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Annual Report and Accounts 2023

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Chairman's Statement

Whilst market conditions remain challenging, I am pleased to report that 2023 was a year of significant underlying progress for Tern and the majority of its portfolio companies.

We are an AIM-quoted provider of venture capital (VC) to exciting Internet of Things companies, seeking to create value from investing in disruptive start-ups not generally available to AIM investors. This model gives, our shareholders, the opportunity to effectively act as Limited Partners (LPs), akin to the capital model in a traditional VC fund, but with the benefit of daily liquidity for your holding on the London Stock Exchange and no obligation to provide further capital.

Tern has built a portfolio of high-growth businesses where we see opportunities in sectors poised for substantial growth. We actively drive significant value creation from the organic growth of our companies and seek well-timed exits to realise a high return on the investment in due course.

Regrettably, the historically least successful company in our portfolio, InVMA (trading as Konektio), has recently entered administration and its value has been written down to zero. During 2023 we had lost confidence in this company to the extent that we declined to participate in its last investment round following which other existing, established shareholders followed suit.

Despite the fair value decrease, our portfolio is not just surviving, but thriving – a performance that I believe is much better than most early-stage investment portfolios in their space.

- Device Authority has raised significant new funds from an industry specialist investor allowing it to fully capitalise on its industry recognised technology and build on its partnerships with Microsoft, Entrust, Cybertrak and PTC.
- Wyld Networks has strong relationships with the European Space Agency, Eutelsat, Bayer Crop Science and Thales and has signed deployment deals in Saudi Arabia, Australia, Argentina and Brazil.
- FundamentalVR's revenue and gross margin have continued to improve in 2023. The company has made significant progress in expanding its contracted annual recurring revenue. Apple's continued expansion of activity in the metaverse space and Meta's global advertising campaign which featured FundamentalVR are both significant opportunities for the company.
- Talking Medicines is currently exceeding its management's forecasts. They have secured partnerships with for example data aggregator Socialgist, published with Sermo Physician Community and signed contracts with multiple US based Healthcare Advertising Agencies/Advertising Holding Companies that serve Pharmaceutical Companies.

Each of these companies and their services have developed into recognised technology leaders in their targeted markets and are now firmly into their growth stage.

Unlike in the traditional VC model, Tern provides more than just funding; it proactively supports the growth of its portfolio companies. Organic delivery has been strong, with significant commercial traction and growing recurring revenues, a key metric in establishing value for a trade sale, IPO or secondary buyout by another venture/PE backer.

During the year, we have taken the opportunity to increase our efficiency by significantly cutting our operating costs by 40%, halving our senior leadership team from four to two, and moving to a lower cost office.

However, we do need to retain the ability to continue to support our portfolio companies, especially successful ones, as they grow, otherwise we are at risk of being disproportionately diluted as they raise further funds. We always look for ways of realising capital from our portfolio where appropriate, but Tern also needs to retain the ability to issue new ordinary shares as the need arises.

It is worth noting that we have invested in each of our portfolio companies at an early-stage – in most cases before they had developed their products or built any meaningful routes to market. What each of them had demonstrated to us was exciting opportunities to develop new high growth businesses. We have, and continue to, invest significant time and effort with these companies to ensure that they create effective business models, grow their team effectively, and develop their market opportunities.

Chairman's Statement

continued

In particular, your Company gains notable value from the enormous experience of Bruce Leith and Al Sisto as veteran experienced technology entrepreneurs over many years, and particularly Al Sisto, who is based in the USA, and is embedded in current business development cultures there. This has enabled us to build strong US-based trading businesses for most of our portfolio companies, operating effectively in the world's strongest technology market.

Our goal is to build value in these businesses. Unlike other VCs we do not load management fees onto our companies, as we want them to use all their resources to grow in value. In addition, companies in these growth stages are not in any position to pay dividends – our return comes when we achieve a liquidity event. Thus, we strive to ensure that the value of our portfolio companies grow by at least 20% per year and when we do realise the value in these businesses (by trade sale or public listing) our goal is to return significant value to our shareholders, after taking into account the need for reinvestment in our portfolio. Whilst the carrying values of our portfolio companies at the year-end do not reflect this targeted annual increase in value, reflecting the required valuation methodology for our audited accounts, I believe that the true value that will ultimately be realised will be far higher.

One of the key characteristics of early-stage deep tech investments is that we have very little control of when a liquidity event is likely to emerge. What we must do is ensure that our companies continue to present significant value to an acquiring corporation. Also, in the ups and downs of the technology economies, there are seasons where acquisitions and public listings can happen, and other seasons where it is very difficult to achieve a good price. In these circumstances we must 'wait it out' until a good price can be achieved.

It is the Board's intention that the Company will not invest in any companies or entities not already part of Tern's existing portfolio at least until such time as the Company has realised material value from its current portfolio.

We consider that holding shares in Tern should therefore always be seen as a long-term investment. If our companies are growing well, as they are, the value should eventually be realised, and our shareholders will benefit from the funds received.

Our current portfolio has been working well, evidenced by the ability of every one of them to either achieve a listing on a stock market (Wyld Networks on NASDAQ First North Growth Market), or to raise later stage investment from new independent third-party investors (Device Authority, FundamentalVR, Talking Medicines). These achievements have been even more impressive by occurring during a challenging time for tech companies to raise capital, indicating that our positive confidence in the excellent potential of our companies is shared by other sources of risk capital.

I would also like to take the opportunity to recognise the outstanding performance of our executives and senior leadership team during this year. We are very much a 'hands-on' team who actively participate in the strategy and development of our various investment companies. I would also like to thank my fellow non-executive directors, Alan Howarth and Sarah Payne, who changed role from CFO to non-executive director in September 2023, for their excellent judgment and advice.

In short, a stake in Tern should be seen as an ability to participate in the development of attractive businesses generally not available to private investors whose growth, with our guidance and access to our network of resources, is aimed at providing long-term capital gains.

It is our job to ensure that we work to achieve the strongest return for your investment, and we assure you that we will continue to make that our principal goal.

Ian Ritchie
CBE, FREng, FRSE
Chairman

Portfolio Companies and Holdings

As at 31 December 2023

Device Authority Limited (“DA” or “Device Authority”)

Valuation £4.4m (31 December 2022: £11.9m)

Equity ownership 35.7% (before any dilution on exercise of share options)
Device Authority is a pioneering force in Identity and Access Management (IAM) tailored for interconnected device ecosystems, empowering organizations to realise ‘Zero Trust’ security on a comprehensive scale. In the realm of security, Zero Trust demands unwavering authentication, authorisation, and ongoing validation of all users, irrespective of their network positioning, ensuring their adherence to stringent security configurations and postures prior to accessing applications and data. Central to this paradigm is Device Authority’s acclaimed KeyScaler® platform, meticulously crafted to streamline and automate the management of IoT machine identities across their complete lifecycle. By furnishing end-to-end trust in devices, data, and operational integrity, KeyScaler® epitomizes a cornerstone in fortifying organisational security frameworks.

“Last year saw key breakthroughs for Device Authority, as winners of the Microsoft Global award and developing our Enterprise class SaaS platform (KSaaS) to meet demand and the shift in consumption models from customers. Working with the Board and our lead investor Tern we developed a strategy to bring in new investment and particularly cyber security investors to help accelerate the company trajectory into key vertical markets.”

Darron Antill CEO, Device Authority

FVRVS Limited (“FundamentalVR”)

Valuation £3.6m (31 December 2022: £3.6m)

Equity ownership 12.1% (before any dilution on exercise of share options)
A global leader in immersive surgical training, FundamentalVR was founded with the mission to accelerate human capability in surgery and medicine through virtual technologies to improve patient outcomes. The company’s innovative approach accelerates the industry shift towards digital surgery, addressing the competency gap at scale in training for intelligent operating rooms.

Its purpose-built Fundamental Surgery platform allows for full rehearsal of medical and surgical procedures, and its patented HapticVR™ technology mimics the physical touch, weight, resistance and feedback of surgical actions and accurately simulates the sensations of soft tissue, bone textures and muscle.

With over 15,000 competency-building sessions conducted globally and accredited by and affiliated with institutions like the American Academy of Opthalmology (AAO), the American Academy of Orthopaedic Surgeons (AAOS), and the Royal College of Surgeons of England, FundamentalVR remains committed to elevating performance and training skilled surgeons and Operating Room teams at scale.

“This has been an exciting year of growth and technological development for FundamentalVR as we have pushed both the spatial immersive VR and haptic capabilities of our platform and its use cases within the MedTech industry. We’re thrilled with the progress we’ve made, and we’re grateful for the steadfast support of Tern Plc, whose partnership continues to be instrumental in our journey.”

Richard Vincent CEO, FundamentalVR

Talking Medicines Limited (“Talking Medicines”)

Valuation £2.0m (31 December 2022: £1.8m)

Equity ownership 23.8% (before any dilution on exercise of share options)
Talking Medicines harnesses Advanced Data Science and Artificial Intelligence to empower healthcare advertising agencies, enabling them to consistently secure and retain Pharma clients while achieving heightened productivity and rapid project delivery. With a vision to transform the $30 billion healthcare marketing landscape, Talking Medicines unlocks strategic intelligence embedded within conversational data. By structuring conversational data,

Portfolio Companies and Holdings

Talking Medicines empowers customers to gain strategic advantages in analysis, measurement, and the cultivation of enhanced brand equity.

Talking Medicines' goal is to revolutionise the pharmaceutical industry with its cutting-edge social intelligence platform, PatientMetRx. By harnessing the power of artificial intelligence (AI) and natural language processing (NLP), the platform provides pharmaceutical companies with unparalleled insights into patient and healthcare providers (HCPs) experience and preferences using social data.

This allows companies to deliver a greater return on investment for marketing and to ultimately improve health outcomes for patients. With PatientMetRx, pharmaceutical companies have access to a level of scale and depth of patient insights that was previously impossible, enabling them to make data-driven decisions that drive success.

"AI Sisto and Tern have continued to add valuable support behind our strategic direction as we have grown both our AI product offering, and successfully expanded into the US market. We value this continued input and direction from an experienced team."

Jo Halliday CEO, Talking Medicines

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

Valuation £2.4m (31 December 2022: £6.0m) Holding 22.5%*
Wyld Networks, quoted on the NASDAQ First North Growth Market in Stockholm, enables affordable connectivity across the globe in areas where wireless coverage is unavailable. The company specialises in providing wireless connectivity between IoT sensors and Low-Earth-Orbit ("LEO") satellites supporting ISM, S and L band spectrum with its Wyld Connect solution for governments and businesses. The company has expanded its portfolio in launching Wyld Fusion a hybrid terrestrial and satellite IoT platform

"As we continue to move further into our commercialisation phase, we are appreciative for the continued support and guidance that Tern provides, helping us promote the company and our solution, navigate the challenges and capitalise on the further opportunities that lie ahead."

