to be held in 2021 and have helped produce an opportunity rich environment in our targeted IoT markets with new and existing customers and partners, resulting in a new investment for the Company, new business wins and a healthy pipeline of future opportunities for our portfolio. One example of this is where a portfolio company CEO has made an introduction to their customer which has resulted in a potential opportunity for another portfolio company.

The Tern Board see the results from the round table going beyond the original objective of maintaining momentum and they are now an integral part of generating value and synergies across the portfolio.

I am delighted by the developments by our portfolio companies in 2020 and this momentum has continued into 2021. I believe that we are well positioned to benefit from the continuing long-term trends and this will generate significant value for Tern's shareholders.

I am especially grateful to all those who have worked from home to continue to deliver support and services to their customers, colleagues and business partners, while observing the strict guidelines imposed and maintaining their family life.

Portfolio Highlights

Most of our companies spent much of the first half of 2020 focused on re-engineering how they do business, so it is pleasing to see just how fully they recovered by the end

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of the year. In our portfolio update announcements, we have highlighted the recent performance of Tern's portfolio companies. We believe that as a result of our early work to create cohesion between our CEOs to manage the turbulence created by the COVID-19 pandemic and the emphasis we placed on our portfolio company leadership to create a solidarity with their customers and ecosystems partners, our aggregate portfolio sales momentum that began during Q3 2020 only strengthened in Q4.

For the fourth quarter most of our portfolio companies exceeded their quarterly targets, reflecting both their accelerating development and signalling that enterprise customers are back in buying mode.

Device Authority

At Device Authority we saw the further expansion and development of its relationship with Microsoft. Adding some key integration and complimentary value to the Microsoft Azure platform in the Azure Marketplace has resulted in securing joint customers using these new capabilities.

Device Authority showed year-over-year turnover growth with some key sales wins in the healthcare, industrial and automotive markets, working with Microsoft Azure, Wipro and nCipher (now EnTrust) as key technology partners.

Device Authority also continued to build its brand and platform recognition, via commentary in a number of important analyst and industry reports from firms like Forrester and the SPARK matrix report from Quadrant.

We expect Device Authority to continue to accelerate its annual recurring revenue growth with its subscription base and its new modularised license platform, KeyScaler. As we return to the new normal, Device Authority plans to expand and grow its resources in North America and the EMEA markets during 2021. Healthcare and industrial, with a focus on automotive, continue to be the primary areas for investment and growth, whilst continuing to build and expand its Microsoft Azure partnership and providing additional value to its customers with new KeyScaler Azure innovations during the year.

InVMA

InVMA strengthened its senior management team in mid-2020 with the addition of Peter Stephens, an experienced leader of applications software companies, as CEO. We believe Peter is the right person to lead InVMA's evolution to a product centric business. During 2020, InVMA began to scale up its Industrial IoT connected asset SaaS product, AssetMinder®, from several initial pilot customers to create product adoption momentum moving into 2021. InVMA is now experiencing expanded interest from much larger industrial customers who are looking to connect large numbers of assets to AssetMinder®, particularly as the COVID-19 crisis accelerated the need for contactless monitoring of factory and remote assets.

InVMA has also expanded its go-to-market capabilities. It began the year selling through one channel partner and expanded through 2020 to sales now via four channel partners across Europe and the USA. Entering 2021, its sales pipeline is an order of magnitude greater than it was at the beginning of 2020, creating the opportunity for the expansion of revenues and the global deployment of AssetMinder®, through both new and existing users.

FundamentalVR

At our portfolio company FundamentalVR, we experienced the most impact from the global pandemic, as it changed the priorities of care, but also impacted the delivery and adoption of new procedures and medical devices. Traditional methods no longer worked in a contactless world and we believe will not in the 'new normal' as the crisis dramatically accelerated the plans for an adoption of digital methods. In the second half of 2020 FundamentalVR experienced expanded interest in its platform from new customers and repeat sales to its existing customer base. The most significant use for FundamentalVR was to provide pharma and medical companies' customers continued and active engagement with their medical user base. Showing great agility, FundamentalVR launched its unlimited multiuser remote collaboration capability 'Multiuser VR' to train the customers' sales forces and create master class capabilities, activities that were previously done face to face. FundamentalVR has experienced strong interest and adoption of its platform as a result, having had a record fourth quarter in 2020. During the year, FundamentalVR also launched into the ophthalmology marketplace utilising its precision HapticVR capability, showcasing this breakthrough simulation technology with Novartis and Orbis. We believe this very specialised area of surgery, requiring unique instruments that need a high degree of feel by a surgeon, is an important proof point for the haptics capability developed by FundamentalVR and a potential game changer for the precision procedure healthcare markets.

We believe the adoption by the market will accelerate in 2021 as FundamentalVR's customers and its competitors need to quickly replace the traditional methods of distribution and training. FundamentalVR was also successful in expanding the recognition of its brand and relevance to the market. During 2020 FundamentalVR became the first and only Haptics VR simulation business to achieve full centre accreditation with the Royal College of Surgeons as well as procedure accreditation (for its orthopaedic procedures) from the American Academy of Orthopaedic Surgeons. The recognition of the quality of FundamentalVR's simulation and education content from these two groups are significant proof points of its platform and its importance to the business of medicine and the opportunity to generate better patient outcomes.

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Wyld Networks

Wyld Networks made important progress in 2020 with the continued commercialisation of Wyld Connect, its terrestrial LPWAN IoT module, securing further commercial deals with existing and new customers, specifically addressing one of the issues hampering the growth and roll out of IoT applications, notably a lack of affordable global wireless connectivity. As a result, Tern recognised an increase in fair value of £2.6 million at 31 December 2020 to take its holding valuation to £4 million, which was supported by an external fundraise valuation post year end. During the year, Wyld signed a contract with a large global satellite operator to jointly develop a hybrid satellite and terrestrial LPWAN IoT Module with the ambition to create an affordable, easy to implement, commercial solution for deployment in 2021 connecting IoT devices and sensors directly to a Low Earth Orbiting (LEO) satellite constellation.

Wyld also launched Wyld Mesh and Fusion in 2020, which is a unique solution for delivering location aware, relevant and actionable content over 4G, WiFi and mesh networks for a range of applications in retail, venues, hospitality, transportation and smart factories. In light of the COVID-19 pandemic, Wyld pivoted the deployment of Wyld Mesh and Fusion during the year to also provide a solution to manage, monitor and alert social distance practices in healthcare and education. We believe this to be a critical benefit for governments and healthcare and we remain steady in our belief that the traditional market application for Wyld Mesh and Fusion will be realised as retail, large venues and hospitality emerge back to business in the 'new normal' during 2021.

During the second half of 2020, Wyld Networks successfully adopted a go-to-market strategy of using resellers across the globe to help promote and commercialise Wyld solutions. Wyld signed reseller agreements with multiple parties including ASCOM, a global ICT solution vendor, Alliance Corporation based in North America and Wezen in LATAM. These are significant proof points of the global appeal and relevance of their products and create a large force for their revenue generation efforts.

Talking Medicines

Talking Medicines, our most recent investment undertaken in November 2020, embarked on the pivotal final developments to create proprietary AI, ML and NLP models to capture and translate what people post about their medicines on social media into medical speak. This work has been completed, market tested and has also resulted in filing a patent for its breakthrough IP.

Based on feedback from paying pharmaceutical customers in 2020, the data offering from Talking Medicines, including AI capabilities, has now been launched as the new PatientMetRx service providing AI driven social intelligence by medicine. Talking Medicines has enhanced its branding and is phasing a global launch to commercial marketeers in pharmaceutical companies.

Following investment by Tern in November 2020, I have joined the Talking Medicines board as non-executive chairman and with our early capital the employee base has been strengthened with key hires in product management, engineering and data quality.

Talking Medicines' ambition in 2021 is to establish the PatientMetRx data service as the gold service standard provider of intelligence on patient experience by medicine. Driven by its specialised AI, it has the goal of driving better patient outcomes and a better understanding of the use of the specific medicines by the prescribers and distributors.

Strategy and opportunity - Investing for future growth

Our goal remains to become the leading investment company specialising in the IoT sector by unlocking disruptive opportunities others overlooked or did not have the expertise to develop to deliver significant returns for their stakeholders and Tern shareholders. These private companies are generally investments not available to public company investors. We also bring our years of experience and our network of contacts, including our direct access to the Silicon Valley ecosystem. We provide more than money and work to become trusted mentors for our entrepreneurs to help stimulate ideas that can prove to be the difference between a company flourishing or crashing. As a key pillar of our strategy, we provide battle-tested knowledge of how to tackle startup issues and work constructively with our entrepreneurs to help focus or pivot their business to achieve repeatable growth and category leadership.

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An important element of our investment strategy focuses on creating deal flow from the entrepreneur community, the wider IoT ecosystem and other investors with similar interests. We aim to find the most innovative private IoT technology companies in the UK with the potential to become global leaders. The Tern team reviews hundreds of companies' business plans a year and takes a more in depth look at about ten to fifteen with enterprise values less than £10 million. We generally seek to invest in product proven UK IoT technology companies with customer validation to mitigate the product development risks. As part of our strategy to build value, we start with a small initial investment at the seed or late seed stage round with mutually agreed performance targets. We typically participate in follow-on A series round, where we target bringing in new investors. Investment in this manner enables the Tern team to utilise its experience to help professionalise the management team with key hires at an early stage, provide access to potential customers, partners, future sources of capital and potential acquisitions.

How we decide on which companies pass through our filter process centres on leveraging the deep technological knowledge of the Tern team and its advisors to identify those companies we believe to have and use market disruptive technologies that will create value over a time horizon of the next five years or more.

Our approach takes a market sector view and then rather than researching industries or specific products, we focus on understanding the game changing technologies that will create sustainable growth by the start-ups that deploy them.

We are focussed on two broad market categories, healthcare and industrial IoT, because of their strategic importance to governments and society. The significance of which was highlighted by the pandemic and high profile cyber security breaches.

These two sectors also represent fast growing markets with the greatest total available market of installed devices and the critical applications that use them. For example:

Healthcare:

- The IoT healthcare market size is projected to reach US$534.3 billion by 2025, expanding at a CAGR of 20% between 2019 and 2025[1]

Industrial:

- The global Industrial Internet of Things (IIoT) market is expected to reach a value of US$110.6 billion by 2025[2]

Tern divides its analysis of these by technology, not sector, as both are leading the way in digital transformation. This transformation is led by the key market drivers of society's desire for a better environment, governments' desire to recapture control of strategic industries and large enterprises' desire to improve their customers' experience. At Tern we are seeking out entrepreneurs who share our passion for change and who lead businesses that use technology to create differentiated positioning.

Using our experience, advisors, and network of contacts we centre our interest in the following areas of technology that we believe will help shape the future of healthcare and the modern industrial world.

Tern's current five areas of primary interest are:

1) Cryptographic innovations in credential management and blockchain;
2) Next generation internet access and distribution of data and services;
3) Autonomous action from machine learning (ML), natural language processing (NLP) and artificial intelligence (AI);
4) Autonomous process control and condition management/monitoring; and
5) Innovations in haptic and human sensory applications and devices that measure (collect data), instruct and improve targeted outcomes.

Each area is abounding with companies that are seeking to develop paradigm-changing technologies. At Tern, we are looking at and investing in the very few who we believe have passionate leadership, a clear market changing ambition and position, with global aspirations. Keeping to our broad five-year horizon, we believe the Tern portfolio today is diversified across sectors and geographies, using technologies in novel and ground-breaking ways that are relevant and will be attractive to much larger enterprises who need new sources of revenue from state-of-the-art products and services.

We remain one of a small number of companies with the resources to provide support to early-stage businesses to help them succeed and benefit from the key technology trends, particularly as part of the post COVID-19 recovery. We are continuing to see a strong pipeline of exciting opportunities and look forward to maintaining our patient and targeted investment process.

Our portfolio holdings are held at fair value, with the value created unlocked in time through third-party investments and ultimately the exit from our holdings.

Sustainability

Central to our business philosophy is to do the right thing in every facet of our business. We are committed to further incorporating environmental, social and governance best practice into our own operations and those of our investee companies, building on our existing business culture.

