

Tern PLC (TERN)

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25 September 2019

## Tern Plc

(AIM: TERN)

### Unaudited Interim Results for the six months to 30 June 2019

Tern Plc ("Tern" or the "Company"), the AIM quoted investment company specialising in the Internet of Things ("IoT") market, is pleased to announce its interim results for the six months to 30 June 2019.

#### Key Highlights

	30 June 2019	30 June 2018	31 December 2018
	£	£	£
Net assets	17,478,283	13,942,757	16,751,773
Current assets	2,153,071	2,671,784	2,152,981
Total assets	17,946,668	14,221,704	17,009,220
Loss for the period	(623,340)	(221,252)	(312,564)
Net asset value per share	6.9p	6.2p	7.1p

- The increased loss for the period compared to the six months to June 2018 was primarily due to a £0.1m increase in operating costs and a £0.3 million lower fair value increase. In the six months to 30 June 2019, there was no exchange rate revaluation required compared to 2018 where the fair value increase was primarily due to exchange rate movements.
- Cost management continues to be a central focus. The increase in administrative costs in the period compared to the monthly burn rate in the year ended 31 December 2018 was due to additional advisory costs in the UK and the USA, along with an increase in Directors' salaries to begin to bring them closer to more conventional market levels.
- The Company raised £1.5 million during the period, strengthening the balance sheet and improving Tern's investment options. As at 30 June 2019, Tern had £1.4 million cash on the balance sheet.
- Year-on-year increase in turnover of principal portfolio companies<sup>1</sup> from calendar year 2018 to 2019 is expected to be of the order of 50%.
- Year-on-year increase in employees within principal portfolio companies<sup>1</sup>, a key growth measurement, increased by 9% in the six months to June 2019.
- Net asset value per share remained comparable across the period.

#### Al Sisto, CEO of Tern Plc, said:

"During the first half of 2019, Tern has actively focused on developing opportunities to expand its portfolio and to increase the fair valuation of its existing portfolio companies. We have also built our portfolio value through some follow-on investment activities, all the while maintaining our focus on adding value to our investment companies through advice, introductions and capital.

"Our involvement has enabled the technology entrepreneurs in our portfolio to grow their businesses and has provided our investors with a portfolio of exciting early and growth-stage technology companies. Positive progress was also achieved on our marketing objective to position Tern as a leading investor in UK IoT technology companies and we will be doing more to progress this in the next 12 months.

We are committed to supporting our portfolio and investing in the very best IoT technology companies in the UK in order to grow our NAV per share. We are grateful for the ongoing support of our shareholders and look forward to providing updates to the market as we deliver on our strategy."

Note 1: Principal portfolio company growth excludes Seal and Push, in which Tern has a <1% holding and minimal influence.

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## Chief Executive's Statement

Tern is focused on delivering NAV growth per share by providing its shareholders with investments into an exciting array of early-stage IoT companies, which provide best-in-class solutions for the healthcare and industrial IoT markets. These markets present sizable opportunities for generating returns, as they have a large underlying population of IoT devices and use cases in existence today. For example, the "all in" IoT healthcare market size is projected to reach US\$534.3 billion by 2025 expanding at a CAGR of 20% between 2019 and 2025, according to a report by Grand View Research, Inc. (March 2019). The global Industrial Internet of Things (IIoT) market is expected to reach a value of US\$922.62 billion by 2025, according to a Million Insights report (March 2019).

Our financial priorities continue to be accelerating the progress of our portfolio companies' commercial success; value creation; robust realisations and the addition of new investments by:

- Investing in and creating businesses which have market validation and competitive advantages;
- Providing hands-on support to achieve value creation and making introductions which help our companies achieve scale and a presence in the USA;
- Strengthening management and boards where appropriate;
- Syndication of post-seed round investments in our companies, focusing on relevant strategic and financial investors, to provide validation, and additional growth capital that de-risks the path to commercial success and monetisation; and
- Exploring innovative ways to expand the synergistic benefits of our portfolio.