Alastair Williamson CEO, Wyld Networks

***Pursuant to Tern's funding facility announced on 12 June 2023, under which £418,205 was the balance outstanding as at 31 December 2023, Tern is required to maintain in escrow shares in Wyld at a value of not less than 1.5 times the value of outstanding amounts drawn down and accrued interest, as security for the Facility.**

DiffusionData Limited (previously Push Technology)

Valuation £0.02m (31 December 2022: £0.02m) Equity ownership <1%
DiffusionData elevates organizations' capacity for real-time communication. This extends beyond direct interactions to encompass indirect channels, such as automatically refreshing displayed data in real-time, without necessitating user prompts for updates. Interactive applications thrive on this capability, becoming infinitely more engaging as they seamlessly update in real-time with the arrival of new data.

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

Valuation £0.3m (31 December 2022: £0.1m)

Equity ownership 5.9%
SVVUK stands as a venture capital powerhouse, directing its investments towards a diverse array of private UK software companies, with a particular focus on the burgeoning immersive technology and metaverse sectors. This encompasses ventures involved in augmented and virtual reality, artificial intelligence, and cybersecurity. Presently, SVVUK boasts investments in two promising enterprises: RETìníZE Limited, a dynamic creative tech firm headquartered in Belfast, and Opsmatix Systems Limited, operating under the brand Jaid, an innovative technology company offering cutting-edge AI-driven human communication solutions. With an unwavering commitment to innovation, the SVVUK team remains dedicated to assessing additional investment prospects within their target sectors, including immersive tech, SaaS, cybersecurity, and IoT. Notably, many of these opportunities leverage artificial intelligence at their core, aligning seamlessly with SVVUK's overarching investment strategy.

Environmental, Social and Governance (ESG) Report

Our Commitment

The Company acknowledges the potential to generate positive economic, social, and environmental impacts. While many IoT applications have been marketed mainly for commercial purposes, our portfolio companies are dedicated to utilizing IoT technology to tackle some of the world's most urgent challenges.

The ESG Committee oversees the integration of ESG considerations into our investment decisions and monitors the performance of our portfolio companies in these areas.

Our ESG approach is rooted in the belief that achieving market-rate financial returns and fostering positive social and environmental outcomes are intertwined. We understand that delivering sustainable, long-term value to our stakeholders necessitates adhering to exemplary governance practices, fostering a positive societal impact, and preserving the environment.

We are committed to fostering positive change through our investments and continually setting higher standards for ESG practices across the industry.

Sustainable Investment

The Company is committed to promoting sustainable and responsible business practices. We prioritise integrating ESG factors into our decision-making process when assessing potential partners and maintain this commitment throughout our entire relationship, from inception to exit. We aim to align ourselves with international best practices by employing various screening, appraisal, and monitoring methods aligned with the United Nations Principles for Responsible Investment (PRI). Additionally, we actively engage with the companies we support on ESG matters, via quarterly ESG workshops. Through these efforts, we aim to cultivate a more equitable and sustainable business environment and promote positive social and environmental impacts.

All investments made in 2023 were directed towards our existing portfolio companies.

Environmental

The Company is dedicated to making a positive environmental impact. Our investment model reflects this dedication by prioritizing companies with a strong history of environmental responsibility and sustainability.

As part of our broader sustainability initiatives, we are actively working to decrease our carbon footprint. Through implementing various initiatives, including utilizing renewable energy sources and adopting more energy-efficient technologies, we aim to minimize our environmental impact and contribute to the global fight against climate change. By integrating sustainability into our investment model and reducing our carbon footprint, we strive to make a meaningful and positive impact on the world around us.

As part of our commitment to environmental sustainability, the Company has significantly reduced air travel, we have embraced modern communication technologies that have a minimal carbon footprint.

Social

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

We are dedicated to managing our business operations and stakeholder interactions in a socially responsible manner. This involves taking a proactive approach to identify and address potential impacts on the environment, society, and other stakeholders. By operating in a socially responsible manner, we aim to not only mitigate potential risks but also create opportunities to contribute positively to the communities in which we operate.

Governance

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

Financial Review

All sectors, excluding energy, saw a decline in venture investing and valuations during 2023 from high valuations and catch-up investing post Covid in 2021. This valuation adjustment flowed through to some of our portfolio companies and holdings. However, with the exception of Konektio, further details of which can be found below, our portfolio continued to focus on their fundamentals, showing growth through the period with a focus on maximising growth of annual recurring revenue.

Statement of Financial Position

Net assets at 31 December 2023 were £12.3m, a reduction of £12.6m from the net assets of £24.9m at 31 December 2022. This is principally due to movements in investments held at fair value through the profit or loss (FVTPL).

The negative impact of foreign exchange movements at Device Authority and Wyld Networks add to the decreases in the fair value of the portfolio leading to an overall decrease in our investments of £11.1m. Our cash balance was £0.6m lower at 31 December 2023 compared to 31 December 2022. Whilst our administration costs and other expenses declined in 2023 compared to 2022, we received no proceeds from the issue of new shares in 2023. Liabilities are £0.5m higher at 31 December 2023 compared to 31 December 2022 primarily due to a short term loan taken out in the year.

Investments held at FVTPL of £12.8m relate to our portfolio of high- growth technology companies. During the year, the fair value of this portfolio decreased by £11.1m.

Income Statement and Statement of Comprehensive Income

The total comprehensive loss for the year was £12.6m (2022: loss of £10.4m), primarily due to a negative movement in the fair value of investments held at FVTPL of £11.0m.

The Company seeks to keep its fees charged to portfolio companies at modest levels, as the Company's preference is for capital to instead be reinvested in the portfolio to drive value creation.

Administration costs decreased to £1.7m in 2023 (2022: £1.8m).

Other expenses decreased to £0.2m in 2023 (2022: £0.4m).

Statement of Cash Flows

During the year, £1.4m was used in the Company's operations, £1.4m deployed within our existing portfolio, via equity and loan investments.

A £0.5m loan was provided to the Company during the year and £0.1m was repaid.

Key performance indicators

The Company's financial Key Performance Indicators (KPIs) are focused on increasing net asset value, increasing net asset value per share and delivering consistent revenue growth of our portfolio. The Company also monitors non-financial KPIs, the primary focus being on the increase in employee numbers and annual recurring revenue per employee in our portfolio which is an indicator of growth to support commercial success. These indicators are monitored closely by the Board and the details of performance against these are given below.

The return on investments

Unrealised fair value:
Wyld Networks: £2.4m valuation (31 December 2022: £6.0m): The equity valuation has decreased due to a realisation of £1.5m in disposed Wyld Networks shares, the reduction in Wyld Networks' market capitalization of £2.0m (reduction in share price) plus an exchange rate loss of £0.05m;

Device Authority: £4.4m valuation (31 December 2022: £11.9m): The valuation has decreased due to a fair value reduction of £7.6m, including a foreign exchange rate loss of £0.2m. The valuation decrease arose from applying

Device Authority's latest fundraise valuation. The convertible loan notes of £0.7m provided by Tern to the company, plus interest, were converted to equity in December 2023. The audited valuation of Device Authority at 31 December 2023, stands at £4.4m, lower than previously announced unaudited valuations due to accounting adjustments necessitated for Level 3 investments.

Konektio: Nil valuation (31 December 2022: £0.5m): The equity value of Konektio was written off due to the company entering into administration in March 2024.

FundamentalVR: £3.6m valuation (31 December 2022: £3.6m): The valuation has remained static.

Talking Medicines: £2.0m valuation (31 December 2022: £1.8m): The valuation has increased due to additional funding provided to the company of £0.2m via CLN which was outstanding at the year end.

DiffusionData: £0.02m valuation (31 December 2022: £0.02m): The investment is valued at fair value with the price of the most recent valuation taken into account; and

SVVUK: £0.3m valuation (31 December 2022: £0.1m): The investment is valued at fair value at the value provided by the SVVUK fund. The fair value decrease of £0.1m was offset by the Tern investment of £0.3m.

Wyld Networks valuation is determined by reference to the appropriate quoted market price at the reporting date.

The global downturn in technology company valuations and multiples applied to early-stage businesses was taken into consideration when assessing the fair value of the portfolio.

Further details in respect of fair value measurement can be found in note 19.

The net assets of the Company at 31 December 2023 showed a reduction to £12.3m (31 December 2022: £24.9m). The net asset value per ordinary share as at 31 December 2023 decreased to 3.2p (31 December 2022: 6.4p).

The year-on-year unaudited annual recurring revenue (ARR) of our portfolio companies increased by 50% from 2022 to 2023 (97% from 2021 to 2022).

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

Employees in our portfolio companies decreased by 1% from 2022 to 2023 (increase of 66% from 2021 to 2022), however this decrease was balanced by an associated increase in ARR such that ARR per employee increased by 51% from 2022 to 2023 (19% from 2021 to 2022).

The Board and Senior Leadership Team

The Board

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

He founded OWL in 1984, which pioneered hypertext application development (a forerunner to the world wide web) selling the company to Panasonic in 1989. Since then, he has been personally involved in over 50 start-up high-tech businesses. Ian is a Fellow of the Royal Academy of Engineering, the Royal Society of Edinburgh, and a Fellow and past President of the British Computer Society. His TED talk has been viewed over 650,000 times.

Committee membership: Member of Audit Committee and Remuneration Committee

Alan Howarth
Non-Executive Director
Alan was appointed to the Board in November 2015. Alan has extensive experience as a Chairman and non-executive director of private and public companies. He is a specialist in building and selling technology businesses. Previously, Alan was a partner at Ernst & Young and is one of the founding partners of the EY Management Consulting practice in the UK. For the last eighteen years he has been managing a portfolio of non-executive appointments.

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

Sarah Payne
Non-Executive Director
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 was Tern's Finance Director until 15 September 2023 when she became a Non-Executive Director.

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

Committee membership: Member of Audit Committee and Member of ESG Committee

The Senior Leadership Team

Bruce Leith
Business Development Partner
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 was a Board member until 9 August 2023 and has acted in a non-Board role since. 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.

The Board and Senior Leadership Team

continued

Albert Sisto

Chief Executive Officer

Albert is one of the original founders of the Company and was appointed as CEO in September 2016. Albert was a Board member until 29 June 2023 and has acted in a non-Board role since. He 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.

Colin Nunn

Chief Financial Officer

Colin was appointed in August 2023 and is responsible for the Company's financial and compliance functions in a non-Board capacity.