1. Grand View Research, Inc, March 2019
2. Marketsandmarkets, Industrial IoT (IIoT) Market by Device & Technology (Sensor, RFID, Industrial Robotics, DCS, Condition Monitoring, Networking Technology), Connectivity (Wired, Wireless, Field Technology), Software (PLM, MES, SCADA), Vertical, Region - Global Forecast to 2025

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The Board is committed to the importance of ESG and has made ESG a standing agenda item at our Board meetings with the goal of emphasising ESG best practices in our portfolio and new investments. The Board is committed to generating positive change and sustainability both in our own business and within our approach to new investments and our existing portfolio companies. With a focus on IoT, specifically healthcare and industry 4.0, our portfolio companies continue to address some of the world's biggest challenges by contributing to a healthier, more environmentally friendly and energy efficient society. As an investing company focused on the innovative uses of the key elements of IoT, AI, ML, VR-haptics and security in the healthcare and industrial markets, ESG is a critical consideration to meeting our objective to outperform the traditional venture capital models by achieving above market-rate financial returns. By extending our ‘hands on’ model to ESG management, we believe we will achieve an added synergy to our portfolio resulting in improved productivity and better customer outcomes for our target segments.

We believe our strategy of finding and developing the best-in-class entrepreneurial IoT companies and technologies, enhanced by our commitment to ESG will enable Tern to deliver positive economic, social and environmental impacts, through our investments, that help transform our societies for the better.

Summary

We are pleased with progress made by our portfolio companies during these very difficult and uncertain times. The Board believes the pragmatism developed early on during the pandemic to sharpen the focus and resources on key markets and customers will accelerate the trend to the cloud and contactless solutions for healthcare and industry which our portfolio businesses focus on.

We enter the new financial year with a resilient and tested portfolio and remain optimistic to carry the positive momentum generated in the second half of 2020 across the portfolio into the new year.

The Tern team, further strengthened during the year with the appointment of Matthew Scherba as an investment director, remains committed to building a portfolio of exceptional companies to deliver above average value creation to our shareholders.

Key to our progress was and will be the stewardship of the Tern team to help mobilise our investee companies to leverage their synergies alongside their customers and partners to face the crisis and to become more relevant. The Board remains confident about the long-term prospects for the company and our portfolio and would like to thank both our new shareholders and long-term holders for their support and confidence in our business model and our companies.

Albert Sisto
CEO

Our Markets

The pace of IoT adoption is accelerating, requiring scalable solutions which enhance service delivery, increase security and facilitate the delivery of real-time data.

Investing in the future

We are focused on the market opportunities created by the enablement of the Internet of Things (IoT), particularly in the healthcare and industry 4.0 segments. These are market segments where our team's years of experience, specific domain expertise and involvement as technology entrepreneurs can be leveraged and where the vast majority of installed devices and applications are in use as a subset of the 'all in' IoT market described below.

Our focus on healthcare and medical is driven by the opportunity size. The global internet of medical things (IoMT) market is expected to grow to US$142.45 billion in 2026, up from US$18.75 billion in 2018[3] and the industrial IoT ("IIoT") market is expected to grow from US$77.3 billion in 2020 to US$110.6 billion by 2025[2], a CAGR of 7.4% over the period.

Our Definition of the IoT

IoT is the combination of hardware and software with the internet to create a more technically driven environment to improve outcomes, reduce costs, increase safety, and provide for better operating environment insights and decision making. IoT is a network of internet-connected digital devices and the applications that employ them. These devices' purposes are to collect and exchange data using the various sensing technologies embedded within them.

IoT Market Overview

The global IoT market is expected to reach a value of US$1,386 billion by 2026 from US$761 billion in 2020 at a CAGR of 10.53%, during the period 2021-2026[4]. IoT systems and solutions are iterating rapidly, and providers are meeting more and more companies' and consumers' needs. Business Insider Intelligence expects there to be more than 41 billion IoT devices in use worldwide by 2027, up from an estimated 8 billion at the end of 2019.

This growth is due to the advances in new technologies in various wireless networking products, the refinement of artificial intelligence (AI) and machine learning (ML) technologies, the application of augmented and virtual reality, the emergence of advanced data analytics, an increase in cloud platform adoption and the adoption of new cyber security technologies. As a result, we believe the market will continue to grow for many years.

2. Marketsandmarkets, Industrial IoT (IIoT) Market by Device & Technology (Sensor, RFID, Industrial Robotics, DCS, Condition Monitoring, Networking Technology), Connectivity (Wired, Wireless, Field Technology), Software (PLM, MES, SCADA), Vertical, Region - Global Forecast to 2025
3. Fortune Business Insights, 2019

Key Market Drivers

Hardware Advancements

- The devices that power IoT solutions are growing more affordable each year, allowing solutions to proliferate. The average price of an IoT sensor could fall below US$0.25 by 2025 according to data from Goldman Sachs and Business Insider Intelligence (March 2020). These devices benefit from efficiencies of scale and improved procedures as the IoT has matured and gone from niche use cases to a widely adopted business practice.
- The continued development of lower-powered IoT devices with minimal or no battery requirements which do not need to be replaced or updated, make it simpler to deploy and manage IoT systems in the field.

Networks Advancements

- There has been a proliferation of mesh networks where multiple devices are connected to one another on a mesh network. Each device acts like a router, spreading data around for transmission to create multiple pathways to move data from device to server. This makes the network resilient even if some devices fail.
- The rollout of low power wide area networks (LPWANs) continues. These IoT-specific networks will enable more efficient devices to be employed in accelerating numbers. These networks will support the growth of the cellular IoT, with Ericsson forecasting that LPWAN technologies NB-IoT and LTE-M alone will account for 52% of the estimated 5 billion global cellular IoT connections by 2025.

Platform Advances

- Keeping solutions secure is one of the top challenges facing all IoT providers of devices, networking, and applications. Companies using large-scale enterprise solutions need to know that their operations will continue unhindered, that the integrity of their devices remain unaltered and their data will stay where it is supposed to remain. Consumers likewise want devices to maintain their privacy and only share information with those they authorise.

4. Mordor Intelligence 2019

Our Markets

Technology Advances

- Artificial Intelligence (AI), Natural Language Processing (NLP) and Machine Learning (ML) are critical systems technologies that are rapidly evolving to provide IoT users with the tools they need to analyse mountains of data and quickly discern usable insights, while edge computing solutions are growing more central to IoT discussions and increasingly sophisticated as companies seek to reduce data transmission costs and lower latency.

Venture Capital Market

UK and European Investment Ecosystem

UK and European investments have continued to gain interest from a global perspective, as the number and size of deals continues to increase. There has also been an increase of high-growth businesses, with 2020 creating 18 new US$1 billion companies in Europe[5]. Although exit numbers still trail those of US-based companies, the UK and Europe is now producing unicorns as quickly as the US, with seed funded companies across both regions having ~1% chance of reaching these valuations.

The UK and Europe continues to gain technological presence on the global stage, where historically the fintech and insurtech sectors were the primary focus. Companies developing AI, Big Data and NLP solutions are seeing increased investment, in addition to remote monitoring and intelligence driven solutions in the healthcare sector. Early-stage valuations are also lower in Europe compared to their US counterparts, however this gap continues to close as more capital invests in these sectors.

Following a dramatic slowdown in the first half of 2020, UK and European venture investments picked up again in Q3 and Q4, putting 2020 only 4 percent lower[6] in aggregate, and at comparative levels to 2019 for early-stage investments. The fourth quarter last year, which is typically a slower funding period due to the holiday season, was the strongest quarter over the past two years. It was also the second highest funding amount by year into European startups over the past decade.

Seed funding amounts in European startups have been fairly consistent over the past five quarters, with the value per investment increasing as the number of deals has declined.

Summary

Tern continues to seek out new investment opportunities and help guide our existing portfolio within the backdrop of adoption of IoT technology across the industry 4.0 and healthcare segments. These are driving market growth and by applying this market focus, develop a fast-growing portfolio of investments. Both segments are at the forefront of a digital transformation resulting from IoT advancements and their response to COVID-19 that are fuelling the next industrial and medical revolution centered around intelligent connectivity.

IoT for Industry 4.0 is at the apex of new technological approaches and products for development, production, and plant management. Entrepreneur led companies are leveraging these massive shifts in manufacturing and are helping large enterprises adopt agile, smarter, and more innovative ways to advance, with technologies changing the way industries approach increasingly complex processes to improve efficiency and reduce downtime.

Moreover, owing to the outbreak of COVID-19, IoT investment and deployments are accelerating in healthcare. The major disruptions in global healthcare and supply chains, governments, hospitals, insurers and logistics providers have accelerated the digital transformation as they react quickly to a more connected world in the new contactless normal. Every aspect of the healthcare industry has had to find new ways to develop and deliver products to providers of medical services and in kind, provide the care givers new ways to maintain and improve their level of services, creating new opportunities for entrepreneurs.

IoT technology helps connect smart devices together to ease the operation and sharing of data. The increasing number of smart devices, such as sensors, smartphones, and wearables, which collect necessary data from the devices are further utilised to enhance patients' experiences.

We remain steadfast in our goal to become the pre-eminent UK-based choice for access to smart capital to help and guide these companies on the journey to success. Our success will be driven by our years of experience, broad network of contacts and our hands-on approach, coupled with the synergies existing within our portfolio. Our specific IoT market focus enables Tern to harness the value created to provide our shareholders access to great companies and returns.

5. Dealroom.co
6. Crunchbase news

Investment Strategy

For the year ended 31 December 2020

Early-Stage Technology Investment Opportunities

Tern provides individual and institutional investors with early access to emerging IoT technology businesses through our growing portfolio of visionary technology entrepreneurs that we back with capital and support, helping them to realise their goals of revolutionising some of the most important challenges across the biggest industries in the world.

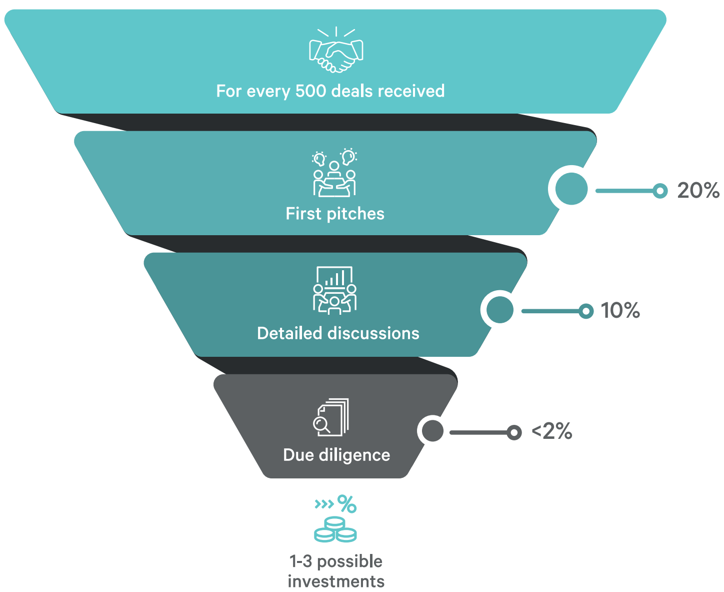
We offer an alternative approach to venture capital, typically leading late seed, early series-A stage equity rounds where we are often the first professional investment that companies receive, combined with active operational and board-level support from our decades of experience in growing businesses that improves their chances of success. We make a small number of investments, so that our collaborative model of applying experience and expertise empowers entrepreneurs to connect the dots between vision, strategy, product and commercial market growth. We inspire the development acceleration of their products, propositions and entry into the UK, European and US markets, combined with increasing access to further global capital to facilitate scale. Tern's alternative support model extends from our initial investment through to exit.

We source deals across the UK and Europe, as the European technology ecosystem continues to grow in global influence. We proactively identify technology that solve the big challenges of shaping the future from across our expanding network of start-ups, strategic corporates, investors, institutions and universities. Breakthrough technologies have no borders, and we leverage our global networks to accelerate our portfolio's market entry across the UK, Europe and the US.

We embrace the diversity, skills and capabilities of entrepreneurs, adapting our support to suit each company's specific requirements for achieving their ambitious goals. Our strategy is dynamic, enabling the agile transformation that companies will experience as they evolve and expand. The ability to rapidly adapt in unfamiliar markets creates market leadership opportunities, as 2020 has reinforced.

Our early-stage strategy enables Tern to take meaningful positions, incrementally invest and become strategically and operationally involved to catalyse the growth. This balanced approach is designed to invest in technology businesses at the stage of minimum viable product with customer validation to help reduce technology and market risk, while still enabling Tern to acquire meaningful equity positions. The typical investment horizon for early-stage investments in our sectors is 5-7 years for companies to reach their full potential, unlocking their value in the form of an IPO or trade sale. While realising exits is seldom linear, the maturity of our portfolio is well balanced across these investment horizons.