During the six months to 30 June 2019, the fair value per share of our portfolio remained broadly stable at 6.2p (FY18: 6.3p; HY18: 5.1p) which included a 6% increase in the absolute portfolio value. Our operating costs during the period increased compared to the six months to 30 June 2018 by £0.1 million to £0.7 million (HY18 costs: £0.6 million; FY18 costs: £1.3 million). The majority of this increase was due to an increase in Directors' fees and professional fees, alongside one off legal and professional advisory fees. The one-off costs were incurred due to the Company exploring an opportunity to rapidly expand its portfolio through a strategic initiative. This transaction would have added a significant number of companies to the Company's portfolio, increased our NAV and broadened our resources to support and manage the larger portfolio. However, after careful due diligence and with the support of our advisers the Board decided not to pursue the opportunity any further.

Providing a greater opportunity to create and return value to our shareholders is our primary objective and we remain committed to expanding our portfolio to at least twelve companies, leveraging our unique positioning in the IoT space. The timeline for sourcing, structuring and executing new investments in market leading UK IoT companies that fit within Tern's investment strategy will sometimes be beyond Tern's direct control. As a result, the Board does not now expect to have at least twelve companies within the portfolio by 31 December 2019. However, our deal flow remains strong and this critical goal will be our focus for the remainder of 2019 and beyond to fuel the growth of our NAV per share.

During the first six months of 2019 we raised £1.5 million to strengthen our financial position for upcoming investment opportunities and to provide additional financing support to our existing portfolio companies to enable their continued growth. During the period we delivered follow-on investment and support amounting to £1.4 million. In particular, Wyld Networks, which holds a 90% interest in Wyld Technologies, acquired the assets of Amiho Technology Ltd. As a result of this transaction, we added assets costing only £42,910 to the existing business of Wyld Networks and supported the business with additional operating capital of £373,292, via a short-term loan. This activity resulted in a new direction for Wyld Networks, which started as flexiOPS, a grant-based business. Wyld Technologies is now focused on the rapidly growing low power IoT mesh connectivity space.

We, along with Alsop Louie Partners and the Samenuk Family Trust, continued with our convertible loan note support of Device Authority. During the period Tern provided loan note support to Device Authority amounting to £622,634 which included a small bridge loan, repaid on receipt of the R&D tax credit. This capital enabled Device Authority to continue its partner and customer development activities, which now includes an expanded list of new customers, as it pursues a strategic partner to help leverage its market successes.

Lastly, the Company provided InVMA with a small convertible loan of £50,000 and FundamentalVR with a bridge loan advance to a next round of investment of £325,000. This bridge loan was at favourable terms, with Tern receiving a 20% discount upon equity conversion of the bridge at the next round of investment capital into FundamentalVR.

Year-over-year growth in the aggregate revenue of our principal portfolio companies<sup>1</sup>, a key performance indicator, is forecast to increase by 50% from calendar year 2018 to calendar year 2019 (2017/2018 increase: 58%). In addition, year-over-year employee headcount growth, another important indicator of the growth and success of our principal portfolio companies<sup>1</sup>, increased by 9% in the six months to June 2019 (six months to June 2018 increase: 12%), highlighting a continuing growth in the portfolio overall.

Note 1: Principal portfolio company growth excludes Seal and Push, in which Tern has a <1% holding and minimal influence

## Portfolio Review

**Device Authority Limited** ("Device Authority"): £12.3 million valuation

*Holding: 56.8%*

*Sector: Security*

*Invested Since: September 2014*

Device Authority is a global leader in Identity and Access Management (IAM) for the IoT, focused on medical / healthcare, industrial and smart connected devices. Its KeyScaler(TM) platform provides trust for IoT devices and the IoT ecosystem, to address the challenges of securing the Internet of Things.

Since Tern's initial investment, Device Authority has expanded its product portfolio, world class team and ecosystem of well-established business partners. The team at Tern has supported this, providing advice and contacts which have enabled Device Authority to establish a Silicon Valley presence, create connections with certain strategic partners and customers and introducing new experience to the Board and adviser network.

During 2019 to date, Device Authority has continued to focus on the industrial, medical and automotive IoT sectors, which are forecast to grow substantially over the next five years. Achievements include growing its partnership base through the formation of alliances with nCipher Security, IdenTrust and Wipro and developing the Keyscaler platform alongside PTC Thingworx and Microsoft Azure. Device Authority also

strengthened its Board through the appointment of Dr Nicko van Someren, founder of nCipher, and Ramesh Kesanupalli, founder of the FIDO Alliance and Nok Nok labs. Both are recognised leaders in their fields in the USA.