Colin qualified with Deloitte as a Chartered Accountant and is now an FCA.

Colin's experience ranges from director level finance and operation roles in multi-billion pound quoted companies such as Macrovision, Lotus, BAe Systems and NTT, to being a finance director of over twenty start-ups, primarily in the IT sector.

Colin is also an active angel investor in several high growth technology companies.

Director’s Report

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

Principal activities

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

Results and dividends

The results for the year are shown in the Income Statement and Statement of Comprehensive Income on page 38.

The loss for the year was £12,608,130 (2022: £10,446,764 loss).

The directors do not recommend payment of a dividend.

Control procedures

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

The Company has an internal audit function to conduct reviews of our portfolio.

Financial Risk Management

The Company regularly assesses financial risks and their impact. These are discussed in further detail on note 2 to the financial statements.

Going concern

In accordance with the applicable accounting standards, the Company’s financial statements have been prepared on the going concern basis. This reflects the directors’ reasonable expectation, as explained in Note 1.3 to the financial statements, that the Company has sufficient resources to operate for the foreseeable future. The directors have conducted a detailed cash flow analysis to support this assessment and have concluded that the Company has adequate working capital to continue for at least 12 months.

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

In the event that additional funding is required, the management team is confident in their ability to secure the necessary funds from a variety of sources such as the sale of its investments held, the drawdown of secured loan funding and the issue of new shares.

Directors and directors’ interests

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

Ordinary shares at:	**31/12/2023**	**31/12/2022**
Alan Howarth	**–**	–
Bruce Leith	**8,923,899**	8,923,899
Sarah Payne	**166,666**	166,666
Ian Ritchie	**1,636,999**	1,636,999
Albert Sisto	**10,716,666**	10,716,666

Options granted to the directors by the Company are disclosed under the “Report on Directors Remuneration” on pages 30-32.

Significant shareholdings

As at 29 May 2024, no shareholder held more than 3% of the issued share capital.

Statement of Directors' responsibilities

As per applicable law and regulations, the directors hold the responsibility for preparing the Strategic Report, Directors' Reports, and financial statements. Company law mandates the preparation of financial statements for every financial period. In compliance with this law, the directors have chosen to prepare the Company's financial statements following UK-adopted international accounting standards. It is crucial to note that the directors cannot approve the financial statements unless they are fully satisfied that they provide a true and fair representation of the Company's financial status and profit or loss for that particular period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether UK-adopted international accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

Section 172 compliance

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

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

To ensure financial integrity, the non-executive directors are responsible for satisfying themselves on the integrity of financial information and that financial controls and systems of risk management are robust. Through a disciplined process of review and challenge by the Board, clear decisions on policy or strategy are adopted, and the senior management team is fully empowered to implement those decisions.

The Board considers the interests of stakeholders in all its discussions and decisions. In particular, stakeholder considerations are factored into key Board decisions, as illustrated in the table on below. More details about stakeholder engagement are provided in the Corporate Governance and Compliance section on pages 16-24.

Key board decisions	Stakeholder considerations
The Board frequently evaluated the need for fair value adjustments to the portfolio companies' valuations given the evolving macroeconomic conditions.	Consideration was given to the changes in valuation metrics that we observed in the global investment markets. Attention was paid to the effects of elevated inflation and interest rates on the operational strategies of the portfolio companies, along with the constraints posed by a tightening labour market, making recruitment more difficult.
The Board considered and approved follow-on investments in Sure Valley Ventures UK Software Technology Fund, Device Authority, Talking Medicines and Konektio.	Consideration was given to the strategic and financial value of being involved with early-stage investments.
The Board considered and approved the raising of debt finance through a secured loan facility.	Consideration was given to alternative sources of finance including equity raises. The Board evaluated various factors regarding the implications of committing to a medium-term loan facility on the business and its cashflows.

Disclosure of information

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

Publication of accounts on the Company website

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

Independent auditors

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

Signed on behalf of the board

Sarah Payne
Non-Executive Director

29 May 2024

Corporate Governance Statement

As Chairman, it is my responsibility to ensure the promotion and integration of robust corporate governance standards throughout the organisation. Our Board collectively shares the duty of establishing explicit expectations regarding the Company's culture, values, and behaviours, while actively endorsing sound corporate governance practices. We understand the importance of nurturing transparency, accountability, and ethical conduct across all facets of our operations. By steadfastly adhering to these foundational principles, we aim to cultivate and uphold the trust of our stakeholders, encompassing our portfolio, shareholders, employees, and the broader community.

The Company's shares are listed on AIM, making it subject to the UK City Code on Takeovers and Mergers. The Board places great emphasis on upholding elevated standards of corporate governance, adhering to the Corporate Governance Code issued by the Quoted Company Alliance (QCA). This report, in conjunction with the Report on Directors' Remuneration, delineates how the Company implements specific provisions of sound corporate governance.

For a comprehensive and current assessment of the Company's adherence to the QCA's ten principles of corporate governance, please consult the AIM Rule 26 section of our website (ternplc.com). We are dedicated to ensuring that our corporate governance practices remain consistent with best practices and that we continuously evaluate the evolving needs and expectations of our stakeholders.

The Board acknowledges the importance of nurturing a corporate culture built upon steadfast ethical values and behaviors, as it forms the cornerstone of fostering a positive work environment conducive to individual growth. We firmly believe that this approach will significantly contribute to enhancing shareholder value. Consequently, the Company upholds a zero-tolerance stance towards bribery and corruption, underscored by the implementation of a robust anti-bribery policy.

We remain steadfast in our commitment to uphold compliance with all pertinent laws, regulations, and industry standards, while conducting our operations in alignment with established best practices. Our overarching aim is to cultivate and sustain the trust of our stakeholders by conducting our affairs with unwavering integrity, transparency, and accountability.

Role of the Board

The Board holds itself accountable to both shareholders and broader stakeholders for the overall performance of the Company. Our primary duty is to provide strategic direction and foster the long-term, sustainable success of the Company, while simultaneously creating value for our shareholders and making a positive impact on society. Recognising the criticality of implementing prudent and effective controls, we aim to assess and manage risks judiciously.

We endeavour to strike a delicate balance between embracing calculated risk-taking and implementing robust risk management practices. Our decisions are meticulously aligned with our corporate values and objectives. Through our actions, we are dedicated to upholding the trust and confidence of our stakeholders, all while fulfilling our commitment to sustainable growth and responsible business conduct.

The Board maintains a schedule outlining matters reserved for its consideration and approval, complemented by a framework of operating principles. These matters encompass:

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

Board Meetings

The Board convened formally on nine occasions throughout the year. Furthermore, additional Board and Committee meetings were organised on an ad-hoc basis as needed to deliberate on specific corporate activities, such as signing off on statutory financial reporting and overseeing director benefits. Directors are required to attend all scheduled Board and Committee meetings relevant to their roles.

The attendance of individual directors at scheduled Board and Committee meetings is detailed in the table below:

	Board Meetings (out of 9)	**Audit Committee (out of 1)**	**Remuneration Committee (out of 2)**	**ESG Committee (out of 1)**
Ian Ritchie	9	1	2	n/a
Albert Sisto	9[1]	1[1]	2[1]	n/a
Sarah Payne	9	1[1]	n/a	1
Bruce Leith	9[1]	n/a	n/a	n/a
Matthew Scherba	6	n/a	n/a	n/a
Alan Howarth	9	1	2	1

Note 1: Attendance by invitation.

Other meetings, not listed in the table above, were conducted intermittently throughout the year to address various matters. These included discussions on equity placings and investment activities across the portfolio.

Roles and Responsibilities of the Board

Composition

At the start of 2023, the board structure comprised four executive directors and two independent non-executive directors. During the year, the following changes to the composition of the board occurred:

	Resigned/ ceased as executive director	**Appointed as non-executive director**
Albert Sisto	29 June 2023	–
Bruce Leith	9 August 2023	–
Matthew Scherba	9 August 2023	–
Sarah Payne	15 September 2023	15 September 2023

As at 31 December 2023, the board comprised of no executive directors and three non-executive directors.

Each member is selected based on their range of skills and experience, tailored to meet the business needs and support the Company’s strategic objectives. Recognising their individual roles and collective responsibility, board members are committed to ensuring the Company's long-term success.

The Board maintains a balanced division of responsibilities, preventing any concentration of power or undue reliance on any single individual. The presence of independent directors not only promotes good governance but also fosters diversity of thought and inclusivity within the Board.

Bespoke training is provided as needed, covering essential topics such as regulatory requirements and technical expertise, to continually enhance the skill sets of board members.

Company Secretary
All Board Directors have access to the guidance and expertise of the Company Secretary to aid them in fulfilling their responsibilities and navigating governance matters. On 15 September 2023, Sarah Payne resigned from her position as Company Secretary and was replaced by MSP Corporate Services Limited. MSP Corporate Services are a professional firm specialising in company secretarial services.

The Board is equipped with appropriate policies, procedures, and resources to facilitate its smooth and effective functioning. The Company diligently maintains accurate records of Board and Committee meetings, ensuring timely preparation and enabling any unresolved concerns of Directors to be duly documented. It's noteworthy that no concerns were recorded during 2023.

Chair
Ian Ritchie has served as the Chair of the Board at Tern since his appointment in 2017. In this capacity, the Chair assumes a pivotal role in leading the Board and fostering its efficient operation. This involves cultivating an environment conducive to open dialogue and constructive debate among both executive and non-executive directors. Additionally, the Chair plays a crucial role in facilitating meaningful engagement with shareholders and other stakeholders, while also setting the agenda for Board meetings.

Chief Executive Officer
Albert Sisto assumed the role of Chief Executive Officer (CEO) of Tern in 2016. Albert was a Board member until 29 June 2023 and has acted in a non-board role since. As CEO, he holds the responsibility for crafting the Company's strategy, subject to approval by the Board. Additionally, he advises the Board on execution of the Company's strategy and its investment policy, ensuring alignment with organizational objectives. The CEO is accountable for implementing decisions made by the Board and its Committees.

Moreover, the CEO oversees the day-to-day operations of the business, ensuring smooth functionality and adherence to the culture endorsed by the Board across all facets of the Company.

Detailed information regarding all Board members can be found on page 11.

Independence of the Board

The Board's adherence to the recommended criteria outlined in the relevant corporate governance code (QCA Code) has ensured the overall independence of the Board. Each non-executive director's independence has been assessed against the criteria specified in the QCA Code. The Board affirms that none of these criteria apply, thereby confirming the independence of all non-executive directors in character and judgment.

Furthermore, the Board affirms the independence of the non-executive Chairman and non-executive directors from management, ensuring they are free from any relationships that may impact their impartial judgment.