We continued to identify and investigate exceptional new technology companies, as our investment funnel shows.



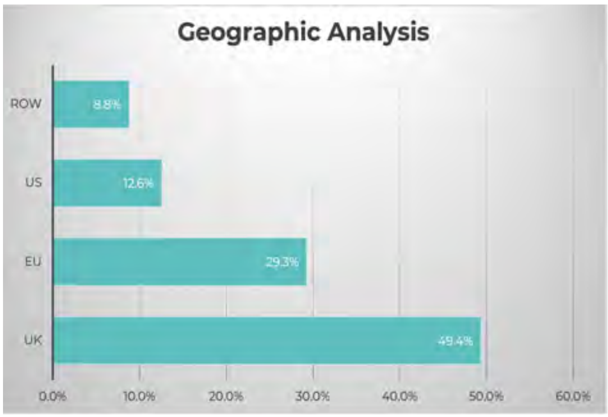
Investment Strategy

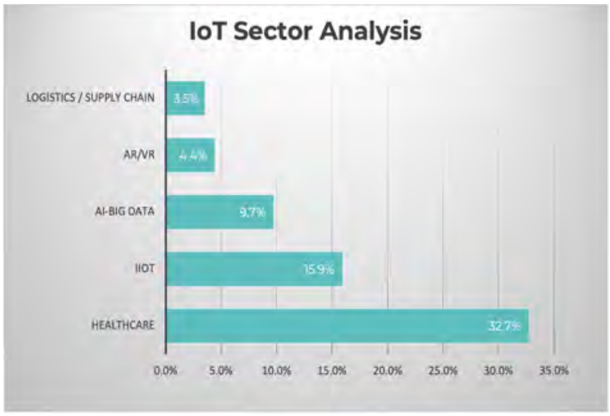
For the year ended 31 December 2020

To identify possible investments, Tern reviews hundreds of propositions to discover those with the best potential. While Tern made only one investment with Talking Medicines in 2020, it was not a normal year, and the exogenous Covid-19 impact had a number of unprecedented effects:

1. Investments in Q2 and into Q3 were significantly curtailed across venture capital
2. The UK and EU Governments created significant access to easy capital in the form of grants and loans
3. Sector valuations rapidly and widely shifted

The companies that Tern has reviewed in 2020 proved incredibly varied across geographies and sectors. We received opportunities from 30 countries, with the UK and EU (including Israel) accounting for nearly 80%. Healthcare and IIOT were the top sectors, with a number of companies converging across sectors, as with our investment in Talking Medicines. Many of the companies were globally topical, and of relevant interest to Tern.





IoT, including deep tech sectors

Tern's investments are focused on IoT including deep tech enablement technologies that leverage Artificial Intelligence (AI), Machine Learning (ML), haptics, virtual reality and Natural Language Processing (NLP). It is our belief that these are the strategic sectors at the forefront of innovation, where technology can have the biggest global impact. These sectors have also experienced some of the most significant growth during the global pandemic, where sensing, remote monitoring and intelligence has proven more relevant than ever before. Tern's directors have decades of professional experience across their sectors, providing portfolio companies with the industry expertise, insights and global networks to fuel their growth.

2020

2020 changed the way we live and work beyond recognition. It was a year of extremes, completely halting some sectors, while unimaginably accelerating other technologies and sectors in unanticipated ways. As with most venture capital firms, our primary focus during the first half of 2020 transitioned to supporting existing portfolio companies in an unknown environment, with indeterminate timelines and a new dynamic of working and collaborating. We increased our efforts to:

- Support existing portfolio companies and strengthen their market position
- Facilitate broader knowledge sharing and communication between portfolio companies
- Further develop our strategic model, and network, to support our ability to scale
- Maintain investment valuation discipline, and strengthen our methodologies and due diligence process

Although the impact of COVID-19 affected Tern's 2020 planned investment strategy, the impact to our engagement with disruptive early-stage technology companies continued unabated.

2021 Opportunity Landscape

It has already been an encouraging start to 2021, as Tern continues to see healthy deal flow of innovative companies across our key investment sectors, that will continue to drive shareholder value and are thematically complimentary to our existing portfolio.

We continue to unearth progressive entrepreneurs with the creativity, global vision and determination to solve big challenges differently. Those with the vision and grit to roll up their sleeves and do what it takes to succeed, yet with the humility to know they cannot get there alone. Founders who can develop defensible proprietary technology, and build progressive team cultures that are collaborative, purposeful and inclusive. Those that know technology will fundamentally change the world, but understand that succeeding is a marathon not a race, so come prepared with the intellect, resiliency and resourcefulness to endure.

Strategic Areas of Investment

The last year has reinforced Tern's market positioning with investing in early-stage IoT innovation, including deep tech, that is addressing the needs of the sustainable future economy in vital sectors such as healthcare and industrial 4.0. Global behaviours are shifting, and as the focus on a more sustainable economy and carbon neutrality continues to gain momentum, it will be increasingly driven by technological innovation.

Proactive Sourcing

Over the past year, Tern has proactively increased its deal sourcing capability, by strategically identifying new market opportunities, growing referral networks and participating in innovative new programmes that align with global themes, such as Tern's acceptance on Innovate UK's Transforming Food Production Partnership Programme.

We are working with Innovate UK, as part of UK Research and Innovation, in an innovative matched funding programme specifically designed for start-ups developing technologies that are working towards net zero emission productive food systems addressing one of the United Nation's Sustainable Development Goals of transforming food production.

Healthcare has also been a sector of focus for Tern's proactive sourcing activity, as COVID-19 has dramatically accelerated this sectors transition. Digital transition creates a continuous stream of new opportunities, and the pandemic has only accelerated this trend which from our view is a permanent shift to the way healthcare will be delivered in the future.

Funding Ambitious UK and EU Companies

We review hundreds of companies to invest in the most ambitious entrepreneurs reimagining innovation, offering Tern's shareholders with early access to the next generation of global leaders. Our investments provide the necessary capital for rapid early development, and combined with our operational model, instils the necessary structure, capital controls, and processes that are foundational to building scalable businesses. Seed-stage investments require patient capital, as companies and markets mature, they will invariably require further capital to fuel their next stage of growth. Tern aims to follow our investments on subsequent rounds, led by other syndicated investors. This strategy aims to mitigate the risks of early stage investing, while maximising the value of our investments for shareholders and enabling our portfolio companies to realise their full growth potential through to acquisition or IPO.

Operational Support

Tern invests more than just capital, we bring decades of deep sector strategic and operational expertise in providing the connections, guidance and support that early-stage companies require. We typically take a board seat to guide strategy, structure and financial controls, and then provide the hands-on support to help them tactically execute. Our model leverages our decades of entrepreneurial domain experience to accelerate the development of disruptive products and services to create market advantage that fuels rapid adoption across the UK, European and US markets.

Investment Strategy

For the year ended 31 December 2020

Global Network

Our global network extends from our careers in IoT and deep tech sectors and includes engagement from sector leaders who challenge conventional thinking and offer early insights that shape global trends. By maintaining these strong links with strategic corporates, partners and investors across Europe, the USA and into Asia, we help our portfolio companies accelerate their international growth and reducing the time, effort and risk into understanding product market fit, growth channels and next round funding. Our cross pollination of knowledge and expertise internally between our portfolio companies has continued to increase collaboration, collective-thinking and leadership, which has been even more relevant over the past year.

Investment Criteria

We invest in visionary seed-stage founders, as these are the sectors of our domain expertise and where we believe the most significant future opportunities will emerge. We invest in:

- IoT, including deep tech, companies at the pre/at-revenue stage;
- who have the innate drive to create imaginative technology solutions that solve meaningful global challenges;
- that can build motivated teams that are able to tactically execute on a global scale; and
- understand the value of our support model that extends from initial investment through to exit.

Our investment focus is on B2B companies in the IoT sector using advance technologies to create disruptive opportunities, particularly in the areas of healthcare and industrial.

Geography

We invest in the UK and Pan-European, operating from both London and Silicon Valley, with a focused investment thesis that supports portfolio growth primarily across these regions. The breadth of our connections across the UK, Europe and the USA, form robust community to develop rewarding, responsible and sustainable global companies.

Investing Policy

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

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

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

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

The new capital available to the Company will be used to support and assist its investee companies to grow, where appropriate, and used to locate, evaluate and select investment opportunities that offer satisfactory potential capital returns for shareholders. The Company may require further funds in order to invest further in its portfolio companies and take up these opportunities. It is the intention of the directors to undertake further fundraising, if such an opportunity should arise. The Company's investments may take the form of equity, debt or convertible instruments. Investments may be made in all

Investment Strategy

For the year ended 31 December 2020

types of assets falling within the remit of the Investing Policy and there will be no investment restrictions.

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

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

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

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

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

Financial Review

For the year ended 31 December 2020

> The Company and its portfolio companies acted prudently to preserve cash reserves and finished the year with a strong final quarter as strong traction emerged across the portfolio

During the year ended 31 December 2020, Tern has continued to build on the strategy of providing investors with access to some of the best private IoT technology focused companies in the UK. The year was impacted by COVID-19 related uncertainty and an increased risk level, particularly early in the year. However, the Company and its portfolio companies acted prudently to preserve cash reserves and finished the year with a strong final quarter as strong traction emerged across the portfolio. During the year the Company successfully completed three equity fundraises, including a PrimaryBid offering and our portfolio companies continued to progress, including an external fundraise and significant value uplift for one.

New equity capital of £0.8 million was raised in March 2020 to strengthen the balance sheet and was fortuitously timed just before the beginning of the lockdown in the UK, providing a strong balance sheet to manage the uncertainty faced by the Company and its portfolio companies. The portfolio companies weathered the worst of the uncertainty well and emergency funding was not required. In July 2020, a further £1.5 million was raised which enabled a £0.9 million investment in Talking Medicines in early November 2020. In November 2020 a further £2.2 million was raised, £0.5 million of this via PrimaryBid, enabling all shareholders to participate in the fundraise. With a strong balance sheet, the Company has been able to maintain its influential holding at its existing portfolio companies and invest in a new portfolio company in a key area of focus for the Company as well as continue to progress pipeline opportunities with credibility.

As an investment company, Tern does not consolidate the results of its portfolio companies and instead holds the companies on the balance sheet as assets. The fair value of these assets is assessed at the balance sheet date with reference to previous fundraises or investment valuation, a comparison to transaction multiples in comparable market sectors and an evaluation of the 2021 sales pipeline.

The value of the Company's investment holdings has increased from £17.9 million at 31 December 2019 to £21.9 million at 31 December 2020. The investment valuation includes additional investments of £2.0 million, including the addition of Talking Medicines and fair value growth of £2.0 million. This primarily comprises a £2.6 million fair value gain for Wyld Networks offset by a £0.4 million exchange rate loss on the Device Authority investment. Device Authority is valued in US dollars and the pound strengthened during 2020 resulting in a £0.4 million exchange rate loss. This compared to a £0.6 million exchange rate loss in 2019.

Net assets increased by 27% to £24.0 million at 31 December 2020 (31 December 2019: £18.9 million) and include a strong cash balance of £2.1 million. There is no debt on the balance sheet.

Cash and cash equivalents increased by £1.1 million in the year, ending the year at £2.1 million (2019: £1.0 million). This was after £1.2 million cash used in operations, £2.0 million invested in the existing portfolio companies, £0.1 million from the sale of Seal Software and a net £4.2 million raised through three equity fundraisings.

Income Statement and Statement of Comprehensive Income

Revenue from the portfolio companies remained fairly stable at £151,159 (2019: £124,766). The Company does not charge high monitoring or board fees to ensure capital is not deducted at source and is instead reinvested in the portfolio companies to drive value creation. Total investment income increased to £2.1 million (2019: £0.4 million) a £1.7 million increase compared to 2019. This has been driven primarily by the fair value uplift for Wyld Networks offset by foreign exchange losses on the revaluation of the investment portfolio.

Overheads overall were fairly stable at £1.5 million in 2020 (2019: £1.3 million). This consisted of administration costs of £1.3 million and other expenses of £0.2 million. The administration costs included a £0.25 million increase in directors' fees compared to 2019. Matthew Scherba joined in December 2019 and pension contributions and a performance related bonus were paid to directors for the first time. These increases were partly offset by the 20% reduction in fees taken by all directors for six months of

Financial Review

For the year ended 31 December 2020

the year. This action was taken to ensure a strong balance sheet was maintained during a period of heightened uncertainty.