I am pleased to report that Device Authority continued to gain industry recognition, being ranked as one of the top 20 healthcare technology providers by MyTechMag, a US technology magazine. It was also recognised by Quadrant Knowledge Solutions as a technology leader in the SPARK matrix analysis of the IoT IAM market.

Device Authority's shareholders continue to support the ongoing progress of the company, having provided a total of US\$3.8 million in the form of convertible loan notes since November 2017, with US\$2.4 million of this being provided by Tern (US\$0.7 million in the six months to 30 June 2019).

As at 30 June 2019, the value of Tern's shareholding in Device Authority has increased to £12.3 million (31 December 2018: £11.7 million) as a result of the additional cash invested via convertible loan notes.

The annual report and accounts for Device Authority for the year ended 31 December 2018 are expected to be submitted to Companies House shortly.

***FVRVS Limited ('Fundamental VR'): £2.2 million valuation***

*Holding: 34.7%*

*Sector: Healthcare IoT*

*Invested Since: May 2018*

FundamentalVR is a dynamic technology and data insight business specialising in the intersection between immersive experiences and haptics, to enhance medical training and outcomes. It fits with Tern's strategy to invest in companies targeting the healthcare IoT market.

Our investment in FundamentalVR provides us with exposure to a rapidly growing healthcare market. A June 2019 report by MarketsandMarkets highlighted that the medical simulations market is expected to reach US\$5.16 billion by 2027 from an estimated US\$1.70 million in 2019, at a CAGR of 14.9%.

FundamentalVR's SaaS (software as a service) platform, Fundamental Surgery, features VR Haptics technology that takes advantage of readily available virtual reality hardware to create a simulation system that can be easily used on any modern VR-enabled PC/laptop.

In line with our proactive investment strategy, Tern has worked closely with FundamentalVR during the period to support growth in the business. Since our initial investment in May 2018, we have helped the Board to refine its go-to-market strategy, provided them with access to potential new industry customers, elevated their profile within the VC market and established new potential routes to market.

FundamentalVR has gone from strength to strength since Tern's initial investment, having secured partnerships, significant new contracts, and industry-wide awards and accreditations. It has increased its penetration within the medical industry, with its Total Hip Replacement (Posterior Approach) simulation gaining Continuing Professional Development accreditation from the Royal College of Surgeons and inclusion on the orthopaedic registrar training programme at St George's Hospital.

FundamentalVR also won the SXSW 2019 Interactive Innovation Award, 2019 Red Herring 100 Europe Awards, and was chosen as one of the top 40 healthcare transformers in MM&M's 2019 class.

The technology has continued to evolve in 2019, including integration with a haptic glove and the inclusion of eye-tracking capability within the simulation programme. FundamentalVR also announced a significant commercial contract (worth approximately £0.5 million) with a leading pharmaceutical company to create an additional virtual reality simulation, adding to the Company's continued technological improvements.

The annual report and accounts for Fundamental VR for the year ended 31 December 2018 are expected to be submitted to Companies House shortly.

***Wyld Networks Limited ("Wyld Networks"): £78,000 valuation, plus £0.5 million short term loan***

*Holding: 100%*

*Sector: IoT enablement*

*Invested Since: June 2016*

During the period, this company rebranded from flexiOPS, following the acquisition of the AMIHO product portfolio, from fellow Tern portfolio company InVMA Limited.

By combining Wyld Network's product portfolio, a compelling proposition in the IoT embedded communications industry, which currently operates in over 250,000 smart meters, with Wyld Technologies' Mesh solutions (90% owned); we have now established a unique and value enhanced product suite delivering secure intelligent mesh solutions empowering resilient IoT and 5G networks to create value for people, places and things.

Networks have traditionally been centralised. This means that everything connects to a central point, such as a base station or router which has to handle all the network's traffic. However, decentralised networks, where devices are linked to each other, are also possible. Decentralised networks create an interlaced 'mesh' and can communicate through direct device to device connections using multiple wireless technologies such as Bluetooth, Wi-Fi Direct/P2P Wi-Fi and 5G.

Wyld's technology is unique in that it creates a wireless network which connects people to people directly from smartphone to smartphone or device to device, as well as device to people. It establishes a resilient and low-latency mesh network without the need to route all the traffic through the traditional hierarchical mobile infrastructure. This creates multiple revenue generating and cost reducing use cases in areas of high population density and also where there is no mobile coverage.