The shareholdings of the non-executive directors at 31 December 2023 are as follows:

Ian Ritchie (Chairman) – 1,636,999
Sarah Payne – 166,666

Additionally, the share options held by the non-executive directors are disclosed on page 32.

Despite these holdings, the Board is confident that neither the Chairman's nor the non-executive director's ownership positions compromise their ability to act in the best interests of the Company and its stakeholders.

Appointment of Directors

The Board holds responsibility for all aspects concerning the appointment of directors, encompassing the determination of qualifications and characteristics necessary for the role, the identification of suitable candidates, and the selection of appointees. Consequently, the Company has not established a separate Nominations Committee.

The Remuneration Committee is tasked with devising the executive framework and remuneration policy, ensuring its alignment with the Company's strategy, objectives, and values.

In accordance with the Articles of Association, each director is mandated to seek re-election after serving no more than three years in office. Therefore, the Board deems it inappropriate to appoint non-executive directors for fixed terms as recommended by the Code. Instead, the Board will assess the performance of each non-executive director and decide on their re-election or replacement accordingly, thereby maintaining a dynamic and effective Board.

Board Evaluation

The Board acknowledges the significance of consistently evaluating its performance and conducts an annual review to assess its overall effectiveness. This evaluation aligns with the QCA's Guidance on Board Effectiveness and encompasses considerations such as the Board's composition, diversity, skills, and overall performance. Any areas identified for improvement are promptly addressed, and appropriate actions are implemented to rectify them.

Led by the Chairman, the Board conducts an annual evaluation process.

As a small and growing company, we maintain a continuous monitoring and evaluation of individual director performance through regular reviews and discussions at each Board meeting. Although we currently lack a formal process for director evaluation, we establish and review individual Key Performance Indicators (KPIs) annually. We remain open to the possibility of implementing a formal evaluation process in the future as the Company continues to expand.

Furthermore, we conduct ongoing reviews of the effectiveness of our Board and Committees to ensure our evaluation processes align with our evolving needs. Any concerns or issues regarding individual director or Board performance are promptly addressed through timely discussions and appropriate actions.

Board committees

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

Audit Committee

Established in November 2016, the Audit Committee is chaired by Alan Howarth.

The Committee's primary role is to oversee and monitor the financial reporting process of the Company, ensuring its accuracy, transparency, and compliance with legal and regulatory standards. Comprising independent non-executive directors with specialised expertise in accounting and financial reporting, the Audit Committee shoulders several key responsibilities:

- Supervising the appointment, reappointment, and removal of the external auditor. This involves assessing the effectiveness of the auditor's work, approving their remuneration and terms of engagement, and scrutinising their independence and objectivity.
- Reviewing the Company's financial statements to guarantee their accuracy in reflecting the financial performance and position of the Company. All financial information published by the Company is subject to the approval of the Audit Committee.
- Ensuring the Company's financial reporting practices adhere to legal and regulatory requirements, including accounting standards and disclosure obligations.

- Assessing the Company's compliance with ethical standards and policies, particularly those pertaining to conflicts of interest and financial fraud.
- Reporting the outcomes of their oversight activities to the Board of Directors and providing recommendations for improvement when necessary.
- Reviewing the internal audit function's findings regarding control reviews of our portfolio.

The Committee holds the responsibility for establishing and upholding a robust internal control system aimed at safeguarding shareholders' investments and protecting the Company's assets. The primary objective of this system is to manage, rather than eliminate, the risks associated with achieving business objectives.

While the Committee endeavors to implement effective controls, it acknowledges that no control system can entirely eradicate the risk of material misstatement or loss. Even the most comprehensive system can only offer reasonable assurance that these risks are appropriately managed.

To ensure the efficacy of the internal control system, the Committee reviews and evaluates its design, implementation, and operation. Moreover, the Committee endeavors to identify and rectify any weaknesses or deficiencies in the system, implementing suitable corrective measures as needed.

Overall, the Audit Committee plays a pivotal role in upholding the integrity of the Company's financial reporting process, maintaining the trust of investors and other stakeholders, mitigating risks associated with business operations, and fostering transparency and accountability in the Company's activities.

In 2023, one Audit Committee meeting was convened, of which were attended by all members.

Remuneration Committee

The Remuneration Committee, led by Alan Howarth, was established in November 2016. A comprehensive Remuneration Report can be found on pages 30-32.

In 2023, the Remuneration Committee convened for two meetings, all of which were attended by all members.

Although the Audit Committee and Remuneration Committee do not furnish formal reports, they relay all recommendations to the Board. Given the Company's size and the Board's familiarity with its operations, formal reports are deemed unnecessary.

ESG Committee

The ESG Committee, chaired by Alan Howarth, was established in 2021. A comprehensive ESG Report can be found on pages 7-8.

This Committee is entrusted with overseeing and advancing the Company's ESG strategy, initiatives, and performance. It ensures that the Company's operations are in line with its ESG goals and objectives, and that ESG considerations are seamlessly integrated into the Company's decision-making processes.

In 2023, the ESG Committee held one meeting, of which were attended by all members.

External Advisors

Throughout the year, the Board actively seeks advice and guidance from its esteemed partners and advisors to maintain the Company's seamless operations. In pursuit of this goal, the Board consistently consults with its AIM Nominated Adviser, Allenby Capital, along with corporate lawyers from Reed Smith, and auditors from CLA Evelyn Partners. Additionally, external experts are enlisted to provide specialised support in various areas such as human resources, corporate policies, and financial PR, as the need arises.

Furthermore, the Board relies on consultancy services to conduct thorough evaluations of new business opportunities, including technical due diligence, thereby ensuring well-informed decision-making processes.

Conflicts of Interest

The Board maintains a vigilant approach in identifying and addressing any potential conflicts of interest that may arise among its Directors. In such instances, a thorough review is conducted, and recommendations are made regarding whether the Director's involvement should be authorised, along with any necessary conditions.

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

In alignment with Rule 21 of the AIM Rules, the Company has implemented a comprehensive share dealing policy, which all employees, including new joiners, are obligated to adhere to. Additionally, anti-bribery and whistleblowing policies outlined in the Company handbook are communicated to all employees. These policies foster an open and inclusive culture that encourages employees to voice their concerns without fear of retaliation, thereby promoting ethical behaviour among all Directors and employees.

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

At its core, the Company recognizes the importance of its stakeholders to its success as it endeavors to become the leading investment company in the UK specialising in the IoT. Key stakeholders include the portfolio, employees, shareholders, suppliers, and the broader community in which it operates.

Share dealing, anti-bribery and whistleblowing

Aligned with Rule 21 of the AIM Rules, the Company has established a comprehensive share dealing policy, obligating all employees, including new recruits, to comply with its provisions. Moreover, the Company has formulated anti-bribery and whistleblowing policies detailed in the Company handbook, disseminated to all employees.

Fostering an open and inclusive culture, the Company actively encourages employees to voice concerns without apprehension of reprisal. These policies are designed to cultivate ethical conduct among all Directors and employees, urging them to report any concerns that may warrant attention from any Director.

Our Key Stakeholders

At our core, we recognise the indispensable role our stakeholders play in our journey to becoming the foremost investment company in the UK specializing in the IoT. Our key stakeholders encompass our portfolio, employees, shareholders, suppliers, and the broader community within which we operate.

Internal controls

The Board bears the ultimate responsibility for both setting up and overseeing internal control systems, as well as evaluating their effectiveness. Recognising the pivotal role of the internal control environment in the Company's success, the Board places significant emphasis on this aspect. However, it acknowledges that while these systems can provide reasonable assurance, they cannot offer absolute protection 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 senior leadership team;
- An annual budgeting process which is approved by the Board, performance against which is reviewed at every Board meeting;
- No single individual has the ability to authorise payments in excess of £2,000; and
- Monthly management reporting to the Board against agreed KPIs.

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

Monthly reports from the portfolio companies are submitted to Tern's Board, with their CEOs required to present at least once annually. These presentations serve as a means for the Board to track the companies' progress and address any emerging concerns or challenges.

The active involvement of our Directors with our portfolio companies constitutes a cornerstone of our investment strategy. It ensures close alignment with the companies' objectives and facilitates effective support when necessary. Through fostering these robust relationships, we strive to cultivate long-term value and propel the success of our portfolio companies.

Our employees
Our workforce stands at the heart of our business success. We are committed to providing exceptional service to our portfolio companies by fostering an environment where our employees are fully engaged and actively involved in executing the Company's strategy. As a growing enterprise with a modest number of employees, each member maintains regular communication with the CEO and other directors. We promote open dialogue and encourage feedback, ensuring a collaborative and transparent working culture.

Our shareholders
We recognize the significance of our shareholders and their vested interest in our Company's strategy, performance, and governance. Their perspectives are invaluable to us, and we actively strive to engage with them on a regular basis to ensure they are well-informed whenever feasible.

To foster this dialogue, we regularly host online investor presentations, during which we offer updates on our progress and extend invitations to shareholders to submit their questions and provide feedback.

Annual General Meeting (AGM)
The AGM serves as a pivotal event for our Company, offering shareholders, particularly private investors, a formal platform to interact with our Board. Throughout the AGM, we actively encourage shareholders to pose questions and share feedback on matters pertaining to our Company's operations, strategy, and performance.

Post the formal proceedings, our directors and senior leadership team remain available for informal discussions, providing shareholders with an additional opportunity to exchange views and foster dialogue.

Shareholder Presentations
To maintain consistent communication with our shareholders, we conduct a minimum of two shareholder presentations annually. These calls provide our shareholders with a platform to pose questions and offer feedback directly to the Board. Additionally, CEOs from our portfolio companies often join these calls, enriching the discussions and providing further insights.

Annual Report
We release an annual report and accounts every year, offering a comprehensive review of the Company's performance during the year and delineating the strategy for the forthcoming year. This report is accessible in both online and paper formats, ensuring accessibility for all stakeholders.

Regulatory and non-regulatory announcements
To ensure prompt and precise communication with our stakeholders, we issue regulatory announcements as mandated, alongside non-regulatory announcements aimed at conveying noteworthy developments within our portfolio. These announcements elucidate the relevance and implications of the press release.

In tandem with our regulatory news updates, we periodically commission analyst reports from Progressive Research. These reports offer a deeper analysis to support our regulatory announcements, providing stakeholders with enhanced insights into our operations and strategic initiatives.

Website
The Company's website (ternplc.com) serves as a valuable hub for shareholders and interested parties, offering comprehensive and updated news and information. To efficiently manage inquiries, a dedicated email address (info@ternplc.com) is provided and overseen by the Company's financial public relations advisors. While the Company exercises discretion in responding to queries, all provided information is openly available in the public domain. The Board is regularly briefed on key themes through a monthly summary of inquiries, and any pertinent queries are promptly brought to the Board's attention for review.