Other expenses include costs relating to a share based payment charge for options issued in 2019 and 2020 and recharged legal costs to the portfolio companies which increased in the year due to the acquisition of Talking Medicines.

Events after the end of the reporting period

On 28 January 2021, it was announced that Wyld Networks had completed a £0.75 million fundraise at an increased valuation. The Company's investment in Wyld Networks is now valued at £4.1 million, which included an additional investment of £0.15 million by Tern in this round.

Key performance indicators

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

The return on investments:

Unrealised fair value:

- Device Authority: £12.8 million valuation (2019:12.7 million): The valuation has increased due to additional investment in the Company via convertible loans, offset by a foreign exchange loss when converting the investment to sterling. The fair value has taken into consideration the most recent fundraise in April 2016 and the valuation has been independently verified this year;
- InVMA: £1.2 million valuation (2019: £1 million): The equity value of InVMA increased due to additional investment in the company via convertible loans. The investment is valued at a fair value which has been based upon the most recent equity fundraise in September 2017. This valuation has been assessed as reasonable, taking into consideration the current performance of the company;
- Wyld Networks Limited: £4.0 million valuation (2019: £0.9 million): The equity valuation has increased due to additional investment in the company via convertible loans and a fair value uplift based on the recent equity fundraise in January 2021;
- FundamentalVR: £3 million valuation (2019: £3 million): The investment value remains unchanged and is held at fair value where the price of the most recent valuation in October 2019 has been taken into account;
- Push Technology: £34,205 valuation (2019: £34,205): The investment is unchanged and valued at fair value with the price of the most recent valuation taken into account;
- Talking Medicines: £0.9 million valuation (2019: n/a): This is a new investment in the year and is held at fair value with the purchase value in November 2020 taken into account; and
- These investee companies are early stage businesses in evolving markets where there is a lack of comparative businesses available on which to provide a comparable valuation and therefore value has been based on an assessment of numerous factors which includes the 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 2021 sales forecast. This valuation has been supported by an independent valuation undertaken this year.

The net assets of the Company at 31 December 2020 were £24.0 million (2019: £18.9 million). The net asset value per ordinary share as at 31 December 2020 was 7.3p (2019: 7.0p).

Investee company turnover growth: the year-over-year growth in the aggregate revenue of our portfolio companies increased by 18% from 2019 to 2020 (27% from 2018 to 2019) which provides an indication of growth in the overall portfolio. This growth was achieved against a backdrop of extreme uncertainty caused by the global pandemic.

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

Portfolio company employee number growth remained unchanged from 2019 to 2020 (31% from 2018 to 2019), highlighting a prudence in managing costs during a period of risk and uncertainty.

Sarah Payne
CFO

Business Risks

For the year ended 31 December 2020

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 weekly to review ongoing trading performance for both the Company and the portfolio companies, discuss budgets, forecasts, opportunities and new risks associated with ongoing trading. The Board regularly reviews operating and strategic risks and the effectiveness of the Company's risk management and related control systems, with the assistance of its committees. No system can fully eliminate risk and therefore, the understanding of operational risk is central to the management process.

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

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

Business Risks

For the year ended 31 December 2020

Risk		Potential Impact	Mitigation Strategy
Reliance on key people	The Company is unable to retain key individuals or recruit high calibre team members.	Disruption for the Company or its investment companies as new individuals take time to gain an understanding of the investment company's strategy and requirements.	The Company offers a remuneration package designed to attract, motivate and retain key individuals. Key individuals in the portfolio companies are offered an attractive remuneration package and either shares or share option incentives.
Liquidity	The Company is unable to raise new funds due to a reduction in investor confidence or access to capital. The timing of portfolio company realisations is uncertain and cash returns to the Company are therefore not predictable.	Reduction in ability to invest in new opportunities or ability to maintain holdings in existing investments. May have detrimental impact on Company's ability to fund operational costs.	The Company will maintain a sufficient cash balance to finance itself for a prudent period or ensure it has access to funds. The financial performance of the Company is a standing agenda item at the Board and regular working capital reviews are undertaken.
Legal and regulatory risk	UK exit from European Union and ongoing trade negotiation.	New trade agreements may impact on investors' confidence and therefore risk access to capital. Detrimental impact on performance of investment companies with exposure to the European Union.	The Company monitors its working capital to ensure it has sufficient funds to maintain operations during any economic slow down. The Board has taken legal advice on the Company's exposure to Brexit-related risks and continues to monitor the impact of the trade discussions.
Foreign exchange risk	The valuation of investments may be impacted by foreign exchange movements.	The value of the Company's holding could fall.	The Company actively reviews the value of investments and will consider action on foreign exchange risk where relevant, following advice from advisors. The Company does not currently operate hedging arrangements to mitigate exposure to currency fluctuations, but relationships are in place with foreign exchange service providers in the event the Board decides to make such arrangements.
Increased competition	As the IoT sector becomes more mature, it will attract increased interest from entities competing with the Company for investment opportunities.	This may have a detrimental impact on the Company's ability to execute investments at an acceptable cost. The Company may lose investment opportunities if it does not match investment prices and terms offered by competitors but equally it may experience decreased rates of return if it matches unfavourable terms.	The Company seeks to mitigate competition by having a diverse pipeline of opportunities and a proven track record of successful experiences with its portfolio companies. The management team has a strong track record of providing opportunities in the USA for UK technology companies which should remain attractive to potential investors.

Business Risks

For the year ended 31 December 2020

Risk		Potential Impact	Mitigation Strategy
Shareholder impact	As a public company listed on AIM, anyone can acquire shares in the Company.	The actions of shareholders are outside of the control of the Company but can impact on the Company by association.	The Board maintains regular interaction and communication with all its stakeholders and seeks to openly articulate its culture and strategy to shareholders at regular points through the year.
COVID-19	Economic impact of COVID-19 affects performance of the Company and its portfolio companies.	Widespread sickness in the workforce of the Company and/or portfolio companies may reduce the operational effectiveness of the business. Future lockdowns may cause the closure or delay of customer business and revenue streams which impacts on operational activities of the Company and its portfolio companies. Given the change in ways of working there is an increased reliance on IT availability, capability and resilience for both the Company and portfolio companies. Maintaining systems and having the ability to resolve issues remotely is critical.	The Company will maintain a sufficient cash balance to finance itself for a prudent period, or ensure it has access to funds. Ongoing close cooperation with the portfolio companies ensures any impact on operational effectiveness can be mitigated by additional operational support if required. Due to the sectors of focus for the Company operations, the impact of COVID-19 is likely to be less acute than for other sectors more directly affected. As a technology focused business, the Company and its staff can operate effectively from home for a reasonable period of time. The Company has a cloud-based IT infrastructure and access to virtual meeting facilities.

Assessment of business risk

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

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

Investment Report

For the year ended 31 December 2020

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

Portfolio Companies

Device Authority Limited ("Device Authority")

Market segment: Internet of Things (IoT)

Fair value:	Cost: £7.4 million	Valuation: £12.8 million

Consists of:

Equity ownership: 56.8% 'A' shares, 12,406 'B' shares

Convertible loan with a balance outstanding of £2.9 million

Valuation is based on a probability analysis of the potential outcomes relating to the conversion or redemption of the convertible loan note, translated at the exchange rate at the balance sheet date. The fair value was supported by an evaluation of a combination of factors, including the price of shares in the most recent fund raise (April 2016), a comparison to transaction multiples in comparable market sectors and an evaluation of sales pipeline and 2021 trading forecast. The valuation has also been independently prepared and the value held falls within the range provided in the independent report.

Device Authority is a global leader in Identity and Access Management (IAM) for the Internet of Things ("IoT"); focused on the automotive, medical device (IoMT) and industrial (IIoT) sectors. Device Authority's KeyScaler™ platform provides zero touch provisioning and complete automated lifecycle management for securing IoT devices and data at scale. Their patented KeyScaler™ platform delivers unrivalled simplicity, flexibility and trust to secure IoT devices at scale, with frictionless deployment across device provisioning, authentication, credential management, policy based end-to-end data security/encryption and secure OTA and HSM updates. KeyScaler™ is system agnostic, and protects their customers' global IoT deployments at the edge, in the cloud and integrating into complex policy-driven requirements, independent of the customers' proprietary hardware and software environments. KeyScaler™ is deployed both direct, and through key platform and system integrator partners such as Microsoft, Wipro, EPS Global/Intrinsic ID.

"Tern continues to be a supportive investor to Device Authority, leveraging industry contacts across our focus sectors of automotive, industrial IoT and healthcare, spurring further growth opportunities. Over the past 12 months as we all navigated the impact of COVID-19, the collaboration across Tern's portfolio of companies has also been insightful. With direct leadership from the Tern team, and the interaction with the other senior leaders, the strategic discussions around the market uncertainties has helped to clarify and progress into a 'new normal', and one focused on market relevance, growth and success."

Darron Antill
CEO, Device Authority

For more information visit: www.deviceauthority.com

Investment Report

For the year ended 31 December 2020

InVMA Limited ("InVMA")

Market segment: Sensor based applications

Fair value: Cost: £1.2 million Valuation: £1.2 million

Consists of:

Equity ownership: 50%

Convertible loan with a balance outstanding of £0.2 million

Valuation is based on a combination of factors including an assessment of sales pipeline and 2021 trading forecast.

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

"Tern continues to be a valued partner and trusted advisor to InVMA as we launch and expand our AssetMinder® SaaS Industrial product into new verticals and into new international markets. Tern has been with us every step of the way with sound advice, drawing on very relevant experience and helping InVMA to professionalise our business further and to deliver a robust B2B SaaS offering. We have been pleased with Tern's valuable contributions on our board as well as the input from the greater Tern team on a range of commercial, strategic, technical, fundraising and operating considerations in various portfolio working sessions and fortnightly Tern and portfolio CEO meetings. Tern has a very good foundation when advising companies at our stage of development and they have provided tangible value to us on a consistent basis. We believe our future is bright with the support of Tern."

Peter Stephens
CEO, InVMA

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

Investment Report

For the year ended 31 December 2020

FUNDAMENTALVR

FVRVS Limited ("FundamentalVR")

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

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

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

FundamentalVR provides the Company with exposure to the rapidly growing medical simulation market using low cost open-system IoT devices. Their proprietary HapticVRTM platform replaces wet labs and cadaveric training with remote, collaborative training to accelerate life science product adoption.

"Tern's decision to provide seed finance and series A support provided FundamentalVR the funding to enhance our platform and create a market leading solution for Life Science companies. Whilst COVID-19 initially impacted the medical marketplace, FundamentalVR has seen strong demand in 2020 and this momentum has carried forward into 2021.

We are making significant progress in our mission to deliver highly effective HapticVR solutions for our clients to aid in their faster deployment of cutting edge surgical and pharma medical procedures."

Richard Vincent
CEO, FundamentalVR

For more information visit: www.fundamentalvr.com.

Wyld

Wyld Networks Limited ("Wyld")

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

Fair value:	Cost: £1.3 million	Valuation: £4.0 million

Consists of:

Equity ownership: 97%

Convertible loan with balance outstanding of £1.3 million:

Valuation is based on a combination of factors including an assessment of sales pipeline, 2021 trading forecast and 2021 fundraise.

Wyld Networks mission is to develop and market innovative solutions to create global and affordable wireless connectivity for people and things, from connecting IoT devices in hard-to-reach areas with satellite IoT solutions to connecting smartphones together in mesh networks without the need for WiFi or 4G.

"Tern brings not only the funding that allowed us to focus on executing and successfully delivering on our strategy; but also a wealth of real world experience in building companies from start-up through to scale-up, providing operational support and access to a unrivalled rolodex of industry contacts."

Alastair Williamson
CEO, Wyld Networks

For more information visit: www.wyldnetworks.com

Talking Medicines

Talking Medicines Limited (“Talking Medicines”)

Market segment: Data distribution software

Equity ownership: 23.4% Cost: £860,000 Valuation: £860,000

Valuation is based on fair value, which has been assessed as the price of shares in the most recent fundraise in November 2020.

Talking Medicines is a social intelligence company designed specifically for the pharmaceutical industry. By structuring and translating the patient's voice on social media into actionable intelligence, it focuses on assisting pharmaceutical companies in delivering a greater return on investment for marketing and delivering better health outcomes for patients. It’s platform, PatientMetRx, is an artificial intelligence ("AI") and natural language processing ("NLP") powered social intelligence service, to provide pharmaceutical companies with insights on patient experience on a scale and depth not previously possible.