In 2018, Wyld Networks signed smart-device delivery contracts and license agreements for its wireless sensor technology in the smart energy (Cadis, RCD, Develco) and smart agritech (Delta-T) sectors.

Wyld Networks was also awarded a £121,000 grant by Innovate UK to collaborate on a new mass production technology, SmartDrop, for Archipelago Technology Group Ltd.

Wyld Technologies launched its Intelligent Device Mesh Agent software development kit (SDK) after completing technical trials with a large

underground metro system, and in 2019 participated in a large rail operator accelerator, which launched Wyld Fusion, an Intelligent Content Management System and Integration Platform.

The annual report and accounts for Wyld Networks for the year ended 31 December 2018 are expected to be submitted to Companies House shortly.

***InVMA Limited ("InVMA"): £1 million valuation***

*Holding: 50%*

*Sector: IoT enablement*

*Invested Since: September 2017*

InVMA is an end-to-end IoT and 'Industry 4.0' solution provider of IoT products. It combines world-class management consulting expertise along with hardware, software, IT and operational technology (OT) capabilities. This allows it to build bespoke solutions that enable customers to disrupt their market, create new revenue streams and reduce their operating costs quickly with low risk. Tern has supported InVMA's management through this process in line with our investment approach.

Its innovative product 'AssetMinder', which also integrates with Device Authority's KeyScaler, enables management of all of an IoT client's assets through one application, and has been the focus of growth during 2019. It facilitates real-time monitoring, which is critical to fuelling IoT growth, particularly in the Industrial IoT market, which is a key area of focus for all our portfolio companies.

During the first half of 2019, InVMA increased its strategic partner base by securing agreements with XL Group, Solid State Supplies, Robustel and ECA Services.

InVMA has collaborated on 'Industry 4.0' contracts with ECA Services for several of the UK's largest manufacturers. InVMA also secured an initial £0.25m contract with a leading aerospace and defence organisation, to enable an innovative Smart Factory implementation.

The annual report and accounts for InVMA for the year ended 31 December 2018 show net assets of £0.2 million and a loss of £0.5 million.

***Seal Software Group Limited ("Seal Software"): £115,145 valuation***

*Holding: <1%*

*Sector: Database Analytics*

*Invested since: July 2014*

During the first half of 2019 Seal Software, a leader in contract discovery and analytics, in which Tern holds less than 1%, has continued to grow and develop its business with numerous new contracts and strategic partnerships announced. Specifically:

- The company announced that Airbus will further expand its use of Seal Software's artificial intelligence-driven technology in support of its Digital Transformation Procurement.
- TPR, a leading German legal-tech provider, has selected Seal Software's AI-driven contract analytics and extraction software as the basis for its contract analysis business.
- Seal Software announced a partnership with AI Innovation of Sweden.
- Kevin Gidney, co-founder and chief technology officer at Seal Software, was named one of the world's most influential voices in artificial intelligence (AI). The list was based on a global analysis by AIBusinessCase.ai, a specialist research organisation focused on reporting the competitive, cultural, and financial benefits of AI as a catalyst to speeding its adoption.

***Push Technology Limited ("Push Technology"): £61,161 valuation***

*Holding: <1%*

*Sector: Data distribution*

*Invested since: July 2014*

We have been informed by management that Push Technology, a company in which Tern holds less than 1%, has expanded both its international footprint and the breadth of industries served by the company's 'Diffusion(R)' Real-Time API Management platform during the first half of 2019.

For organisations worldwide, Diffusion powers the real-time applications and systems critical to their business expansion, revenue growth, and optimal ongoing business operations, by solving their real-time data management and distribution challenges.

**Financial**

During the six months ended 30 June 2019, Tern provided ongoing support to its underlying portfolio base, investing £1.4 million via loan note facilities to provide capital for these entrepreneurial companies to enable them to continue to grow and develop within their focused markets. The fair value of the portfolio remained stable across the period with no movement due to exchange rate fluctuations, which had impacted the previous comparable periods. Cost management continues to be a focus for the Company. The increase in administration costs during the six months compared to the six months to 20 June 2018, was principally due to additional advisory costs in the UK and the USA, along with an increase in Directors' salaries to begin to bring them closer to more conventional market levels. Other expenses in the period included costs associated with Tern exploring an expansion to its portfolio through a strategic initiative with synergistic value.

