REPORT OF THE DIRECTORS AND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

FOR

BREED REPLY INVESTMENTS LIMITED
(REGISTERED NUMBER: 09321264)

BREED REPLY INVESTMENTS LIMITED

CONTENTS OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017

DIRECTORS:
E E Angelidis
M Rizzante
R Lodigiani

REGISTERED OFFICE:
38 Grosvenor Gardens
London
SW1W 0EB

REGISTERED NUMBER:
09321264 (England and Wales)

AUDITOR:
Grant Thornton UK LLP
Benham 5
Southampton Science Park
Southampton
SO16 7QJ

PRINCIPAL ACTIVITY

The principal activity of Breed Reply Investments Limited (the "Company") is the provision of capital to early stage companies in the "Internet of Things" (IOT) market, across Europe and the USA.

RESULTS & PERFORMANCE

The results for the year to 31 December 2017 are set out on page 9. The Company made a profit of £1,430,000 in the year (2016: loss of £2,152,000).

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2017 to the date of this report.

E E Angelidis
M Rizzante
R Lodigiani

Appropriate insurance cover in respect of potential Directors' and Officers' liabilities was in place through the whole of the period from 1 January 2017 to the date of this report and will continue to be maintained.

GOING CONCERN

The directors believe the going concern basis is appropriate as the continued support of the parent company, Reply S.p.A., has been committed through an agreed loan facility which has not been fully drawn down (see Note 9 of the Notes to the Financial Statements for further details).

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and the profit or loss of the Company for that period. In preparing these 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS
The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

EVENTS SINCE THE END OF THE PERIOD
Information relating to events since the end of the period is given in note 16 to the financial statements.

AUDITOR
Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Grant Thornton UK LLP will therefore continue in office.

This report has been prepared in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

ON BEHALF OF THE BOARD:

M Rizzante - Director

10 September 2018

Opinion

We have audited the financial statements of Breed Reply Investments Limited (the 'Company') for the year ended 31 December 2017 which comprise the statement of financial position, the statement of comprehensive income, statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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

Conclusions relating to going concern

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

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the directors' report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

Matter on which we are required to report under the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Grant Thornton UK LLP

Norman Armstrong BSc FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Southampton
Date: 18/9/18

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Portfolio return and revenue			
Change in fair value of equity and debt investments	7	4,486	(613)
Administrative expenses		(61)	(26)
Operating profit/(loss)		4,425	(639)
Interest payable and similar expenses	4	(2,995)	(1,565)
Profit/(loss) before taxation	5	**1,430**	**(2,204)**
Taxation	6	-	52
Profit/(loss) for the year		**1,430**	**(2,152)**
Other comprehensive expense for the year, net of tax		-	-
Total comprehensive income/(expense) for the year attributable to equity holders of the parent		**1,430**	**(2,152)**

There were no recognised gains or losses for 2017 or 2016 other than those included in the Statement of Comprehensive Income.

There was no other comprehensive income for 2017 (2016: £Nil).

The notes on pages 12 to 23 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017

	Note	At 31 December 2017	At 31 December 2016
		£'000	£'000
Non-current assets			
Investments	7	27,538	13,913
		27,538	13,913
Current assets			
Debtors: amounts falling due within one year	8	-	-
Cash at bank		677	1,009
			1,009
Creditors			
Amounts falling due within one year	9	(28,995)	(17,132)
Net current liabilities		**(28,318)**	**(16,123)**
Total assets less current liabilities		**(780)**	**(2,210)**
Provisions for liabilities	10	-	-
Net liabilities		(780)	(2,210)
Capital and reserves			
Called up share capital	11	-	-
Retained earnings	12	(780)	(2,210)
Shareholders' deficit		(780)	(2,210)

The company's financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

The notes on pages 12 to 23 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 10 September 2018 and were signed on its behalf by:

M Rizzante - Director

BREED REPLY INVESTMENTS LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Called up Share capital	Retained earnings	Total equity
	£'000	£'000	£'000
Balance at 1 January 2016	-	(58)	(58)
Transactions with owners	-	-	-
Total comprehensive expense	-	(2,152)	(2,152)
Balance at 31 December 2016	-	**(2,210)**	**(2,210)**
Transactions with owners	-	-	-
Total comprehensive profit	-	1,430	1,430
Balance at 31 December 2017	-	**(780)**	**(780)**

The notes on pages 12 to 23 form part of these financial statements.