“We were delighted to secure investment from Tern Plc in Q4 2020. Given that a global pandemic was raging in the background gaining investment could have become difficult, but Tern adapted to an online approach to onboarding. The due diligence process was thorough and straightforward with working meetings to explore specific topics. The investment itself is significant for Talking Medicines but alongside that the advice, mentoring and Tern network has also added significant value for the team. Al Sisto joined the Talking Medicines Board as Chair, and we are looking forward to growing together in 2021.”

Jo Halliday
CEO, Talking Medicines

For more information visit: www.talkingmedicines.com

Other Portfolio Companies

PUSH TECHNOLOGY

Push Technology Limited (“Push”)

Market segment: Data distribution software

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

Valuation is based on fair value, which has been assessed taking into consideration the price of shares in the most recent fundraise in April 2020.

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.

For more information visit: www.pushtechnology.com.

Board of Directors

Ian Ritchie

Chairman

Ian was appointed as Chairman of the Company in June 2017, he also acts as non-executive Chairman for Wyld Networks, one of the Company's portfolio companies. Ian is also the non-executive Chairman of Computer Applications Service and Krotos and completed his term of office as the Chairman of Iomart plc in 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 650,000 times.

Committee membership: Member of Audit Committee and Remuneration Committee

Albert Sisto

Chief Executive Officer

Albert is one of the original founders of the Company and was appointed as CEO in September 2016. He chairs the Investment Committee and also acts as non-executive Chairman and non-executive director for selected portfolio companies. Albert is a technology industry veteran with more than 25 years of senior executive level experience. As Chief Operating Officer at RSA Data Security Inc, the leading security software company, he led its transformation from a passive patent licensing operation to an aggressive, sales-oriented software company. At RSA he negotiated partnership agreements with IBM, Intel, Compaq, Cisco and Nortel. Albert was Chairman, President and CEO of Phoenix Technologies Limited, the global BIOS software company (NASDQ:PTEC) and Chairman and CEO of HiFn (NASDAQ:HIFN). He also served as a Venture Partner for Nauta Capital designer Transmeta and was involved in spinning off Silicon Corporation.

Sarah Payne

Chief Financial Officer

Sarah was appointed to the Board in September 2015 and is responsible for the Company's financial and compliance functions as well as being a member of the Investment Committee and acting as a non-executive director for selected portfolio companies. Sarah qualified with Ernst & Young as a Chartered Accountant and spent six years with the firm, joining its corporate finance team for the later years and is now an FCA. She spent six years with the BBC, firstly within their corporate commercial and investment strategy team and then as Head of Financial Planning and Analysis. For the seven years before joining Tern Plc, Sarah was an outsourced Finance Director for SME businesses principally within high-tech markets.

Board of Directors

Bruce Leith

Business Development Director

Bruce was one of the original founders of the Company with Albert in 2013. He is a member of the Investment Committee and a non-executive director for selected portfolio companies. Bruce began his career with IBM and has extensive international sales management and board level experience in the software industry including senior level positions at DataWorks Corporation, London Bridge Software International and Codestream. Specialising in delivering high-growth, high profit results through product development, portfolio repositioning and geographical expansion, Bruce was involved in the successful sales of a number of companies including Interactive UK, London Bridge and Codestream. Bruce is also an active angel investor in several high-growth software businesses.

Matthew Scherba

Investment Director

Matthew joined the Board in March 2020 and is a member of the Investment Committee and a non-executive director and Chairman for selected portfolio companies. He has over 25 years of international executive management experience covering the full technology lifecycle, focused on strategy and commercial development, including investment and NED roles. He is a life-long entrepreneur with experience creating, building and scaling early-stage technology businesses. He has founded, run and invested in early-stage companies across the Internet of Things (IoT), including software, hardware, mobile, AI, machine learning, and blockchain.

Alan Howarth

Non-Executive Director

Alan was appointed to the Board in November 2015 and acts as a non-executive director for FVRVS, one of the Company's portfolio companies. 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 2020

The directors present their annual report and the audited financial statements of Tern plc (the "Company") for the year ended 31 December 2020.

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

Principal activities

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

Results and dividends

The results for the year are shown in the Income Statement and Statement of Comprehensive Income on page 46.

The profit for the year was £803,891 (2019: loss of £780,643).

The directors do not recommend payment of a dividend.

Political and charitable contributions

Recognising the difficulties suffered by many in our local communities during the year due to the pandemic, the Board approved a £10,000 charitable donation to The Childhood Trust, who support vulnerable children living in poverty in London (2019 – nil).

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.

COVID-19

Companies around the world have been faced with unprecedented challenges to keep essential operations moving forward amid the coronavirus pandemic. At Tern we focused on the safety of our employees and the employees of our portfolio companies. We did not need to furlough Tern staff but as a precautionary measure the Board took a 20% salary reduction for six months during the year to protect our balance sheet. This reduction was not repaid. The team is also set up to work effectively from home. We established a fortnightly situation video conference with our portfolio company CEOs, originally to provide support, advice and share recent experiences however over time this has now developed into a valuable strategy session where wider ideas are shared.

As we now look forward to a reduction in restrictions as the vaccine program rolls out and a return to a different normal, the team and our portfolio companies are in a good position to continue to capitalise on the commercial strength evidenced in the final quarter of 2020, whilst retaining some of the positives of a flexible, agile business that has been essential over the last year.

Going concern

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

Directors and directors' interests

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

	At 31 December 2020 Ordinary Shares	At 31 December 2019 Ordinary Shares
Alan Howarth	–	–
Bruce Leith	8,857,233	8,857,233
Sarah Payne	100,000	–
Ian Ritchie	1,010,333	677,000
Matthew Scherba	716,666	–
Albert Sisto	10,416,666	9,683,333

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

Significant shareholdings

As at 30 March 2021, 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
Albert Sisto	10,416,666	3.2%

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 accounting standards in conformity with the requirements of the Companies Act 2006. 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 international accounting standards in conformity with the requirements of the Companies Act 2006 subject to any material departures disclosed and explained in the financial statements; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Section 172 compliance

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

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

During the year, the Board considered the impact of COVID-19 on its stakeholders and took appropriate action to ensure the mitigation of any impact on the Company, this included ensuring all employees could work effectively from home and considering but deciding against the use of furlough grants. The Board also instigated roundtable meetings with the portfolio company CEO’s to provide a support network in the early months of the pandemic which then evolved into strategic discussions and an opportunity to foster and strengthen business relationships.

The Board determines the strategic objectives and policies of the Company to best support the delivery of long-term value, providing overall strategic direction within an appropriate framework of rewards, incentives and controls. The Board is collectively responsible for the success of the Company: the executive directors are directly responsible for running the business operations; and the non-executive directors are responsible for bringing independent judgement and scrutiny to decisions taken by the Board. The non-executive directors must satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust. Following presentations by the executive directors and a disciplined process of review and challenge by the Board, clear decisions on policy or strategy are adopted, and the executive directors are fully empowered to implement those decisions. Examples of stakeholder considerations in certain key board decisions during the year are provided here.

Board Decision	Considerations
The Board considered and approved the investment into Talking Medicines Limited.	• The Board considered the investment case for this potential new portfolio company to ensure it fulfilled the Company investment criteria as outlined to stakeholders. • Consideration was also given to the long term growth of the business, with the need for new investments to ensure continued fair value growth within the portfolio.

Directors' Report

For the year ended 31 December 2020

Board Decision	Considerations
The Board considered and approved a private placing and retail offer via PrimaryBid to raise in total gross proceeds of £2.4 million.	• Consideration was given to the desire to minimise the dilution to existing shareholders balanced with ensuring sufficient cash reserves to place the Company in a strong and credible negotiating position when discussing investment opportunities with potential new portfolio companies. • A discussion was held regarding shareholder requests for a PrimaryBid offer and this was therefore considered an essential part of this process.
The Board considered the need for a reduction in director fees for a period of time to ensure the business was resilient in the face of great uncertainty created by the emergence of the global pandemic.	• Early on in the year as the impact of the global pandemic became obvious, the Board spent considerable time considering the impact on the Company and also on the portfolio companies. Many were conserving cash whilst the levels of uncertainty were high and had taken salary reductions as a result. It was considered prudent for the Company directors to do the same to ensure the Company was in a position to support the cash flow of the portfolio companies if that was required. This mirrored actions of many of our stakeholders during a time of high risk and high uncertainty and although this was not raised directly by stakeholders the Board believed it would be expected and supported as a sensible course of action.

Stakeholder interests and the matters listed above are factored into all board discussions and decisions. A more detailed assessment of stakeholder engagement is included in the Corporate Governance and Compliance section on pages 32-37.

Disclosure of information

In the case of each person who was a director at the time this report was approved, so far as that director is aware there is no relevant available information of which the Company's auditors are unaware; and that director has taken all steps that the director ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors were aware of that information.

Publication of accounts on the company website

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

Independent auditors

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

Signed on behalf of the Board

Sarah Payne
CFO

30 March 2021

Corporate Governance and Compliance

For the year ended 31 December 2020

“We rely on our stakeholders for our success in achieving our aim of becoming the leading investment company specialising in IoT in the UK.”

Ian Ritchie – Chairman and Senior Independent Director

Chairman’s Corporate Governance Statement

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

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

Composition of the Board

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

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

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

The Board members are listed on pages 26-27.

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.

Corporate Governance and Compliance

For the year ended 31 December 2020

How the Board operates

The directors are responsible for approving the overall strategy, including investment strategy, of the Company and its financial performance. The day-to-day management of the Board is the responsibility of the CEO and the executive directors. The Board ensures appropriate oversight by approving matters reserved for the Board which are set out in a structure manner and include:

- Approval of the budget and any material change to it;
- Oversight of the Company's operations, including internal control environment;
- Changes made to the Company's capital structure;
- Approval of financial results;
- Approval of any new investments or disposals of investments;
- Approval of regulatory news releases; and
- Changes to board structure or composition.

Board Meetings

The Board met formally eleven times in 2020. Board meetings are also convened throughout the year as required and the Board met several times in 2020 in addition to the formal meetings to discuss and approve investment opportunities and fund-raising activities.

The directors are expected to attend all Board meetings and Committee meetings on which they sit. The table below shows directors' attendance at formal scheduled Board and Committee meetings during the year.

	Board Meetings (out of 11)	Audit Committee (out of 2)	Committee (out of 4)
Ian Ritchie	11	2	4
Albert Sisto	11	2	4
Sarah Payne	11	n/a	n/a
Bruce Leith	11	n/a	n/a
Matthew Scherba	11	n/a	n/a
Alan Howarth	11	2	4

Board Evaluation

The Board carries out an evaluation of its performance as a whole annually, taking into account the Financial Reporting Council's Guidance on board Effectiveness. This process is led by the Chairman and the latest evaluation was carried out in August 2020. Due to the size and nature of the company, the effectiveness of the individual directors is constantly evaluated and therefore it is not the belief of the Board that a formal process is required. Due to the detailed review of performance at each Board meeting, any issues are very quickly apparent and can be dealt with on a timely basis. As the company grows, the Board will periodically consider whether a more formal annual evaluation process is required in the future. The Company's Board, individual director and Committee evaluation process have not changed materially over the previous years, on the basis that the Board as a whole consider these evaluation processes to be appropriate for the Company's requirements.

Board committees

The Board has delegated specific responsibilities to the Audit and Remuneration Committees.

Corporate Governance and Compliance

For the year ended 31 December 2020

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 two Audit Committee meetings in 2020. These were fully attended by all members.

Remuneration Committee

The Remuneration Committee was established in November 2016 and is chaired by Alan Howarth. A detailed Remuneration Report is included on pages 38-40.

There were four Remuneration Committee meetings in 2020. These were fully attended by all members.

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

External Advisors

The Board seeks advice and guidance as required throughout the year from its Nomad (Allenby Capital), its corporate lawyers (Reed Smith) and auditors (Nexia Smith & Williamson). External advice is also provided as required on human resources, corporate policies and financial PR. The Board also receives consultancy advice on investment opportunities, including technical due diligence.

Conflicts of Interest

Every director has a statutory duty under the CA 2006 to avoid a situation in which they have a direct or indirect interest that may or does conflict with the interests of the Company and every director is required at the start of any meeting to disclose any conflicts in the agenda matters to be discussed. The Company's Articles of Association allow for a director to vote and form part of the quorum if the conflict arises from a permitted cause.