Additionally, the website boasts a dedicated investor section, housing financial results, analyst coverage, corporate governance details, Board information, constitutional and admission documents, and a direct link to regulatory announcements.

Our suppliers

Our company places significant importance on our relationships with suppliers, understanding the value of ongoing interaction. Through these close partnerships, we gain valuable feedback on our performance, which informs our efforts to enhance operations and service delivery.

Furthermore, our AIM nominated adviser, brokers, and PR agency play pivotal roles in providing guidance and support to bolster our external communication efforts and foster stronger engagement with our broader stakeholder community. Their input is highly valued, not only in day-to-day operations but also in our annual Board Evaluation process.

Our Community

We understand the critical role of environmental, social, and governance (ESG) factors in our business operations and are committed to making a positive impact on our community. As responsible investors, we actively engage with our portfolio companies, urging them to prioritise their environmental and social responsibilities. Our companies often undertake initiatives aimed at addressing ESG issues, including efforts to enhance efficiency and minimise waste.

Aligned with our sustainability commitment for 2023, we have collaborated closely with our portfolio to ensure they fulfil their ESG responsibilities and make tangible strides toward environmental and community improvement.

Ian Ritchie
Chairman

The effective management of the business and the fulfilment of the Company's strategic goals entail various risks, which are consistently monitored by the Board. The Board bears the ultimate responsibility for establishing and overseeing the risk framework. It deems the risks outlined below as pivotal areas that could potentially hinder the attainment of overarching strategic objectives.

The primary controls governing the Group's main risks and uncertainties are documented within the Company's risk register. This register includes an evaluation of the risk, its likelihood of occurrence, the severity of its impact, and the actions taken to mitigate it. It undergoes a thorough review by the Board at least quarterly. The strength of these mitigating actions determines the net risk score and identifies any additional measures required. Furthermore, this review evaluates the effectiveness of the Company's risk management and associated control systems.

The senior management team convene at least weekly to assess ongoing trading performance across the portfolio. They discuss budgets, forecasts, emerging opportunities, and any new risks arising from ongoing trading activities. While it is acknowledged that no system can entirely eradicate risk, understanding operational risk remains central to the management process.

Identifying, assessing, and managing the primary risks and uncertainties confronting the Company is an essential aspect of its operational framework. Market and economic conditions are acknowledged as significant risks in the current trading landscape. To mitigate this risk, we closely monitor trading conditions and the performance of our portfolio.

An internal audit function is in place to evaluate and appraise the controls within our portfolio, ensuring that any risks are promptly identified and communicated to the Audit Committee, which then escalates and reports them to the Board. The Company is subject to various risks and uncertainties, not all of which are entirely within its control, as they are influenced by the broader macroeconomic and legislative environment in which the Company operates.

To provide shareholders with insight into the primary operational risks identified by the business, they are succinctly outlined below:

The risks encompass various aspects, such as the Company and its portfolio facing challenges in securing subsequent rounds of funding during critical development stages, and encountering difficulties in sourcing or retaining appropriately skilled and experienced personnel. Additional risks emerge when competing technologies enter the market or when anticipated commercial success is delayed, resulting in prolonged cash flow strain. Furthermore, technological uncertainties, potential IP infringements, susceptibility to cybercrime, and other administrative, taxation, or compliance issues pose further concerns.

Changes in the macroeconomic environment or fluctuations in valuations within the technology sector may affect the fair value of the portfolio, potentially leading to a decrease in overall company value.

It is noteworthy that the Company's operations do not extend to Ukraine or Russia; hence, it remains unaffected by the ongoing political conflict in those regions.

Principal Risks and Uncertainties

Assessment of business risk

The Board routinely conducts reviews of operational, financial and strategic risks, with support from its committees. The Company has established operating procedures that encompass a robust system for reporting both financial and non-financial information to the Board. This includes:

- reports from management with a review of the business at each Board meeting, focusing on any new decisions or emerging risks;
- reports on the performance of the portfolio;
- quarterly review of the risk register;
- deliberation on matters relating to governance and compliance;

- reports from sub-committees presented during their meetings; and
- examination of reports compiled by third party entities.

Ability to maximise value from the portfolio

Risk
The ability to maximise value from the portfolio may be hindered by uncertainties surrounding the timing of disposal of holdings, leading to unpredictable cash returns to the Company. Moreover, fluctuations in valuations within the technology sector could exacerbate this risk.

Potential Impact
If syndicated investment rounds are delayed, companies within the portfolio may face additional funding requirements, potentially exceeding those forecasted in the Company's cash flow. Consequently, the fair value of the portfolio may decrease.

Mitigation Strategy
To address these risks, the Company implements the following mitigation strategies:

- **Maintaining Sufficient Cash Resources:** Seeking to ensure that the Company holds adequate cash reserves to manage ongoing operational and investment commitments.
- **Regular Operational Reviews:** Conducting weekly operational reviews by the senior management team and presenting performance reviews at each meeting to stay abreast of developments.
- **Financial Performance Focus at Board Meetings:** Making financial performance a recurring agenda item at Board meetings to monitor and address any emerging issues.
- **Regular CEO Meetings:** Holding meetings with portfolio CEOs to discuss operational performance and strategise on key initiatives.

Dominance of a single company in the portfolio

Risk
The portfolio is dominated by one or two companies.

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

Mitigation Strategy
The Company seeks to diversify the portfolio to insulate itself against poor performance of any single company or market sector.

Inherent risk of building a portfolio of early-stage companies

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

Risks include portfolio companies and holdings not being able to secure later rounds of funding at crucial development inflection points and not being able to source or retain appropriately skilled and experienced staff.

Other risks arise where competing technologies enter the market, or commercial traction is not achieved within the forecast timeframe with achieving commercial success becoming protracted, potentially leading to severe cash flow pressure.

The current volatility of global stock markets impacting valuations was particularly noted by the Board.

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

Potential Impact
These factors may lead to the Company recognising a negative fair value movement in the valuation of its investments or loss on disposal of an asset.

Mitigation Strategy
The Company undergoes rigorous due diligence before proceeding with backing a new company or investing in an existing portfolio company.

The Company actively takes an influential role in the strategic direction of its companies and regularly monitors performance.

The Company's strategy has been formulated by the management team with a strong track record of generating gains from early-stage companies within the technology sector.

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

Retain and attract successful staff

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

Potential Impact
The Company depends on the experience, skill and judgement of its team in both selecting and nurturing portfolio companies. The success of the Company is dependent on having the right individuals in place.

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

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

Key individuals in the Company are offered a competitive remuneration package.

Cyber security breaches

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

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

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

Maintain required level of capital to operate at an optimum level

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

The timing of portfolio company realisations is uncertain and cash returns to the Company are therefore not predictable. There may be an impact from other investors strategies on portfolio company valuations if the Company is unable to participate in funding rounds due to insufficient funds.

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

Mitigation Strategy
The Company seeks to 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 for the Board and regular working capital reviews are undertaken.

Foreign exchange risk

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

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

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

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

Competition risk

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

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

The Company may miss out on new opportunities and may also have its portfolio valuation impacted negatively if it does not match terms offered by competitors.

Mitigation Strategy
The Company seeks to mitigate competition by having a diverse pipeline of opportunities.

The management team has a strong track record of scaling growth companies; this should be attractive to new companies.

ESG

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

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

Mitigation Strategy
Development of a company ESG strategy and assessing our carbon footprint and targeting emission reductions as well as focusing on stakeholder interactions and ensuring the Company culture reflects all elements of the ESG strategy.

Macroeconomic issues

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

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

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

Detrimental impact on performance of companies with exposure to Russia or Ukraine.

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

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

Reputational risk

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

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

Mitigation Strategy
The Board maintains regular interaction and communication with its stakeholders and openly articulates its culture and strategy through the year.

Sarah Payne
Non-executive Director

Director’s Remuneration

I am delighted to present the Remuneration Committee Report for the year ending 31 December 2023. This report encapsulates the activities undertaken by the Remuneration Committee, outlines the remuneration policy, provides details regarding directors' remuneration packages, and offers a summary of all remuneration disbursed to directors throughout 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’s responsibilities encompass establishing the framework and remuneration policy for directors. It determines the remuneration for the Board, finalizes the terms of employment for all Board members, including those upon cessation of employment, ensuring that all payments are equitable to both the employee and the Company. Furthermore, the Committee continuously assesses the suitability of the remuneration policies, taking into account prevailing conditions within the Company and current data on other entities, including benchmarking exercises conducted for AIM companies. Additionally, it ensures compliance with all requirements pertaining to the disclosure of remuneration.

There were two Remuneration Committee meetings in 2023. This was 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 for the Directors.

Following the Board reorganisation in 2023, the overall remuneration to directors fell by 32% compared to 2022, or 37% once 2023 inflation (at 7.3%) is taken into account.

Remuneration Policy

The overarching policy of the Remuneration Committee is to craft remuneration packages strategically tailored to attract, motivate, and retain directors possessing the requisite calibre to steer the Company forward, while also rewarding them for augmenting shareholder value and returns. With this objective in mind, the Committee endeavors to offer remuneration levels that are commensurate with the responsibilities and contributions of directors, ensuring competitive compensation programs structured around the midpoint of our peer group. This approach is balanced with the imperative of maintaining affordability for the Company.

The directors’ remuneration package comprises three primary elements: a basic annual salary, a performance-related bonus, and participation in the Company’s share option plan.

Only base salaries are pensionable. All salaries are reviewed regularly 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. At 31 December 2023 there were no executive directors.

Non-executive directors

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

The Company Share Option Plan

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

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

No options were granted to directors during the year ended 31 December 2023.

Company Share options are disclosed in further detail on pages 54-55.

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. No performance related bonuses were awarded in 2023.

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

One executive received a bonus in 2023.