1. STATUTORY INFORMATION

Breed Reply Investments Limited (the "Company") is a private company, limited by shares, registered in England and Wales. The Company's registered number and registered office address can be found on the Company Information page. The principal place of business of the Company is 9-11 Grosvenor Gardens, London, SW1W 0BD.

2. ACCOUNTING POLICIES

Basis of preparation
These financial statements have been prepared in accordance with applicable accounting standards and in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101) and the Companies Act 2006. The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have all been consistently applied through the year unless otherwise stated. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets.

Except for certain disclosure exemptions detailed below, the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (EU-adopted IFRSs) have been applied to these financial statements and, where necessary, amendments have been made to comply with the Companies Act 2006.

The financial information is presented in pounds sterling, rounded to the nearest £1,000.

The Company is a subsidiary of Reply S.p.A which prepares publicly available consolidated financial statements in accordance with IFRS. The Company is included in the consolidated financial statements of Reply S.p.A for the year ended 31 December 2017. These accounts are available from Reply S.p.A, Corso Francia 110, 10143 Turin, Italy.

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101 "Reduced Disclosure Framework":

- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 'Presentation of Financial Statements';
- the requirements of paragraphs 134 to 136 of IAS 1 'Presentation of Financial Statements';
- the requirements of IAS 7 'Statement of Cash Flows';
- the requirements of paragraphs 17 and 18A of IAS 24 'Related Party Disclosures';
- the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group;
- the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';
- the requirements of IFRS 7 'Financial Instruments: Disclosures'.

Use of estimates and judgements
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not clear from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The judgements required in order to determine the appropriate valuation methodology of unquoted equity investments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities. These judgements include making assessments of the future earnings potential of portfolio companies, appropriate earnings multiples to apply, marketability, other risk discounts, performance against milestones to date and the price of the most recent investment.

Going concern
The financial statements have been prepared on a going concern basis. The directors believe the going concern basis is appropriate as the continued support of the parent company, Reply S.p.A., has been committed through an agreed loan facility which has not been fully drawn down by the Company (see Note 9 of the Notes to the Financial Statements for further details).

Taxation
Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the statement of financial position date.

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax is not discounted.

Foreign currencies
Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the statement of financial position date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Financial Instruments

Recognition, initial measurement and de-recognition
Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities is described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, substantial modification of the terms of an existing financial liability shall be accounted for as an extinguishment of the original liability and the recognition of a financial liability. A substantial modification of terms occurs when the discounted present value of the cash flows under the new terms is at least 10% different from the discounted present value of the remaining cash flows of the original facility.

Fair value measurement
"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or; in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

Gains and losses arising from changes in the fair value of the financial assets and liabilities at fair value through profit or loss are included in the Statement of Comprehensive Income in the period in which they arise.

Derecognition
Sales of all investments are recognised on the trade date, being the date on which the Company disposes of the economic benefits of the asset. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all the risks and rewards of ownership. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in the Statement of Comprehensive Income. Any interest in such transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability. The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Classification and subsequent measurement of financial liabilities
The Company's financial liabilities include borrowings and trade and other payables. Financial liabilities are measured subsequently at amortised cost using the effective interest method.

Financial assets
The Company classifies its financial assets into one of the following categories:

1. 'at fair value through profit or loss'; and
2. loans and receivables

The classification depends on the nature and purpose for which the financial asset was acquired and is determined at the time of initial recognition.