The net asset value per share of 6.9p as at 30 June 2019 remained broadly comparable across the periods, compared to 7.1p at 31 December 2018 and 6.2p at 30 June 2018.

**Outlook**

The Company remains committed to the areas of the IoT market outlined earlier by expanding our participation in this start-up ecosystem in the

UK, through direct investments and innovative partnerships. We firmly believe that the current entrepreneurial environment is spawning opportunities at a rapid pace that are creating solutions to global problems, using a combination of new and existing technologies that can benefit from our investment thesis. We also believe that the model that we have transitioned to lends itself to working with late seed and early stage series 'A' partners in Europe to further syndicate our investments at reasonable values, to reduce risk and accelerate portfolio company growth and value.

We are aiming to achieve US Venture Capital valuations for our UK investments in later series 'B' rounds and beyond, to create shareholder value and premium exit opportunities. We have set a target for our portfolio activities to achieve an average of 20% year-on-year growth in portfolio value by year end 2019 and beyond. We have achieved a modest 6% growth during this reporting period within the portfolio and the Directors will be seeking to achieve the target growth over the remainder of the financial year.

We feel confident of making further progress during the second half of 2019 and look forward to making more announcements about business performance, new developments and improvements for each of our portfolio companies and reporting exciting new additions to the Tern portfolio. The timeline for sourcing, structuring and executing new investments in market leading UK IoT companies that fit within Tern's investment strategy will sometimes be beyond Tern's direct control and although we now do not expect to reach our objective of 12 investments by 31 December 2019, this remains a key strategy for the Company at the earliest opportunity.

I would also like to extend our thanks to the management teams of our portfolio companies who remain central to our whole investment business model. We enter the second half of the year well positioned to capitalise on opportunities in 2019 and remain focused on executing our strategy driving long-term, sustainable NAV growth for our shareholders.

*Al Sisto*

*Chief Executive Officer*

*25 September 2019*

#### Unaudited Statement of Comprehensive Income for the six months ended 30 June 2019

Notes	6 months to 30 June 2019 (Unaudited) £	6 months to 30 June 2018 (Unaudited) £	12 months to 31 December 2018 (Audited) £
Turnover	51,965	64,245	106,117
Movement in fair value of investments	11,724	282,987	775,910
Gross Profit	63,689	347,232	882,027
Administration costs	(494,028)	(393,212)	(792,534)
Other Expenses	(192,718)	(178,740)	(476,716)
Operating loss	(623,057)	(224,720)	(387,223)
Finance income	1,943	4,376	74,659
Finance costs	(2,226)	(908)	-
Loss before tax	(623,340)	(221,252)	(312,564)
Tax	-	-	-
Loss and total comprehensive income for the period	(623,340)	(221,252)	(312,564)
<b>Earnings per share</b>	<b>9</b>		
Basic	(0.25)p	(0.1)p	(0.1)p
Diluted	(0.25)p	(0.1)p	(0.1)p

#### Unaudited Statement of Financial Position as at 30 June 2019

Note	30 June 2019 (Unaudited) £	30 June 2018 (Unaudited) £	31 December 2018 (Audited) £
<b>Assets</b>			
Investments	15,793,597	11,549,920	14,856,239
<b>Non-current assets</b>	<b>15,793,597</b>	<b>11,549,920</b>	<b>14,856,239</b>
<b>Current assets</b>			
Trade and other receivables	780,347	1,133,132	239,180
Cash and cash equivalents	1,372,724	1,538,652	1,913,801
	<b>2,153,071</b>	<b>2,671,784</b>	<b>2,152,981</b>

<b>Total assets</b>		<b>17,946,668</b>	<b>14,221,704</b>	<b>17,009,220</b>
<b>Equity attributable to the Company's equity holders</b>				
Share capital	<b>10</b>	1,352,433	1,346,665	1,348,903
Share premium		21,006,754	16,833,172	19,660,434
Loan note equity reserve		-	-	-
Share option and warrant reserve		-	-	-
Retained earnings		(4,880,904)	(4,237,080)	(4,257,564)
		<b>17,478,283</b>	<b>13,942,757</b>	<b>16,751,773</b>
<b>Current liabilities</b>				
Trade payables		405,760	34,024	64,370
Accruals and other payables		62,625	244,923	193,077
		<b>468,385</b>	<b>278,947</b>	<b>257,447</b>
<b>Non-current liabilities</b>				
Borrowings		-	-	-
<b>Total liabilities</b>		<b>468,385</b>	<b>278,947</b>	<b>257,447</b>
<b>Total equity and liabilities</b>		<b>17,946,668</b>	<b>14,221,704</b>	<b>17,009,220</b>