Corporate Governance and Compliance

For the year ended 31 December 2020

Internal controls

The Board is ultimately responsible for establishing and monitoring internal control systems and reviewing the effectiveness of these systems. The Board views the effective operation of the internal control environment as critical to the success of the Company. However, it recognises that such systems can provide reasonable but not absolute assurance against material misstatement or loss. The key elements of the Company's internal control system are as follows:

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

Our Key Stakeholders

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

Our portfolio companies

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

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

Our employees

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

Our shareholders

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

Corporate Governance and Compliance

For the year ended 31 December 2020

We do this via a programme of events which have been adapted in 2020 to allow for the limitations placed on events by social distancing requirements due to the pandemic:

AGM	The AGM usually provides an opportunity for shareholders, particularly private investors, to question the Board on issues arising in a formal setting and then informally immediately following the AGM. Directors enjoy the opportunity to engage with shareholders, answer their questions and meet with them informally In light of the prevailing guidance from the UK Government in relation to the COVID-19 pandemic, the Board has continually monitored the changing situation. The health of our shareholders, employees and stakeholders remains extremely important to us and accordingly, the Board has taken into consideration the restrictions on unnecessary travel and large gatherings indoors. As a result the Annual General Meeting will be convened with the minimum quorum of shareholders (which will be facilitated by the Company's management) in order to conduct the business of the meeting and voting on each resolution at the meeting will be by poll and will include all valid proxy votes received. Regrettably therefore, shareholders are requested not to attend the AGM to be held on 4 May 2021 and the Company will be unable to allow entry to anyone seeking to attend the AGM in person. The Company plans to host an online meeting after the AGM to present an update for the year and to provide an opportunity for questions to be asked by shareholders.
Shareholder calls	A minimum of two shareholder calls per annum provide an opportunity for shareholders to put their questions to the Board. These calls provide a helpful way of presenting an update to the shareholders on a regular basis and addressing their questions by taking and answering questions posed to the directors through this forum. In November 2020 this was hosted on a video link and will be the preferred format to use for future events.
Mello conference	The directors attend an investor event every year to provide shareholders with an opportunity to meet with the directors and pose questions in an informal environment. Unfortunately, this was not possible in 2020 due to government restrictions, however the Company plans to return to attending these conferences as soon as restrictions allow.
Annual Report	We publish a full annual report and accounts each year where we articulate the strategy for the coming year and a review of the annual performance. The report is available in online and paper format.
Regulatory and non-regulatory news	We issue regulatory news as required and non-regulatory news to communicate significant portfolio companies news and explain the relevance and impact of the press release.
Website	The Company's website (www.ternplc.com) maintains a comprehensive, up to date news flow for shareholders and other interested parties. A dedicated email address is provided (info@ternplc.com) which is managed by the Company's financial public relations advisors. The Company may exercise discretion as to which questions will receive a response and all information provided will be freely available in the public domain. If necessary, the enquiries will be brought to the Board's attention. There is a section dedicated to investors which includes financial results, analyst coverage, corporate governance information, information on the Board, constitutional and admission documents and a link to our regulatory news. Shareholders can also subscribe to our portfolio updates and news.

Corporate Governance and Compliance

For the year ended 31 December 2020

Our suppliers

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

Our community

Our Investment Committee includes an assessment of environmental, social and governance ("ESG") factors within each investment appraisal. We are closely involved with each of our portfolio companies and therefore can influence their consideration of impact on community. Given our area of expertise our portfolio companies are often involved in addressing ESG factors by increasing efficiencies and focusing actions on minimising waste. In 2021, our focus on this area will increase to ensure we are fulfilling our aim to have a positive impact on our environment and community.

Ian Ritchie
Chairman

Report on Directors' Remuneration

For the year ended 31 December 2020

I am pleased to present our Remuneration Committee Report for the year ended 31 December 2020, which summarises the work of the Remuneration Committee, as well as the remuneration policy, details of the directors' remuneration packages and a summary of all remuneration paid to directors during the year.

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

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

There were four Remuneration Committee meetings in 2020. These were fully attended by all members. No advice was sought by the Board or its Committees on any significant matters.

The activity of the Committee during the year was predominately focused on remuneration matters, including approving the remuneration increase for the executive directors and approving the bonus payments to the executive directors following the assessment of performance against agreed financial Key Performance Indicators, which are designed to inspire and measure business progress. The Committee also approved the performance measures for the 2021 annual bonus. The bonus amounts paid in respect of the year ended 31 December 2020 are set out in the table on page 39.

In response to the impact of COVID-19 on the Company and its portfolio companies, all directors took a 20% salary reduction for six months. This reduction was not reimbursed.

Remuneration Policy

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

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

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

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

Executive directors' service contracts

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

Non-executive directors

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

Report on Directors' Remuneration

For the year ended 31 December 2020

The Company Share Option Plan

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

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

No options were issued to directors during the year ended 31 December 2020.

Performance Related Bonus

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

The 2021 annual bonus for executive directors will be assessed against financial KPIs. Challenging targets have been set. Actual performance targets are not disclosed as they are considered to be commercially sensitive at this time.

Directors' remuneration

The remuneration of each director, excluding share options awards, during the year ended 31 December 2020 is detailed in the table below:

	Basic salary £000	Pension contributions £000	Performance related bonus £000	Other benefits £000	2020 Total £000	2019 Total £000
Executive Directors						
Albert Sisto	128.5	14.5	61.2	8.1	212.3	126.3
Sarah Payne	110.9	12.3	26.0	0.4	149.6	113.5
Bruce Leith	103.8	12.3	26.0	7.0	149.1	108.5
Matthew Scherba	110.9	12.3	11.3	2.3	136.8	–
Non-Executive Directors						
Ian Ritchie	32.4	–	–	–	32.4	33.5
Alan Howarth	27.0	–	–	–	27.0	27.5
	513.5	51.4	124.5	17.8	707.2	409.3
Share based payment charge					85.5	–
Total remuneration	513.5	51.4	124.5	17.8	792.7	409.3

Note: Matthew Scherba joined the Company in December 2019 and was appointed to the Board in March 2020. The table shows his 2020 annual remuneration.

Report on Directors' Remuneration

For the year ended 31 December 2020

Directors' share options

The director's outstanding share options as at 31 December 2020 are shown in the table below:

	2019	Granted	Exercised	Expired	2020	Option Price	Expiry date
Executive Directors							
Al Sisto	2,500,000	–	–	–	2,500,000	8.5p	18 May 2027
Sarah Payne	2,500,000	–	–	–	2,500,000	8.5p	18 May 2027
Bruce Leith	2,500,000	–	–	–	2,500,000	8.5p	18 May 2027
Matthew Scherba	2,500,000	–	–	–	2,500,000	9.15p	1 December 2029
Non-Executive Directors							
Ian Ritchie	–	–	–	–	–		
Alan Howarth	250,000	–	–	–	250,000	13p	22 February 2023

Alan Howarth
Chairman of the Remuneration Committee

Independent auditor's report to the members of Tern Plc

For the year ended 31 December 2020

Opinion

We have audited the financial statements of Tern Plc (the 'company') for the year ended 31 December 2020 which comprise the Income Statement and Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Challenging the key assumptions used in the detailed budgets and forecasts prepared by management for the financial year to 2021 and period to March 2022;
- Assessing the mathematical accuracy of the detailed budgets and forecasts and agreeing to the underlying key assumptions;
- Comparing the forecast results to those actually achieved in the 2021 financial period so far and management's cashflow forecast from 2020 to budget;
- Reviewing bank statements to monitor the cash position of the company post year end;
- Obtaining an understanding of significant expected cash outflows in the forthcoming 12-month period from the date of signing these financial statements including any cash requirements the company may have to provide to its investee companies;
- Considering the sensitivity of the assumptions and re-assessing headroom after sensitivity; and
- We have observed that the current cash balance is greater than budgeted fixed costs for a period of 12 months from the date of signing.

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

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

Independent auditor's report to the members of Tern Plc

For the year ended 31 December 2020

Key audit matters

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

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

Key audit matter	Description of risk	How the matter was addressed in the audit
Valuation of investments	Investments are the most significant balance on the balance sheet and the value is reliant on third party financial information and projections. Due to the nature of the investments there is a lack of observable inputs and therefore the key risk is considered to be the fair value of investments. We therefore identify the valuation of investments held for trading as high risk. The company's accounting policy on investments is shown in note 1.8 to the financial statements, critical accounting judgements and estimates included in note 3 and related disclosures are included in note 11.	We challenged the valuation of investments, assessing the methodology used by management and considered other potential valuation models which have been used in the industry. We tested the key inputs to the valuation model, valuing the underlying assets and the forecasts of future revenue. We considered the sensitivity of the valuations to changes in key assumptions. We have agreed the valuation of the most significant investment to the indicative range suggested by an independent third party valuations firm. We utilised our specialist valuations team to review the validity of the methodology and calculations used to value the investments. Additionally, in regard to the most significant investment, our specialist valuations team prepared a further model and auditor's estimate of an acceptable valuation to compare against the valuation range arrived by the third party valuations firm and whether materially close to the fair value valuation estimate used by management. For the most significant investment, we selected a sample of current clients and corroborated revenues recognised in FY20 and contracted revenues in FY21 to invoices, purchase orders and statement of works. We also selected a sample of potential client's from the company's pipeline analysis and requested information evidencing the interaction between the entities to support inclusion within the pipeline. We tested the mathematical accuracy of the valuation calculations.

Independent auditor's report to the members of Tern Plc

For the year ended 31 December 2020

Our application of materiality

The materiality for the financial statements as a whole was set at £1,000,000. This has been determined with reference to the benchmark of the company's net assets, which we consider to be one of the principal considerations for members of the company in assessing the company's performance. Given the company is an Investment Company, as defined under IFRS 10, an earnings-based measure would not be appropriate. Financial Statement materiality represents 4% of the company's net assets as presented in the Statement of Financial Position which aligns with the interests of the users of the financial statements and given the continued growth of the Company we consider using 4% of net assets to be more suitable and reassessed materiality accordingly. We also applied a specific materiality for all balances other than those in relation to investments which was set at £145,000. This is based on 10% of total expenditure in the year.

Performance materiality for the company's financial statements was set at £650,000, being 65% of Financial Statement materiality, for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. We have set it at this amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds Financial Statement materiality. We judged this level to be appropriate based on our understanding of the company and its financial statements, as updated by our risk assessment procedures and our expectation regarding current period misstatements including considering experience from previous audits. The level of 65% was set due to the uncertainty of estimation in the investments balance. Performance materiality in respect of all balances other than those in relation to the investments balance has also been set at 65% of financial statement materiality, being £94,250.

Other information

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters 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.