1. At fair value through profit or loss
Financial assets at fair value through profit or loss are either financial assets held for trading or financial assets which are designated at fair value through profit or loss on initial recognition. This category includes equity investments, debt investments, and equity rights. Investments in associated undertakings which are held by the Company with a view to the ultimate realisation of capital gains are also categorised as at fair value through profit or loss.

This measurement basis is consistent with the fact that the Company's performance in respect of investments in equity investments and debt investments is evaluated on a fair value basis in accordance with an established valuation strategy..

In establishing its valuation methodology the Company is guided by International Private Equity and Venture Capital Valuation Guidelines (the "IPEV Valuation Guidelines") endorsed by the British & European Venture Capital Associations. The valuation methodologies used most commonly to date by the Company are 'cost' and 'the price of recent investment'. Given the nature of the Company's investments in early-stage companies, where there are often no current and no short-term future earnings or positive cash flows, it can be difficult to assess the probability and financial impact of the success or failure of development activities and to make reliable cash flow forecasts.

Fair value hierarchy
The Company classifies its financial assets using a fair value hierarchy that reflects the significance of the inputs used in making the related fair value measurements. The level in the fair value hierarchy, within which a financial asset is classified, is determined on the basis of the lowest level input that is significant to that asset's fair value measurement. The fair value hierarchy has the following levels:

Level 1 — Quoted prices in active markets for identical assets or liabilities.
Level 2 — Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, such as prices from market transactions. These are mainly based on prices determined from recent investments in the last twelve months.
Level 3 — One or more inputs that are not based on observable market inputs for the asset or liability.

a) Cost

Where the investment being valued was itself made recently, its cost may provide a good indication of fair value unless there is objective evidence that the investment has since been impaired, such as observable data suggesting a deterioration of the financial, technical, or commercial performance of the underlying business.

b) Price of recent investment

The Company considers that fair value estimates, which are based entirely on observable market data, will be of greater reliability than those based on assumptions and, accordingly, where there has been a recent investment by third parties, the price of that investment will generally provide a basis of the valuation. The length of period for which it remains appropriate to use the price of recent investment depends on the specific circumstances of the investment and the stability of the external environment.

Given the nature of the Company's investments in early-stage companies, where there are often no current and no short-term future earnings or positive cash flows, it can be difficult to gauge the probability and financial impact of the success or failure of development activities and to make reliable cash flow forecasts.

Consequently, the most appropriate approach to determine fair value is a methodology that is based on market data, that being the price of a recent investment. Where the Company considers that the price of a recent investment, unadjusted, is no longer relevant and there are limited or no comparable companies or transactions from which to infer value, the Company carries out an enhanced assessment based on milestone analysis and/or industry and sector analysis. In applying the milestone analysis approach to investments in companies in early or development stages the Company seeks to determine whether there is an indication of change in fair value based on a consideration of performance against any milestones that were set at the time of the original investment decision, as well as taking into consideration the key market drivers of the investee company and the overall economic environment.

Where the Company considers that there is an indication that the fair value has changed, an estimation is made of the required amount of any adjustment from the price of the most recent investment. Wherever possible, this adjustment is based on objective data from the investee company and the experience and judgement of the Company. However, any adjustment is, by its very nature, subjective. Where a deterioration in value has occurred, the Company reduces the carrying value of the investment to reflect the estimated decrease.

If there is evidence of value creation the Company may consider increasing the carrying value of the investment. However, in the absence of additional financing rounds or profit generation it can be difficult to determine the value that a purchaser may place on positive developments given the potential outcome and the costs and risks to achieving that outcome.