Director's Remuneration

The remuneration of each director, excluding share options awards, during the year ended 31 December 2023 as detailed in the table below:

	Basic Salary £000	Pension Contributions £000	Bonus £000	Other Benefits £000	2023 £000	2022 £000
EXECUTIVE DIRECTORS						
Albert Sisto (director until 29 June 2023)	**81.9**	**8.2**	**–**	**11.3**	**101.4**	205.2
Sarah Payne (executive director until 15 September 2023)	**105.3**	**10.5**	**–**	**0.9**	**116.7**	155.3
Bruce Leith (director until 9 August 2023)	**83.5**	**8.4**	**–**	**15.3**	**107.2**	175.3
Matthew Scherba (director until 9 August 2023)	**92.2**	**9.1**	**45.0**	**9.1**	**155.4**	157.8
NON-EXECUTIVE DIRECTORS						
Ian Ritchie	**42.6**	**–**	**–**	**–**	**42.6**	40.3
Alan Howarth	**35.7**	**–**	**–**	**–**	**35.7**	33.8
Sarah Payne (non-executive director from 15 September 2023)	**10.3**	**–**	**–**	**–**	**10.3**	–
	451.5	**36.2**	**45.0**	**36.6**	**569.3**	767.7
Share based payment charge					**–**	68.4
Total remuneration	**451.5**	**36.2**	**45.0**	**36.6**	**569.3**	836.1

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

Director's Remuneration

continued

Director's Share Options

The director's outstanding share options as at 31 December 2023 are shown in the table below:

	2022	Granted	Exercised	Expired	2023	Option price	Expiry date
EXECUTIVE DIRECTORS							
Albert Sisto (director until 29 June 2023)	2,500,000	–	–	–	**2,500,000**	8.5p	18 May 2027
Bruce Leith (director until 10 August 2023)	2,500,000	–	–	–	**2,500,000**	8.5p	18 May 2027
Matthew Scherba (director until 10 August 2023)	2,500,000	–	–	–	**2,500,000**	9.15p	1 Dec 2029
NON-EXECUTIVE DIRECTORS							
Ian Ritchie	–	–	–	–	**–**		
Alan Howarth	250,000	–	–	(250,000)	**–**	13p	22 Feb 2023
Sarah Payne	2,500,000	–			**2,500,000**	8.5p	15 Mar 2024

The vesting criteria for the Company's share options can be found on page 31.

Alan Howarth
Chairman of the Remuneration Committee

Independent Auditor's Report

to the Members of Tern Plc

Opinion

We have audited the financial statements of Tern Plc (the 'company') for the year ended 31 December 2023 which comprise the Income Statement and Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK- adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its losses for the year then ended;
- have been properly prepared in accordance with UK- adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Key audit matters

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

Key audit matter	Description of risk	How the matter was addressed in the audit
Valuation of investments	Investments are the most significant balance on the statement of financial position and the value is reliant on third party financial information and projections. Due to the nature of the investments there is a lack of observable inputs and therefore the key risk is considered to be the fair value of investments. The company's accounting policy on investments is shown in note 1.8 to the financial statements, critical accounting judgements and estimates included in note 3 and related disclosures are included in note 11.	As part of our procedures, we conducted the following work: For investments listed on a recognised exchange, we compared the valuation of investments held in the Statement of Financial Position to the valuation derived from the publicly available share price from the exchange as at 31 December 2023. For investments where there was a third party fundraise in the year, we compared the valuation of investments held in the Statement of Financial Position to the valuation derived from the third party fundraise. For all other investments, we received valuations prepared by management and challenged the valuation of investments by assessing the methodology used by management, corroborating the key inputs and assumptions as appropriate.

Key audit matter	Description of risk	How the matter was addressed in the audit
Valuation of investments *(continued)*		Where appropriate, we have utilised our specialist valuations team to review the validity of the methodology and calculations used to value the investments by management. We tested the mathematical accuracy of the valuation calculations.

Our application of materiality

The materiality for the financial statements was set at £530,000. 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.

In determining materiality, we made the significant judgement that net assets is considered to be the most appropriate benchmark because the business is predominantly asset based and the benchmark aligns with the users of the financial statements which primarily focused on capital gains.

Financial statement materiality represents 4.3% of the company's net assets as presented on the face of the Statement of Financial Position. We also applied a specific materiality for all balances other than those in relation to investments which was set £190,000. This is based on 10% of total expenditure in the year.

Performance materiality for the company's financial statements was set at £397,500, being 75% of financial statement materiality, for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. We have set it at this amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds financial statement materiality. We judged this level to be appropriate based on our understanding of the company and its financial statements, as updated by our risk assessment procedures and our expectation regarding current period misstatements including considering experience from previous audits. The level of 75% was set due to the uncertainty of estimation in the investments balance.

Performance materiality, in respect of all balances other than those in relation to the investments balance, has been set at 75% of specific financial statements materiality, being £142,500, for a similar reason to the above.

Conclusions relating to going concern

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

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

- Challenging the key assumptions used in the detailed budgets and forecasts prepared by management for the financial year to 31 December 2024 and period to May 2025;
- Assessing the mathematical accuracy of the detailed budgets and forecasts and agreeing to the underlying key assumptions;
- Comparing actual cash flow performance in 2023 to management's prior year forecasts and comparing actual cash flow performance in 2024 to the date of this report to management's 2024 forecast;
- Reviewing bank statements to monitor the cash position of the company post year end;
- Obtaining an understanding of significant expected cash outflows in the forthcoming 12-month period from the date of signing these financial statements including any cash requirements the company may have to provide to its portfolio companies; and
- Considering the sensitivity of the assumptions and re- assessing headroom after sensitivity.

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

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

Other information

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

- The Senior Leadership Team updating operating procedures, manuals and internal controls as legal and regulatory requirements change with the review and approval of the Board;
- The Senior Leadership Teams' close involvement in the day-to-day running of the business with regular communication to the Board, 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 UK Companies Act 2006 and UK-adopted international accounting standards in respect of the preparation and presentation of the financial statements, and
- The AIM rules and Market Abuse Regulations.

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

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

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

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

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

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

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

Use of our report

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

Mark Bishop (Senior Statutory Auditor)

For and on behalf of CLA Evelyn Partners Limited

Statutory Auditor
Chartered Accountants
45 Gresham Street
London EC2V 7BG
29 May 2024

Income Statement and Statement of Comprehensive Income

For the year ended 31 December 2023

	Notes	2023 £	2022 £
Fee income		**199,233**	66,013
Movement in fair value of investments	11	**(11,046,575)**	(8,415,781)
Profit on disposal		**28,589**	11,208
Total investment loss		**(10,818,753)**	(8,338,560)
Administration costs		**(1,711,892)**	(1,792,523)
Other expenses	6	**(194,317)**	(366,596)
Movement in fair value of Derivative Financial Instruments	18	**35,749**	–
Operating loss	7	**(12,689,213)**	(10,497,679)
Finance income	8	**81,083**	50,915
Loss before tax		**(12,608,130)**	(10,446,764)
Tax	9	**–**	–
Loss and total comprehensive income for the period		**(12,608,130)**	(10,446,764)

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

LOSS PER SHARE			
Basic loss per share	10	**(3.24) pence**	(2.92) pence
Diluted loss per share	10	**(3.24) pence**	(2.92) pence

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

Statement of Financial Position

As at 31 December 2023

	Notes	2023 £	2022 £
ASSETS			
NON-CURRENT ASSETS			
Investments	11	**12,778,617**	23,881,769
		12,778,617	23,881,769
CURRENT ASSETS			
Trade and other receivables	12	**73,533**	363,765
Cash and cash equivalents	13	**297,565**	931,765
		371,098	1,295,530
TOTAL ASSETS		**13,149,715**	25,177,299
EQUITY AND LIABILITIES			
Share capital	14	**1,379,503**	1,379,282
Share premium	14	**33,390,997**	33,341,218
Retained earnings		**(22,469,224)**	(9,868,199)
		12,301,276	24,852,301
CURRENT LIABILITIES			
Trade and other payables	16	**325,379**	324,998
Short Term Loan	17	**418,205**	–
Derivative Financial Instruments	18	**104,855**	–
TOTAL CURRENT LIABILITIES		**848,439**	324,998
TOTAL LIABILITIES		**848,439**	324,998
TOTAL EQUITY AND LIABILITIES		**13,149,715**	25,177,299

The financial statements were approved and authorised for issue by the Board of Directors on 29 May 2024 and were signed on its behalf by:

Sarah Payne
Non-Executive 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 2023

	Share capital £	Share premium £	Retained earnings £	Total equity £
Balance at 31 December 2021	1,371,970	30,546,569	498,010	32,416,549
Total comprehensive income	–	–	(10,446,764)	(10,446,764)
TRANSACTIONS WITH OWNERS				
Issue of share capital	7,312	3,114,249	–	3,121,561
Share issue costs	–	(319,600)	–	(319,600)
Share based payment charge (options)	–	–	80,555	80,555
Balance at 31 December 2022	1,379,282	33,341,218	(9,868,199)	24,852,301
Total comprehensive income	–	–	(12,608,130)	(12,608,130)
TRANSACTIONS WITH OWNERS				
Issue of share capital	221	49,779	–	50,000
Share issue costs	–	–	–	–
Share based payment charge (options)	–	–	7,105	7,105
Balance at 31 December 2023	**1,379,503**	**33,390,997**	**(22,469,224)**	**12,301,276**

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

Statement of Cash Flows

For the year ended 31 December 2023

	Notes	2023 £	2022 £
OPERATING ACTIVITIES			
Net cash used in operations	22	**(1,372,647)**	(2,055,814)
Purchase of investments		**(1,382,994)**	(1,670,194)
Cash received from sale of investments		**1,534,913**	42,346
Loans to portfolio companies		**136,389**	(144,757)
Interest received		**18,600**	1,020
Net cash used in operating activities		**(1,065,739)**	(3,827,399)
FINANCING ACTIVITIES			
Proceeds on issues of shares		**–**	3,121,561
Share issue expenses		**–**	(319,600)
Loan receipt		**500,000**	–
Loan repayment		**(68,461)**	–
Net cash from financing activities		**431,539**	2,801,961
(Decrease) in cash and cash equivalents		**(634,200)**	(1,025,438)
Cash and cash equivalents at beginning of year		**931,765**	1,957,203
Cash and cash equivalents at end of year		**297,565**	931,765

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 2023

1. Accounting policies

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

1.1 General Information

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

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

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

1.2 Basis of preparation

The financial statements of the Company have been prepared in accordance with UK-adopted international accounting standards.

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

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

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

1.3 Going concern

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

The directors have a reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Company's financial statements. This has been assessed using detailed cash flow analysis so that the Board can conclude that the Company has sufficient working capital resources to continue for at least 12 months from the approval of the financial statements. A review of a variety of macro-economic factors have been considered as part of this assessment. In the event that additional funding is required, management is confident in their ability to secure the necessary funds from a variety of sources such as the sale of its investments held, the drawdown of secured loan funding and the issue of new shares.