#### Unaudited Changes in Equity as at 30 June 2019

	Share capital	Share premium	Loan note equity reserve	Option and warrant reserve	Retained earnings	Total equity
	£	£	£	£	£	£
Balance at 1 January 2018	1,330,225	13,237,362	123,482	175,982	(4,286,249)	10,580,802
Total comprehensive income	-	-	-	-	(221,252)	(221,252)
Issue of share capital	16,440	3,953,310	-	-	-	3,969,750
Share and loan issue costs	-	(357,500)	-	-	-	(357,500)
Conversion of convertible loan notes	-	-	(123,482)	-	-	(123,482)
Transfer of lapsed warrants	-	-	-	(175,982)	175,982	-
Share based payment charge	-	-	-	-	94,439	94,439
Balance at 30 June 2018	1,346,665	16,833,172	-	-	(4,237,080)	13,942,757
Total comprehensive income	-	-	-	-	(91,312)	(91,312)
Issue of share capital	2,238	2,907,762	-	-	-	2,910,000
Share and loan issue costs	-	(245,500)	-	-	-	(245,500)
Transfer on conversion of convertible loan notes	-	165,000	-	-	-	165,000
Share based payment charge	-	-	-	-	70,828	70,828
Balance at 31 December 2018	1,348,903	19,660,434	-	-	(4,257,564)	16,751,773
Total comprehensive income	-	-	-	-	(623,340)	(623,340)
Issue of share capital	3,530	1,496,470	-	-	-	1,500,000
Share and loan issue costs	-	(150,150)	-	-	-	(150,150)
Balance at 30 June 2019	1,352,433	21,006,754	-	-	(4,880,904)	17,478,283

#### Unaudited Statement of Cash flows for the six months ended 30 June 2019

		<b>6 months to 30 June 2019 (Unaudited) £</b>	<b>6 months to 30 June 2018 (Unaudited) £</b>	<b>12 months to 31 December 2018 (Audited) £</b>
<b>OPERATING ACTIVITIES</b>	<b>Note</b>			
Net cash used in operations	<b>11</b>	(521,944)	(503,436)	(752,350)
Investment in portfolio companies		(1,370,926)	(1,513,549)	(3,556,625)
<b>Net cash used in operating activities</b>		<b>(1,892,870)</b>	<b>(2,016,985)</b>	<b>(4,308,975)</b>
<b>FINANCING ACTIVITIES</b>				
Proceeds on issue of shares		1,500,000	3,100,000	6,010,000
Share issue expenses		(150,150)	(357,500)	(603,000)

Proceeds from exercise of options	-	8,500	8,500
Proceeds on issue of loan note	-	550,000	550,000
Repayment of loan stock	-	(20,000)	(20,000)
Interest received	1,943	811	3,450
<b>Net cash from financing activities</b>	<b>1,351,793</b>	<b>3,281,811</b>	<b>5,948,950</b>
<b>(Decrease)/Increase in cash and cash equivalents</b>	<b>(541,077)</b>	<b>1,264,826</b>	<b>1,639,975</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1,913,801</b>	<b>273,826</b>	<b>273,826</b>
<b>Cash and cash equivalents at end of period</b>	<b>1,372,724</b>	<b>1,538,652</b>	<b>1,913,801</b>

## Notes to the unaudited interim statement for the six months ended 30 June 2019

### 1. General information

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

The Company is a public limited company, incorporated in England and Wales, with its ordinary 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 Pounds Sterling, which is the Company's presentational and functional currency.