Factors that the Company considers include, *inter alia*, technical measures such as product development phases and patent approvals, financial measures such as cash burn rate and profitability expectations, and market and sales measures such as testing phases, product launches and market introduction.

c) Other valuation techniques

If there is no readily ascertainable value from following the 'price of recent investment' methodology, or there is objective evidence that a deterioration in fair value has occurred since a relevant transaction, the Company considers alternative methodologies in the IPEV Guidelines such as discounted cash flows ("DCF") or price-earnings multiples. DCF involves estimating the fair value of a business by calculating the present value of expected future cash flows, based on the most recent forecasts in respect of the underlying business.

Given the difficulty of producing reliable cash flow forecasts for seed, start-up and early-stage companies as described earlier, this methodology is generally used as a confirmatory indicator of the level of any adjustment that may need to be made to the last price of recent investment. When using the earnings multiple methodology, earnings before interest and tax ("EBIT") are generally used, adjusted to a maintainable level. A suitable earnings multiple is derived from an equivalent business or group of businesses, for which the average price-earnings multiple for the relevant sector index can generally be considered a suitable proxy. This multiple is applied to earnings to derive an enterprise value which is then discounted by up to 60% for non-marketability and other risks inherent to businesses in early stages of operation.

d) No reliable estimate

Where a fair value cannot be estimated reliably, the investment is reported at the carrying value at the previous reporting date unless there is objective evidence that the investment has since been impaired.

e) Impacts from capital structuring

Where the capital structure of an investment contains one or more shareholder rights affecting the distribution of exit proceeds, for example options or warrants, or confirmed applications to subscribe or liquidation preferences, the Company values its holding according to section 5.8 of the IPEV Valuation Guidelines (2015) in respect to Impacts from Structuring. The Company's policies are as follows:

Stock options and warrants

The Company values its holding in a portfolio company on a fully diluted basis. In calculating the fully diluted capitalisation table of the company, the Company treats options and warrants in accordance with the specific terms of their deeds of grant or scheme rules, such that:

- all time-vesting options or warrants that would be accelerated in the event of a sale or change of control become vested;
- all options or warrants that are in the money (given the company valuation) would be exercised; and,
- any options or warrants that are subject to an explicit performance trigger which has not been met at the Measurement Date (for example, a revenue target or an exit price) and which is not over-ridden by accelerated vesting may be disregarded in the calculation of the fully diluted equity.

Confirmed Applications to Subscribe (CATS) / Simple Agreement for Future Equity (SAFE)

A 'confirmed application to subscribe' (also known in the US as a 'simple agreement for future equity') is an instrument combining a subscription for equity in the company and the right to call for the allotment of shares in respect of such subscription at a price to be determined by reference to a follow-on round or other defined events. The CATS will also specify a back-stop price at which shares will be allotted for the subscription in default of the defined events. The structure enables the deferred pricing of an equity issue, like a convertible loan without the debt element.
Where the Company invests using CATS, the Company recognises the value of its subscription as an equity investment and, for the purposes of calculating its fully diluted holding, the Company assumes that CATS shares would be allotted at the highest of the defined event prices or in the absence of any such event at the back-stop price.

Liquidation preferences

The Company's policy is to recognise the value of preference rights attaching to its equity investments in full except in the following cases:

- Where no material third party-led funding round has occurred since the Company's first preference investment, the Company will defer recognising the full value of the preference rights until such time as a material third party-led round has occurred; or,
- Where a material third party-led round has occurred since the Company's first preference investment but the lead third party is a strategic (rather than financial) investor, the Company will review the overall balance of the transaction and recognise the value of the preference rights to the extent to which it judges they are likely to be maintained in the event of a follow-on round taking into account the Company's past experience and market practice.

Notwithstanding the above, the Company reserves the right to defer or impair some or all of the value of preference rights in the interests of the Company's objectives of valuing assets at fair value and maintaining a consistent approach to valuations where the circumstances so dictate.