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 in the year but are not yet effective and are expected to relate to the Company:

- IFRS 16 Leases: amendments to clarify how a seller-lessee subsequently measures sale and leaseback transactions (issued in September 2022 and effective for annual periods beginning on or after 1 January 2024).
- IAS 1 Presentation of Financial Statements: amendments regarding the classification of debt with covenants (issued in October 2022 and effective for annual periods beginning on or after 1 January 2024).
- IFRS 7 Financial Instruments: Disclosures: amendments regarding supplier finance arrangements (issued in May 2023 and effective for annual periods beginning on or after 1 January 2024).
- IAS 7 Statement of Cash Flows: amendments regarding supplier finance arrangements (issued in May 2023 and effective for annual periods beginning on or after 1 January 2024).

1.5 Adoption of new and revised standards

Amendments have been made to IAS 1 Presentation of Financial Statements in relation to the classification of liabilities. The amendment provided a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date.

Amendments have been made to IAS 1 Presentation of Financial Statements in relation to the disclosure of accounting policies that are intended to help preparers in deciding which accounting policies to disclose in the financial statements.

Amendments have been made to IAS 8 Accounting Policies: Changes in Accounting Estimates and Errors regarding the definition between accounting policies and estimates.

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

1.6 Fee income

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

There is no variable consideration within the transaction price.

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

1. Accounting policies (continued)

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

1.7 Investments

The investments consist of equity investments and convertible loan notes. The convertible loan notes are financial assets with multiple embedded derivatives. These financial assets are measured in their entirety at (FVTPL) fair value through profit or loss.

In accordance with IFRS 10, paragraph 46, investments are recognised at FVTPL in line with guidance set out in IFRS 9. Changes in foreign exchange rates impact investments valued in a foreign currency.

1.8 Impairment of financial assets

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

1.9 Trade receivables

Trade receivables are classified as a financial asset and are valued at amortised cost in accordance with IFRS 9. A provision will be calculated based on the change in lifetime expected credit losses and recognised in the income statement, in accordance with IFRS 9.

1.10 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.

1.11 Trade payables

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

1.12 Equity instruments

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

1.13 Share based payments

The share-based payments in relation to options 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 behavioral considerations. At each Statement of Financial Position date, the Company revises its estimate of the number of options expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to retained earnings.

1.14 Loans to portfolio companies

Convertible loans

Convertible loans provided to portfolio companies are evaluated with reference to IFRS9. The convertible loan facility issued to Talking Medicines is a financial asset with multiple derivatives. IFRS 9 permits the entire contract for both loans to be designated at FVTPL.

1.15 Warrants
Fair value is estimated using the Black-Scholes model as relevant for the terms and conditions of the warrants. At each Statement of Financial Position date, the Company revises its estimate of the fair value of the warrants with any changes taken to profit or loss.

2. Financial risk management

The Company uses a limited number of financial instruments; comprising cash, convertible loans, warrants as derivative instruments and various items such as trade receivables and payables, which arise directly from operations.

The Company does not trade in financial instruments.

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

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

Liquidity risk
The Company makes investments in predominantly private companies for the medium term which are therefore not immediately liquid. The Company manages this risk by seeking to hold cash to support its investments and for working capital. The Company ensures it has sufficient cash through a combination of means including proceeds from asset sales, equity raises, loans and, in the past, the use of convertible loan notes. The financial performance and position of the portfolio companies are regularly monitored to assess when further investment may be required, this includes a review of cash flow forecasts.

The Company has a quoted investment in Wyld Networks, part of which may be sold to meet the Company's funding requirements.

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

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

As at 31 December 2023, if market prices were 3% higher and all other variables were held constant, the Company's net loss would decrease by £0.1m (2022: £0.2m). This is attributable to the Company's exposure to market price risk on its quoted investment.

The unquoted investments currently held are not liquid.

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

As at 31 December 2023, if foreign exchange rates were 5% higher and all other variables were held constant, the Company's net loss would increase by £0.3m (2022: £0.9m). This is attributable to the Company's exposure to foreign exchange risk on its investments held in Device Authority and Wyld Networks.

2. Financial risk management (continued)

Credit risk

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

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

The credit risk on loans is low as the expectation is to convert loan balances on realisation of the assets. The credit risk on trade receivables is low due to the 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 potential dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

2.3 Fair value estimation

Refer to note 19 for the fair value measurement accounting policy.

3. Critical accounting estimates and judgements

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

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

Estimates

Fair value of financial instruments

As set out in note 19, the Company holds unquoted investments of £10.3m that have been designated as held for trading on initial recognition. Where practicable the Company determines the fair value of these financial instruments that are not quoted (Level 3) using the most recent bid price at which a transaction has been carried out. These techniques are significantly affected by certain key assumptions, such as market liquidity. Given the nature of the investments being early-stage business, other valuation methods such as discounted cash flow analysis to assess estimates of future cash flows and derive fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realised immediately.

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

A sensitivity analysis of the Level 3 investments is detailed in Note 19 to the financial statements.

Judgements

Investments held at FVTPL

The critical judgement is the assessment that investments should not be consolidated. This assessment was reached following a review of all the key conditions for an investment entity, as set out in IFRS 10 and the Company was judged to have met those key conditions as follows:

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

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

4. Segmental reporting

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

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

5. Staff costs

Staff costs for the company during the year, including directors

	2023 £	**2022 £**
Wages and salaries	**773,835**	809,534
Social security costs	**84,926**	109,158
Pension costs	**57,915**	66,230
Share based payment charge (options)	**7,105**	80,555
Total staff costs	**923,781**	1,065,477

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

	2023 No	**2022 No**
Directors	**5**	6
Employees	**3**	1
Total	**8**	7

5. Staff costs (continued)

Directors' remuneration

Other than directors the Company had three employees as at 31 December 2023. Total remuneration paid to directors during the year was as follows:

	2023 £	2022 £
Directors' remuneration		
– Salaries and benefits	**533,039**	708,872
– Social security costs	**59,414**	98,391
– Pension costs	**36,195**	58,878
– Share based payment charge	**–**	68,374
Total directors' remuneration	**628,648**	934,515
Total remuneration of the highest paid director was	**174,021**	225,412

A summary of remuneration paid to each director, including pension payments, is included in the Report on Directors' Remuneration (pages 30-32).

6. Other expenses

	2023 £	2022 £
Share based payment (options)	**7,105**	80,555
One-off legal and professional costs	**19,000**	13,025
Recharged professional fees	**10,941**	20,880
Derivative Financial Instrument costs	**140,604**	–
Non-recurring[1]	**16,667**	252,136
	194,317	366,596

1 Relating to the implementation fee for the £500,000 loan facility in 2023, Relating to the cost of the potential acquisition of Pires Investments PLC which was subsequently not completed in 2022.

7. Operating loss

	2023 £	2022 £
Loss from operations has been arrived at after charging		
Remuneration of directors	**628,648**	934,515
Fees payable to the company's auditor for services provided to the company		
– Audit services	**67,000**	42,000
– Tax compliance services	**5,665**	5,510
– Advisory services	**2,160**	18,450
– Audit related services	**3,750**	3,000

8. Finance income

	2023 £	2022 £
Bank interest received	**827**	–
Interest income on loan notes	**13,518**	4,468
Interest accrued on convertible loan notes	**66,738**	46,447
	81,083	50,915

9. Taxation

	2023 £	2022 £
Loss before tax	**(12,608,130)**	(10,446,764)
Tax at domestic income tax rate	**(2,395,545)**	(1,984,885)
Expenses not deductible for tax purposes	**2,185**	16,926
Fair value movement not taxable	**2,105,642**	1,356,889
Unutilised tax losses	**287,718**	611,070
Tax	**–**	–

The Company has unutilised losses of approximately £12.5m (2022: £11.0m) resulting in a deferred tax asset not recognised of approximately £2.0m (2022: £1.8m). The losses do not have an expiry date. The Company has not recognised a deferred tax asset in respect of these losses as there is insufficient evidence of future taxable profits. The Company has not recognised a deferred tax liability in respect of fair value gains on investments as most asset sales are expected to be exempt from taxation due to the substantial shareholding exemption (SSE).

10. Loss per share

	2023 £	2022 £
Loss for the purposes of basic and fully diluted loss per share	**(12,608,130)**	(10,446,764)

	2023 Number	2022 Number
Weighted average number of ordinary shares		
For calculation of basic earnings per share	**389,182,934**	357,424,413
For calculation of fully diluted earnings per share	**389,182,934**	357,424,413

	2023	2022
Loss per share:		
Basic loss per share	**(3.24) pence**	(2.92) pence
Diluted loss per share	**(3.24) pence**	(2.92) pence

In 2023 the fully diluted loss per share is the same as the basic loss per share as the share options were underwater which would have an anti-dilutive effect on loss per share.

11. Non current assets

Investments

	2023 £	2022 £
Fair value of investments brought forward	**23,881,769**	30,612,047
Interest accrued on convertible loan note	**66,754**	46,447
Additions	**1,382,994**	1,670,194
Disposals	**(1,506,325)**	(31,138)
Fair value of investments before fair value adjustment	**23,825,192**	32,297,550
Fair value adjustment to investments	**(11,046,575)**	(8,415,781)
Fair value of investments carried forward	**12,778,617**	23,881,769

	Cost £000	Valuation £000	Equity ownership %
Wyld Networks AB	2,299	2,439	22.5.
Device Authority Limited	9,305	4,445	35.7
FVRVS Limited (FundamentalVR)	2,928	3,630	12.1
Talking Medicines Limited	1,448	1,991	23.8
Diffusiondata Limited	120	23	<1
Sure Valley Ventures UK Software Technology Fund	472	251	5.9
InVMA Limited (Konektio)	2,267	–	8.8
	18,839	12,779	

The audited valuation of Device Authority at 31 December 2023, stands at £4.4m, lower than previously announced unaudited valuations due to accounting adjustments necessitated for Level 3 investments. The convertible loan facility issued to Device Authority was converted to equity during the year with any movements in fair value taken to profit or loss for the year.

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

The convertible loan facility issued to Talking Medicines 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 2023, the principal of the convertible loan outstanding was £187,500 (2022: Nil).

12. Trade and other receivables

	2023 £	2022 £
Trade receivables	**6,000**	136,175
Prepayments	**52,030**	64,147
Loans to portfolio companies	**–**	144,757
Interest receivable on loan notes	**–**	4,256
Other receivables	**15,503**	14,430
Total	**73,533**	363,765

The directors consider that the carrying amount of trade and other receivables approximates to its fair value.

There is no provision for bad debt. The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of the trade receivables which all relate to receivables from our investments.