### 2. Basis of preparation

The interim financial statements of Tern Plc have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the European Union (EU). They do not include all of the information required for full annual financial statements and should be read in conjunction with Tern plc's audited financial statements for the year ended 31 December 2018. The financial information for the year ended 31 December 2018 set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Company's statutory financial statements for the year ended 31 December 2018 have been filed with the Registrar of Companies and can be found on the Company's website: [www.ternplc.com](http://www.ternplc.com). The auditor's report on those financial statements was unqualified and did not contain statements under Section 498 (2) or Section 498 (3) of the Companies Act 2006. These interim financial statements have been prepared under the historical cost convention as adjusted for the valuation of investments and have been approved for issue by the Board of Directors.

### 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.

### 4. New accounting standards

#### Leases

There has been no material effect from the adoption of IFRS 16.

### 5. Investments

The investment valuation consists of equity investments and convertible loans.

In accordance with IFRS 10, para 31, 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.

### 6. Convertible Loans

#### Financial assets

Convertible loans provided to investment companies are evaluated with reference to IFRS 9. The convertible loan facility issued to Device Authority is a financial asset with multiple embedded derivatives and a warrant instrument. IFRS 9 permits the entire contract to be designated at FVTPL. The convertible loan facilities issued to FundamentalVR and InVMA are financial assets with multiple embedded derivatives. IFRS 9 permits the entire contract to be designated at FVTPL. The loan facility provided to Wyld Networks is a financial asset designated at FVTPL. Assets are measured at fair value at each reporting date, with any movement in fair value taken to profit or loss for the year.

### 7. Critical accounting 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 estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

## ESTIMATES

### Fair value of financial instruments

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

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

## JUDGEMENTS

### Investments held at FVTPL

The critical judgement which has the most significant effect on the financial statements is the assessment that the Company is an Investment entity and therefore should not consolidate investments but should carry them at fair value through profit or loss. 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 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.

### 8. 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.

### 9. Earnings per share

Earnings (loss) per share is calculated by reference to the weighted average shares in issue as follows:

	6 months to 30 June 2019	6 months to 30 June 2018	12 months to 31 December 2018
<b>Weighted average number of ordinary shares (see note below):</b>			
For calculation of basic earnings (loss) per share	245,256,672	199,609,225	217,221,165
For calculation of fully diluted earnings (loss) per share	245,256,672	199,609,225	217,221,165

The same number of shares is used for the calculation of the diluted loss per share as for the basic loss per share for the six months to 30 June 2019 as the losses in these periods have an anti-dilutive effect.

### 10. Share capital

	30 June 2019 Number	30 June 2018 Number	31 December 2018 Number
Issued and fully paid:			
Ordinary shares of £0.0002	254,323,945	225,484,580	236,676,887
Deferred shares of £29.999	42,247	42,247	42,247
Deferred shares of £0.00099	34,545,072	34,545,072	34,545,072
	£	£	£
Issued and fully paid:			
Ordinary shares of £0.0002	50,865	45,097	47,335
Deferred shares of £29.999	1,267,368	1,267,368	1,267,368
Deferred shares of £0.00099	34,200	34,200	34,200
	<u>1,352,433</u>	<u>1,346,665</u>	<u>1,348,903</u>

The deferred shares have negligible value, being subject to restrictions as to voting, participation and redemption according to the new Articles of Association then adopted. The deferred shares are not quoted on the AIM market of the London Stock Exchange.

### 11. Note to the cash flow statement

	6 months to 30 June 2019 (Unaudited) £	6 months to 30 June 2018 (Unaudited) £	12 months to 31 Dec 2018 (Audited) £
Loss for the period	(623,340)	(221,252)	(312,564)
Adjustments for items not included in cash flow:			
Movement in fair value of investments	(11,724)	(282,987)	(775,910)
Share based payment charge	-	94,439	165,267
Transaction costs associated with convertible loan note	-	-	55,000
Discount on issue of convertible loan note	-	-	110,000
Interest income accrued	-	-	(71,209)
Finance income	<u>(1,943)</u>	<u>(4,376)</u>	<u>(3,450)</u>



Operating cash flows before movements in working capital	(637,007)	(414,176)	(832,866)
Adjustments for changes in working capital:			
- (Increase)/decrease in trade and other receivables (excluding loan to investee companies)	(95,875)	(91,043)	100,233
- Increase/(decrease) in trade and other payables	210,938	1,783	(19,717)
Cash used in operations	(521,944)	(503,436)	(752,350)

## 12. Availability of interim results

Copies of this report will be available from the Company's website [www.ternplc.com](http://www.ternplc.com).

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