Independent auditor's report to the members of Tern Plc

For the year ended 31 December 2020

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

Independent auditor's report to the members of Tern Plc

For the year ended 31 December 2020

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

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

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

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

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

Use of our report

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

Sancho Simmonds

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

25 Moorgate
London
EC2R 6AY

30 March 2021

Income Statement and Statement of Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 £	2019 £
Fee income		151,159	124,766
Movement in fair value of investments	11	1,992,891	293,756
Total investment income		2,144,050	418,522
Administration costs		(1,341,802)	(1,028,605)
Other expenses	6	(206,845)	(245,414)
Operating profit/(loss)	7	595,403	(855,497)
Finance income	8	208,488	74,854
Profit/(loss) before tax		803,891	(780,643)
Tax	9	–	–
Profit/(loss) and total comprehensive income/(loss) for the period		803,891	(780,643)

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

	Notes	2020	2019
EARNINGS/(LOSS) PER SHARE:			
Basic and diluted earnings/(loss) per share	10	0.3 pence	(0.3) pence

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

Statement of Financial Position

As at 31 December 2020

	Notes	2020 £	2019 £
ASSETS			
NON-CURRENT ASSETS			
Investments	11	21,904,791	17,882,660
		21,904,791	17,882,660
CURRENT ASSETS			
Trade and other receivables	12	261,301	174,486
Cash and cash equivalents	13	2,130,166	1,007,965
		2,391,467	1,182,451
TOTAL ASSETS		24,296,258	19,065,111
EQUITY AND LIABILITIES			
Share capital	14	1,367,635	1,355,571
Share premium	14	26,740,789	22,578,619
Retained earnings	15	(4,107,767)	(5,021,113)
		24,000,657	18,913,077
CURRENT LIABILITIES			
Trade and other payables	16	295,601	152,034
TOTAL CURRENT LIABILITIES		295,601	152,034
TOTAL LIABILITIES		295,601	152,034
TOTAL EQUITY AND LIABILITIES		24,296,258	19,065,111

The financial statements were approved and authorised for issue by the Board of Directors on 30 March 2021 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 2020

	Share capital £	Share premium £	Retained earnings £	Total equity £
Balance at 31 December 2018	1,348,903	19,660,434	(4,257,564)	16,751,773
Total comprehensive income	–	–	(780,643)	(780,643)
Transactions with owners				
Issue of share capital	6,668	3,243,335	–	3,250,003
Share issue costs	–	(325,150)	–	(325,150)
Share based payment charge	–	–	17,094	17,094
Balance at 31 December 2019	1,355,571	22,578,619	(5,021,113)	18,913,077
Total comprehensive income	–	–	803,891	803,891
Transactions with owners				
Issue of share capital	12,064	4,488,336	–	4,500,400
Share issue costs	–	(326,166)	–	(326,166)
Share based payment charge	–	–	109,455	109,455
Balance at 31 December 2020	1,367,635	26,740,789	(4,107,767)	24,000,657

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

Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 £	2019 £
OPERATING ACTIVITIES			
Net cash used in operations	20	(1,189,481)	(1,337,878)
Purchase of investments		(1,957,248)	(2,496,366)
Cash received from sale of investments		93,421	–
Interest received		1,275	3,555
Net cash used in operating activities		(3,052,033)	(3,830,689)
FINANCING ACTIVITIES			
Proceeds on issues of shares		4,500,400	3,250,003
Share issue expenses		(326,166)	(325,150)
Net cash from financing activities		4,174,234	2,924,853
Increase/(decrease) in cash and cash equivalents		1,122,201	(905,836)
Cash and cash equivalents at beginning of year		1,007,965	1,913,801
Cash and cash equivalents at end of year		2,130,166	1,007,965

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 2020

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 accounting standards in conformity with the requirements of the Companies Act 2006.

The financial statements have been prepared on the basis of the recognition and measurement principles of the IFRS that were applicable at 31 December 2020.

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, paragraph 4, the directors consider the Company to be an investment company and have taken the exemption not to present consolidated financial statements or apply IFRS3 when it obtains control of another entity as it is an investing company that measures all of its investments at fair value through the Income Statement in accordance with IFRS 9.

1.3 GOING CONCERN

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

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

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 and are expected to relate to the Company:

- IFRS 9 Financial Instruments: amendments resulting from Annual Improvements to IFRS Standards 2018-2020 (fees in the '10 per cent' test for derecognition of financial liabilities) (issued in May 2020 and effective for annual periods beginning on or after 1 January 2022).
- IAS 1 Presentation of Financial Statements: amendments regarding the classification of liabilities (issued in July 2020 and effective for annual periods beginning on or after 1 January 2023).

1.5 ADOPTION OF NEW AND REVISED STANDARDS

Amendments have been made to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in relation to the definition of material. The amendments clarify the definition of what is material to the financial statements and how to apply the definition.

The Company has adopted all revised standards and there was no impact to the financial statements as a result.

1.6 TURNOVER

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

There is no variable consideration within the transaction price.

Rendering of services

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

1.7 TAXATION

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2020

1. ACCOUNTING POLICIES (continued)

1.7 TAXATION (continued)

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

1.8 INVESTMENTS

The investment valuation consists of equity investments and convertible loan notes and loans issued to a portfolio company. The convertible loan notes are financial assets with multiple embedded derivatives which can include a warrant instrument. IFRS 9 permits the entire contract to be designated at FVTPL.

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

1.9 IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

1.10 TRADE RECEIVABLES

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

1.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the Statement of Financial Position. Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

1.12 TRADE PAYABLES

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

1.13 EQUITY INSTRUMENTS

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

1.14 LOANS TO PORTFOLIO COMPANIES

Convertible Loans

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

Notes to the Financial Statements

For the year ended 31 December 2020

1. ACCOUNTING POLICIES (continued)

1.15 SHARE BASED PAYMENTS

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

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

2. FINANCIAL RISK MANAGEMENT

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

2.1 FINANCIAL RISK FACTORS

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

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

Liquidity risk

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

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

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

Trade and Other Payables	2020 £	2019 £
Six months or less	295,601	152,034
Six months to 2 years	–	–
Total contractual cash flows	295,601	152,034

2. FINANCIAL RISK MANAGEMENT (continued)

2.1 FINANCIAL RISK FACTORS (continued)

Market price risk

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

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

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

Foreign exchange risk

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

Credit risk

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

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

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

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

2.2 CAPITAL RISK MANAGEMENT

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

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

2.3 FAIR VALUE ESTIMATION

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

2. FINANCIAL RISK MANAGEMENT (continued)

2.3 FAIR VALUE ESTIMATION (continued)

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

ESTIMATES

Fair value of financial instruments

The Company holds investments of £21.9 million that have been designated as held for trading on initial recognition. Where practicable the Company determines the fair value of these financial instruments that are not quoted (Level 3) using the most recent bid price at which a transaction has been carried out. These techniques are significantly affected by certain key assumptions, such as market liquidity. Given the nature of the investments being early-stage businesses, 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.

Device Authority has maintained its US dollar valuation compared to 2019 without a bid price comparison in the year. It is an early-stage business in an emerging market where there is a lack of comparative businesses available on which to provide a comparable valuation and therefore valuation was based on a combination of factors including the independent valuation of Device Authority's patent portfolio, an independent comparison to transaction multiples in comparable market sectors and an evaluation of sales pipeline and 2021 trading forecast. This supported a valuation in line with 2019, although an exchange rate loss was recognised on translation at the balance sheet date.

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

JUDGEMENTS

Investments held at FVTPL

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

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

Notes to the Financial Statements

For the year ended 31 December 2020

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

4. SEGMENTAL REPORTING

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

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

5. STAFF COSTS

Staff costs for the Company during the year, including directors

	2020 £	2019 £
Wages and salaries	690,771	433,042
Consultancy fees	17,500	27,500
Social security costs	66,911	54,593
Pension costs	56,216	2,428
Share based payment charge	109,455	17,094
Total staff costs	940,853	534,657

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

	2020 No	2019 No
Directors	6	5
Employees	1	1
Total	7	6

5. STAFF COSTS (continued)

DIRECTORS' REMUNERATION

Other than directors, the Company had one employee as at 31 December 2020. Total remuneration paid to directors during the year was as follows:

	2020 £	2019 £
Directors' remuneration		
– Salaries and benefits	638,353	379,411
– Consultancy fees	17,500	27,500
– Social security costs	61,387	42,872
– Pension costs	51,475	2,376
– Share based payment charge	85,468	–
Total directors' remuneration	854,183	452,159
Total remuneration of the highest paid director was	212,301	126,287

A summary of remuneration paid to each director, including pension payments, is included in the Report on Directors' Remuneration (pages 38-40).

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

6. OTHER EXPENSES

	2020 £	2019 £
Share based payment (options)	109,455	17,094
Sundry non-recurring expenses	–	10,697
Non-recurring legal and professional costs	1,613	172,319
Recharged portfolio professional fees	85,777	45,304
Charitable donations	10,000	–
	206,845	245,414

Notes to the Financial Statements

For the year ended 31 December 2020

7. OPERATING PROFIT/(LOSS)

	2020 £	2019 £
Profit(/loss) from operations has been arrived at after charging:		
Remuneration of directors	854,183	452,159
Fees payable to the Company's auditor for services provided to the Company:		
– Audit services	33,250	29,500
– Tax compliance services	4,450	4,000
– Pension services	1,662	–
– Audit related services	3,000	–

8. FINANCE INCOME

	2020 £	2019 £
Bank interest	1,275	3,259
Interest income on loan notes	–	296
Interest accrued on convertible loan notes	207,213	71,299
	208,488	74,854

9. TAXATION

	2020 £	2019 £
Taxation attributable to the Company	–	–

Domestic income tax is calculated at 19% (2019: 19%) of the estimated assessable profit for the year. The charge for the year can be reconciled to the profit per the Income Statement as follows:

	2020 £	2019 £
Profit/(loss) before tax	803,891	(780,643)
Tax at domestic income tax rate	152,739	(148,322)
Expenses not deductible for tax purposes	21,139	4,042
Income not taxable	(380,639)	(55,814)
Unutilised tax losses	206,761	200,094
Tax	–	–

The Company has unutilised losses of approximately £7.3 million (2019: £6.5 million) resulting in a deferred tax asset not recognised of approximately £1.4 million (2019: £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. The Company has not recognised a deferred tax liability in respect of fair value gains on investments as most asset sales are expected to be exempt from taxation due to the substantial shareholding exemption (SSE).

10. EARNINGS/(LOSS) PER SHARE

	2020 £	2019 £
Profit/(loss) for the purposes of basic and fully diluted profit/(loss) per share	803,891	(780,643)

	2020 Number	2019 Number
Weighted average number of ordinary shares:		
For calculation of basic earnings per share	290,768,708	251,945,498
For calculation of fully diluted earnings per share	290,768,708	251,945,498

	2020	2019
Earnings/(loss) per share:		
Basic and diluted earnings/(loss) per share	0.3 pence	(0.3) pence

Note: The fully diluted earnings per share for 2020 is the same as the basic earnings per share as the share options are underwater which would have an anti-dilutive effect on earnings per share. In 2019 the fully diluted loss per share was the same as the basic loss per share as the loss had an anti-dilutive effect on earnings per share.

11. NON-CURRENT ASSETS

INVESTMENTS

	2020 £	2019 £
Fair value of investments brought forward	17,882,660	14,856,239
Reclassification of cash flow loans from other debtors	–	165,000
Interest accrued on convertible loan note	171,473	71,299
Additions	1,957,248	2,496,366
Disposals	(99,481)	–
Fair value of investments carried forward	19,911,900	17,588,904
Fair value adjustment to investments	1,992,891	293,756
Fair value of investments carried forward	21,904,791	17,882,660

The convertible loan facility issued to Device Authority is a financial asset with multiple derivatives and the entire contract has been designated at FVTPL, with any movement in fair value taken to profit or loss for the year. As at 31 December 2020 the principal of the convertible loan outstanding was £2,925,900 (2019: £2,527,848). The convertible loan note has been secured with a charge over Device Authority's intellectual property.

The convertible loan facility issued to InVMA is a financial liability with multiple derivatives and the entire contract has been designated at FVTPL, with any movement in fair value taken to profit or loss for the year. In 2020 the value of the convertible loan outstanding was £175,000 (2019: £50,000).

11. NON-CURRENT ASSETS (continued)

The cashflow loan issued to Wyld Networks was converted into a secured convertible loan note in May 2020. It is a financial liability with multiple derivatives and the entire contract has been designated at FVTPL, with any movement in fair value taken to profit or loss for the year. As at 31 December 2020, the investment was adjusted in line with fair value and resulted in a fair value increase of £2.6m. As at 31 December 2020 the value of the convertible loan outstanding was £1,298,332 (2019: £853,332). The convertible loan note has been secured with a charge over Wyld Networks' intellectual property. Since the balance sheet date, this loan was converted into equity in Wyld Networks.

12. TRADE AND OTHER RECEIVABLES

	2020 £	2019 £
Trade receivables	166,564	112,648
Prepayments and accrued income	36,753	52,531
Interest receivable on convertible loan note	35,740	–
Other receivables	22,244	9,307
Total	261,301	174,486

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

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

The maximum exposure to credit risk at the reporting date is the fair value of the trade receivables which all relate to receivables from investee companies. These receivables are secured on the assets of the relevant companies.

13. CASH AND CASH EQUIVALENTS

	2020 £	2019 £
Cash at bank	2,130,166	1,007,965

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

Notes to the Financial Statements

For the year ended 31 December 2020

14. ISSUED SHARE CAPITAL

	Number of shares No.	Nominal value £	Share premium £
ISSUED AND FULLY PAID:			
At 31 December 2019			
Ordinary shares of £0.0002	270,019,045	54,003	
Deferred shares of £29.999	42,247	1,267,368	
Deferred shares of £0.00099	34,545,072	34,200	
	304,606,364	1,355,571	22,578,619
Ordinary shares issued for cash	60,319,056	12,064	4,488,336
Share issue expenses	–	–	(326,166)
	364,925,420	1,367,635	26,740,789
At 31 December 2020			
Ordinary shares of £0.0002	330,338,101	66,067	
Deferred shares of £29.999	42,247	1,267,368	
Deferred shares of £0.00099	34,545,072	34,200	
	364,925,420	1,367,635	26,740,789

Ordinary Shares

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

Deferred shares of £29.999

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

Deferred shares of £0.00099

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

On 23 March 2020, 13,333,331 ordinary shares were issued at 6p per share for cash as the result of a private placing raising £800,000 before expenses.