13. Cash and cash equivalents

	2023 £	2022 £
Cash at bank	**297,565**	931,765

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

14. Issued share capital

	Number of shares no.	Nominal value £	Share premium £
Issued and fully paid			
At 31 December 2022			
Ordinary shares of £0.0002	388,571,510	77,714	
Deferred shares of £29.999	42,247	1,267,368	
Deferred shares of £0.00099	34,545,072	34,200	
	423,158,829	1,379,282	33,341,218
Ordinary shares issued	1,104,801	221	49,779
Share issue expenses	–	–	–
	424,263,630	1,379,503	33,390,997
At 31 December 2023			
Ordinary shares of £0.0002	**389,676,311**	**77,935**	
Deferred shares of £29.999	**42,247**	**1,267,368**	
Deferred shares of £0.00099	**34,545,072**	**34,200**	
	424,263,630	**1,379,503**	**33,390,997**

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 12 June 2023, 1,104,801 ordinary shares were issued at 4.5p per share as a £50,000 non-cash compensation for the implementation fee for a debt financing facility.

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

	2023 £	2022 £
Trade payables	**170,025**	131,112
Accruals and deferred income	**72,055**	101,248
Other taxes and social security	**77,736**	90,268
Other payables	**5,563**	2,370
Total	**325,379**	324,998

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

17. Short Term Loan

	2023 £	2022 £
Short term loan	**418,205**	–

The short term loan facility is for up to £3.0m, available for up to 36 months. Fund drawn down from the facility shall be repaid within 18 months, and as security for the Facility, a number of Wyld Networks AB shares held in an escrow account equal to 1.5 times the value of any outstanding drawdown plus interest. The short term loan is held at amortised cost with a market rate of interest of 12%.

18. Derivative Financial Instruments

	2023 £	2022 £
Fair value at inception	**140,604**	–
Fair value movement of derivative financial instruments	**(35,749)**	–
Fair value of as at 31 December 2023	**104,855**	–

Warrants
The Company granted 5,524,007 warrants with an exercise price of 6.78855 pence per Ordinary Share. In the event that the Company prepays the Facility (as detailed in note 17), in whole or in part, then the Warrants shall be repriced to the average of the daily VWAPs for the five trading days prior to the date of the prepayment, if such value is less than the existing exercise price of the Warrants. If the Company issues and allots new Ordinary Shares at an issue price that is below the exercise prices of the Warrants (other than pursuant to the Facility) within 18 months of each drawdown, the exercise prices of the relevant Warrants shall be amended to be equivalent to that issue price to the extent any Warrants remain unexercised. The warrants must be exercised within 3 years of grant.

The Black Scholes method is being used to calculate the fair value of the warrants at the date of grant and at each reporting period end.

For further details on the warrant fair value measurement, please see note 19.

19. Fair value measurement

Financial assets and financial liabilities for warrants

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 and liabilities are recognised initially, they are measured at fair value, being the transaction price plus directly attributable transaction costs.

Fair value through profit or loss (FVTPL)

Investments

All investments are determined upon initial recognition as held at fair value through profit or loss. Investment transactions are accounted for on a trade date basis. Asset sales are recognised at the trade date of the disposal. The fair value of the financial instruments in the Statement of Financial Position is based on the last transaction price at the Statement of Financial Position date, with no deduction for any estimated future selling cost. Unquoted investments are valued by the directors using primary valuation techniques such as recent transactions and last price. Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Statement of Comprehensive Income as “Movement in Fair Value of Investments”. Investments are measured at fair value in accordance with IFRS 9. Details of the valuation technique for each individual investment is set out in the Financial Review on pages 9-10.

Financial instruments at amortised cost

Receivables that are held with the intention of collecting contractual cash flows are classified and measured at amortised cost. Gains and losses recognised in the Statement of Comprehensive Income when the receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities

Warrants are held at fair value using the Black Scholes method of valuation.

The Company determines the fair value of its investments and liabilities 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 and liabilities measured at fair value on a recurring basis at 31 December 2023 and 31 December 2022:

For Level 3 investments, the fair value assessment was made by the directors using the price of the shares in the most recent fundraise, where this was available, as well as an assessment of market valuations placed on comparable businesses, a review of the underlying asset values and a review of the sales pipeline and forecast to support any valuation applied.

As at 31 December 2023, the Company believed the significant unobservable inputs to the fair value measurement of its Level 3 investments were the annual recurring revenue (“ARR”) and the net profit or loss of the individual investment companies.

19. Fair value measurement (continued)

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 investments fair value measurements (see above for the valuation techniques adopted):

Fair value at 31 Dec 2023	Fair value at 31 Dec 2022	Unobservable input	Range of inputs	Sensitivity variable	Relationship of unobservable inputs to fair value
5,895,259	6,035,701	ARR	£0.2m – £4.4m	10%	The higher the ARR, the higher the fair value
		Net profit/(loss)	£(6.8m) – £3.3m	5%	The higher the net profit, the higher the fair value

The sensitivity variable is the range of reasonable change in each of the unobservable inputs.

The sensitivity analysis above applies to all Level 3 investments other than Device Authority, given that it is valued by reference to a third party fundraise.

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

For Level 3 liabilities, the fair value assessment was made by directors using the Black Scholes model using the share price at inception and at year end, as well as an assessment of the discount rates applicable to comparable derivative financial instruments.

Management believe that any reasonable changes to the significant unobservable inputs will not materially impact the valuation of the fair value of its Level 3 liabilities.

	Level 1	Level 2	Level 3	Total
31 December 2023				
Investments held for trading	**2,438,787**	**–**	**10,339,830**	**12,778,617**
Financial Liabilities	**–**	**–**	**104,855**	**104,855**
31 December 2022				
Investments held for trading	5,985,420	–	17,896,349	23,881,769
Financial Liabilities	–	–	–	–

See note 11 for more detail on investments held for trading and note 18 on financial liabilities.

20. 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 are granted to purchase shares which must be exercised within ten years from the date of the grant.

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

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

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

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

A total share based payment charge of £7,105 was recognised in 2023 (2022: £80,555) in respect of the options granted in 2019 and 2020, of this £7,105 (2022: £12,180) related to equity settled options issued to employees.

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

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

The share options held as at 31 December 2023 are set out in the table below:

	Outstanding at 31 December 2022	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding at 31 December 2023**	**Option Price**	**Exercisable on or before**
Directors	5,000,000	–	–	–	5,000,000	8.5p	18 May 2027
	250,000	–	–	250,000	–	13p	22 Feb 2023
	2,500,000	–	–	–	2,500,000	9.15p	1 Dec 2029
	2,500,000	–	–	–	2,500,000	8.5p	15 Mar 2024
Total directors	**10,250,000**	**–**	**–**	**–**	**10,000,000**		
Employees	500,000	–	–	–	500,000	8.15p	22 July 2030
Other	100,000	–	–	–	100,000	8.5p	18 May 2027
Total Options	**10,850,000**	**–**	**–**	**250,000**	**10,600,000**		

Note: A detailed breakdown of directors' options is set out in the Report on Directors' Remuneration on page 30-32.

21. Related party transactions

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

For the Period as at 31 December

	2023 Revenue £	**Investment £**	**2022 Revenue £**	**Investment £**
Device Authority Limited	**–**	**373,023**	15,000	367,061
Wyld Networks AB	**–**	**–**	–	511,646
FVRVS Limited (FundamentalVR)	**–**	**–**	8,333	–
InVMA Limited (Konektio)	**187,033**	**572,000**	25,180	170,000
Talking Medicines Limited	**12,200**	**187,500**	17,500	399,987

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

As at 31 December

	2023 £	**2022 £**
Device Authority Limited	**–**	105,959
InVMA Limited (Konektio)	**–**	30,216
Talking Medicines Limited	**6,000**	–

Notes to the Financial Statements

continued

21. Related party transactions (continued)

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

As at 31 December

	2023 £	2022 £
Device Authority Limited	**–**	144,757

Equity shareholdings are detailed in Note 11.

22. Cash flow from operations

	2023 £	2022 £
Loss for the year	**(12,608,130)**	(10,446,764)
Adjustments for items not included in cash flow		
Movement in fair value of investments	**11,046,575**	8,415,781
Profit on disposal	**(28,589)**	(11,208)
Share based payment charge	**7,105**	80,555
Amortisation of loan implementation fee[1]	**16,667**	–
Derivative financial instrument costs	**140,604**	–
Movement in fair value of derivative financial instrument	**(35,749)**	–
Finance expense	**20,000**	–
Finance income	**(81,083)**	(50,915)
Operating cash flows before movements in working capital	**(1,522,600)**	(2,012,551)
Adjustments for changes in working capital		
(Increase)/decrease in trade and other receivables[2]	**153,131**	(26,206)
(Decrease) in trade and other payables	**(3,178)**	(17,057)
Cash used in operations	**(1,372,647)**	(2,055,814)

1 Implementation fee was a non-cash transaction fee for the issuance of shares rating to the loan facility.
2 Excludes cash loans and interest receivable from portfolio companies.

23. Financial instruments

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

Categories of financial instruments

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

	2023 £	2022 £
Financial assets		
Cash at bank	**297,565**	931,765
Trade receivables	**6,000**	136,175
Other receivables	**15,503**	14,430
Fair value through profit or loss (FVTPL)		
Investments	**12,778,617**	23,881,769

Financial liabilities

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

	2023 £	2022 £
Financial liabilities		
Trade Payables	**170,025**	131,112
Accurals	**67,472**	96,665
Financial Liabilities at amortised cost		
Short term loan	**418,205**	–
Fair value through profit or loss (FVTPL)		
Derivative financial instrument liabilities	**104,855**	–

24. Events after the reporting period

On 30 January 2024, 20,000,000 new ordinary shares were issued at 2.0p per share for cash as the result of a placing raising £400,000.

On 1 February 2024, it was announced that Talking Medicines Limited had completed a £0.4m fundraise via the issue of unsecured convertible loan notes in which Tern subscribed for £0.1m.

On 7 February 2024, it was announced that Device Authority Limited had completed an additional second closing of tranche one of a Series B type fundraising round, securing $2.0m of equity investment. Tern did not participate in this round.

On 5 March 2024, it was announced that InVMA Limited (trading as "Konektio") had been placed into administration. Following the announcement, Tern's holding is valued at nil.

On 18 April 2024, 17,500,000 new ordinary shares were issued at 2.4p per share for cash as the result of a placing raising £420,000.

On 3 May 2024, it was announced that the Company had exercised 245,699 TO4 warrants in Wyld Networks AB ("Wyld Networks") to subscribe for 245,699 shares at SEK 1.83 per share, for a total cost of SEK 449,629 (approximately £33,400).

On 15 May 2024, it was announced that the Company had received notice to exercise warrants over 5,524,007 new ordinary shares of 0.02p per share at an exercise price of 2.0p per warrant, raising approximately £110,480.

25. Ultimate controlling party

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

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