On 24 July 2020, 17,647,058 ordinary shares were issued at 8.5p per share for cash as the result of a private placing, raising £1,500,000 before expenses.

On 27 November 2020, 29,338,667 ordinary shares were issued at 7.5p per share for cash as a result of a private placing, raising £2,200,400 before expenses.

14. ISSUED SHARE CAPITAL (continued)

In May 2020, Wyld Networks issued a £400,000 convertible loan note to an external party which included a put option on Tern shares. Under the terms of the convertible loan note, and following a conversion event, any amount of the convertible loan note not converted into Wyld shares was automatically converted into fully paid ordinary shares of 0.02p each in the capital of Tern at a 15% discount to the market price of Tern shares on AIM at market close on the date of the conversion event. If a conversion event did not occur by 6 May 2021, then the convertible loan note holder had the option to elect to convert all of the convertible loan notes into Tern Shares at a 15% discount to the five-day average closing price of Tern shares on AIM immediately prior to the maturity date, or failing such election, the maturity date of the convertible loan note is to be extended for one further year. If a conversion event had not taken place by the extended maturity date, the convertible loan note would automatically convert into fully paid Tern shares at a 15% discount to the five-day average closing price of Tern shares on AIM immediately prior to the extended maturity date.

Subsequent to the year end, on 28 January 2021, it was announced that all the convertible loan notes in Wyld Networks had been converted to Wyld Networks shares and therefore this option has now lapsed.

15. RESERVES

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

Share capital

The amount subscribed for shares at nominal value.

Share premium

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

Retained earnings

Cumulative loss of the Company.

16. TRADE AND OTHER PAYABLES

	2020 £	2019 £
Trade payables	104,066	84,523
Accruals and deferred income	138,726	51,535
Other taxes and social security	52,809	15,976
Total	295,601	152,034

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

17. FAIR VALUE MEASUREMENT

FINANCIAL ASSETS

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

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

FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

Investments

All investments are determined upon initial recognition as held at fair value through profit or loss. Investment transactions are accounted for on a trade date basis. Asset sales are recognised at the trade date of the disposal. The fair value of the financial instruments in the Statement of Financial Position is based on the last transaction price at the Statement of Financial Position date, with no deduction for any estimated future selling cost. Unquoted investments are valued by the directors using primary valuation techniques such as recent transactions and last price. Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Statement of Comprehensive Income as “movement in fair value of investments”. Investments are measured at fair value in accordance with IFRS 9. Details of the valuation technique for each individual investment is set out in the Investment Report on pages 22-25.

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

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

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

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

The following table shows the levels within the hierarchy of investments measured at fair value on a recurring basis at 31 December 2020 and 31 December 2019:

31 December 2020	Level 1	Level 2	Level 3	Total
Investments held for trading	–	–	21,904,791	21,904,791

31 December 2019	Level 1	Level 2	Level 3	Total
Investments held for trading	–	–	17,882,660	17,882,660

See note 11 for more detail.

17. FAIR VALUE MEASUREMENT (continued)

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. The most sensitive unobservable input is the probability attached to the three most likely scenarios for realisation of value. The most likely scenario is attributed a 73% likelihood. If the probability of the most sensitive variable varies by 10% the impact on the overall valuation is approximately £0.9 million. In addition, if the share price assumed in Device Authority, including conversion of all outstanding convertible loan notes on a fundraise or exit, varies by 10% then the impact on the overall valuation is approximately £1 million.

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.

18. SHARE BASED PAYMENTS

OPTIONS

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

Share options were issued to Matthew Scherba in 2019 as an employee of the Company. Subsequently Matthew was appointed as a director in March 2020 resulting in share options previously issued now accounted for as share options held by directors.

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

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 and the 2015 options have now lapsed.

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

18. SHARE BASED PAYMENTS (continued)

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

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

A total share based payment charge of £109,455 was recognised in 2020 (2019: £17,094) in respect of the options granted in 2019 and 2020, of this £23,987 (2019: £17,094) related to equity settled options issued to employees.

The share options held as at 31 December 2020 are set out in the table below:

	Outstanding at 31 December 2019	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2020	Option Price	Exercisable on or before
Directors	7,500,000	–	–	–	7,500,000	8.5p	18 May 2027
	250,000	–	–	–	250,000	13p	22 Feb 2023
	2,500,000	–	–	–	2,500,000	9.15p	1 Dec 2029
Total directors	10,250,000	–	–	–	10,250,000		
Employees	–	500,000	–	–	500,000	8.15p	22 July 2030
Other	900,000	–	–	–	900,000	9p	15 Feb 2022
	100,000	–	–	–	100,000	8.5p	18 May 2027
	250,000	–	–	250,000	–	15p	16 Dec 2020
Total Options	11,500,000	500,000	–	250,000	11,750,000		

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

19. RELATED PARTY TRANSACTIONS

Device Authority Limited, a company in which Tern has a controlling shareholding, is also considered a related party. During the year, Tern invoiced Device Authority Limited £32,000 in respect of management services and recharged professional services (2019: £39,844). At the year-end Tern was owed £83,844 in trade receivables by Device Authority Limited (2019: £75,844). Tern has also provided a convertible loan note to Device Authority Limited. As at 31 December 2020, the principal of the convertible loan outstanding was £2,925,900 (2019: £2,527,848).

Wyld Networks Limited, a company in which Tern has a 97% shareholding, is also considered a related party. During the year, Tern invoiced Wyld Networks £31,025 in respect of management services and recharged professional services (2019: £15,914). There were no trade amounts outstanding to or from the Company at 31 December 2020 (2019: £9,120). Tern has also provided a convertible loan note to Wyld Networks Limited. As at 31 December 2020, the convertible loan outstanding was £1,298,332 (2019: £853,332). Post year-end this balance was converted in full into Wyld Networks Limited equity.

19. RELATED PARTY TRANSACTIONS (continued)

Wyld Technologies Limited, a company 100% owned by Wyld Networks Limited, is also considered a related party. During the year, Tern invoiced Wyld Technologies Limited £13,350 in respect of management services (2019: 13,680). As at 31 December 2020 Tern was owed nil in trade receivables by Wyld Technologies Limited (2019: £720).

InVMA Limited, a company in which Tern has a 50% shareholding, is also considered a related party. During the year, Tern invoiced InVMA Limited £48,156 in respect of management services and recharged professional services (2019: £33,097). As at 31 December 2020, Tern was owed £82,720 in trade receivables by InVMA Limited (2019: £26,963).

FVRVS Limited, a company in which Tern has a 26.9% shareholding, is also considered a related party. During the year, Tern invoiced FVRVS Limited £16,938 in respect of management services and recharged legal services (2019: £16,328). There were no amounts outstanding to or from the Company at 31 December 2020 (2019: nil).

Talking Medicines Limited, a company in which Tern has a 23.4% shareholding, is also considered a related party. During the year, Tern invoiced Talking Medicines Limited £30,000 in respect of management services and recharged legal services. There were no amounts outstanding to or from the Company at 31 December 2020.

During the year, Alan Howarth & Associates Limited, a company in which Alan Howarth has a controlling shareholding, invoiced the Company £17,500 for management services (2019: £27,500). There were no amounts outstanding to or from the Company at 31 December 2020.

20. CASH FLOW FROM OPERATIONS

	2020 £	2019 £
Profit/(loss) for the year	803,891	(780,643)
Adjustments for items not included in cash flow:		
Movement in fair value of investments	(1,992,891)	(293,756)
Share based payment charge	109,455	17,094
Deferred cash on sale of investment	6,060	–
Finance income	(208,488)	(74,854)
Operating cash flows before movements in working capital	(1,281,973)	(1,132,159)
Adjustments for changes in working capital:		
Increase in trade and other receivables[1]	(51,075)	(100,306)
Increase/(decrease) in trade and other payables	143,567	(105,413)
Cash used in operations	(1,189,481)	(1,337,878)

[1] Excludes interest receivable from investee companies

Notes to the Financial Statements

For the year ended 31 December 2020

21. FINANCIAL INSTRUMENTS

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

CATEGORIES OF FINANCIAL INSTRUMENTS

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

	2020 £	2019 £
FINANCIAL ASSETS:		
Cash at bank	2,130,166	1,007,965
Financial instruments at amortised cost		
Trade receivables	166,564	112,648
Other receivables	22,244	9,307
Fair value through profit or loss (FVTPL)		
Investments	21,904,791	17,882,660

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:

	2020 £	2019 £
Trade and other payables	104,066	84,523
Accruals	125,809	51,535

22. EVENTS AFTER THE REPORTING PERIOD

On 28 January 2021, it was announced that Wyld Networks Limited had secured a £750,000 equity fundraise at a valuation which resulted in a significant valuation uplift of Tern's investment of £2.6m. As part of the fundraise, Tern invested £0.15 million and all outstanding secured convertible loan notes held by Tern converted into equity. As a result, Tern hold a 79% investment in Wyld Networks.

At the time of an investment by an external party in May 2020, an option was given to convert the convertible loan notes in Wyld Networks into ordinary shares in Tern at a 15% discount to the five-day average closing price of Tern shares on AIM immediately prior to 7 May 2021 if a conversion event had not occurred before that date. As a result of the equity fundraise announced in January 2021 and the conversion of all the convertible loan notes in Wyld Networks, this option has now lapsed.

23. ULTIMATE CONTROLLING PARTY

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

Notice of 2021 Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2021 Annual General Meeting of Tern plc ("the Company") will be held at 3pm on Tuesday 4 May 2021 at the Company's offices at Gridiron, One Pancras Square, London N1C 4AG.

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

In light of the prevailing guidance from the UK Government in relation to the COVID-19 pandemic and specifically the restrictions on unnecessary travel and large gatherings, the Annual General Meeting will be convened with the minimum quorum of shareholders (which will be facilitated by the Company's management) in order to conduct the business of the meeting and voting on each resolution at the meeting will be by poll and will include all valid proxy votes received. Accordingly, the Company strongly encourages all shareholders to submit their Form of Proxy in advance of the meeting, appointing the Chairman of the Annual General Meeting as proxy rather than a named person. In the interests of safety and in accordance with applicable UK Government guidance, entry to the Annual General Meeting will be refused to any shareholder, proxy or corporate representative (other than those required for a quorum to exist) who attempt to attend the Annual General Meeting in person. The Company will continue to closely monitor the developing impact of COVID-19, including the latest UK Government guidance. Should it become appropriate to revise the current arrangements for the General Meeting, any such changes will be notified to shareholders through the Company's website at www.ternplc.com and, where appropriate, by announcement made by the Company to a Regulatory Information Service.

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 2020, together with the Directors' Report and Auditors' Report on those accounts.

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

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

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

SPECIAL BUSINESS

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

5. That for the purpose of section 551 of the Companies Act 2006 (the Act) the directors of the Company be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot equity securities (within the meaning of Section 560 of the Act) up to an aggregate nominal amount of £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.

Notice of 2021 Annual General Meeting

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

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

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

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

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

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

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

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

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

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

By Order of the Board
Sarah Payne,
Company Secretary
9 April 2021

Notice of 2021 Annual General Meeting

Notes to the AGM notice

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

2. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001 and by paragraph 18(c) of The Companies Act (Consequential Amendments) (Uncertificated Securities) Order 2009, only those members entered on the Company's register of members not later than 3pm on 29 April 2021, or if the meeting is adjourned, Shareholders entered on the Company's register of members not later than 2 days before the time fixed for the adjourned meeting (excluding non-business days) shall be entitled to attend and vote at the meeting.

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

4. To be effective, the Form of Proxy must be deposited at the office of the Company's registrars, Share Registrars Limited, The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR so as to be received not later than 3pm on 29 April 2021, or if the meeting is adjourned, not later than 48 hours before the time fixed for the adjourned meeting.

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

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

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

   In either case, the revocation notice must be received by the Company's registrars, Share Registrars Limited, The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR no later than 3pm on 29 April 2021.

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

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

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

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

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