Debt investments
Debt investments are generally unquoted debt instruments which are convertible to equity of the investee company at a future point in time under certain circumstances. The equity value and timing at which the debt may convert to equity are very difficult to determine until close to the time at which the debt is expected to convert to equity as the terms of conversion are not generally on a 'fixed-for-fixed' basis and consequently the Directors are relying on estimates that may or may not turn out to be accurate. Such instruments are considered to be hybrid instruments containing a fixed rate debt host contract with an embedded equity derivative. The Company designates the entire hybrid contract at fair value through profit or loss on initial recognition and, accordingly, the embedded derivative is not separated from the host contract and accounted for separately.

At inception, the fair value is considered equal to issue value unless there is an indication that this is not appropriate. In case of a change in the risk profile of the debt instrument between the date of issue and reporting date, the fair value of debt investments is established by calculating the present value of expected future cash flows associated with the instrument based on a suitable discount rate.

2. **Loans and receivables**
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

Cash and cash equivalents
Cash comprises cash on hand and demand deposits which is presented as cash at bank in the Statement of Financial Position.

Cash equivalents comprise short-term, highly liquid investments with maturities of three months or less from inception that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are presented as part of current asset investments in the Statement of Financial Position.

Equity, reserves and dividend payments
Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

The Company's ordinary shares are classified as equity. Transaction costs on the issue of shares are deducted from the share premium account arising on that issue. Dividends on the Company's ordinary shares are recognised directly in equity.

Interim dividends are recognised when they are paid. A liability for unpaid dividends is recognised when the dividends have been approved in a general meeting prior to the reporting date.

Portfolio return and revenue
Changes in the fair value of the Company's equity and convertible loan investments represent revaluation gains and losses on the Company's portfolio. Gains on disposal of equity investments represent the difference between the fair value of consideration received and the carrying value at the end of the accounting period on the disposal.

Interest income accrued on convertible loans is included in "Change in fair value of equity and debt investments" in the Statement of Comprehensive Income.

3. EMPLOYEES AND DIRECTORS

The Company has no employees. The directors of the Company are remunerated by a Group company with no recharge of underlying costs to the Company. It is not practical to allocate this remuneration between Group companies.

4. INTEREST PAYABLE AND SIMILAR EXPENSES

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Interest on loan from the parent company	2,909	1,445
Foreign exchange differences on parent loan	86	120
Total expense	**2,995**	**1,565**

5. PROFIT/(LOSS) BEFORE TAXATION

The profit/(loss) before taxation is stated after charging/(crediting):

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Net (gain)/loss from fair value adjustments to investments	(4,486)	613
Current auditor's remuneration for audit of the accounts	48	15
Foreign exchange differences	86	120

6. TAXATION

Analysis of tax expense

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Deferred tax	-	(52)
Total tax credit in statement of comprehensive income	-	(52)

Factors affecting the tax expense
The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Profit/(loss) before income tax	1,430	(2,204)
Profit/(loss) multiplied by the standard rate of tax in the UK – 19.25% (2016 - 20.00%)	275	(441)
Effects of:		
Expenses not deductible for tax purposes	(840)	151
Adjust closing deferred tax to average rate of 19.25%	98	44
Adjust opening deferred tax to average rate of 19.25%	(32)	-
Deferred tax not recognised	499	246
Net gain on revaluation of investments – deferred tax	-	(52)
Tax (credit)/expense	-	(52)

As at the reporting date, the Company has unused tax losses of £4,383,000 (31 December 2016: £1,447,000) available for offset against future profits generated in the UK. No deferred tax asset has been recognised in respect of these losses due to uncertainty over the timing of its recoverability.

7. INVESTMENTS

	At 31 December 2017 £'000	At 31 December 2016 £'000
Equity investments		
Opening balance	9,213	3,811
Additions	6,925	5,828
Revaluations	2,409	128
Conversion from debt investments	7,372	-
Exchange movements	(25)	121
Impairments	-	(675)
Closing balance	**25,894**	**9,213**

	At 31 December 2017 £'000	At 31 December 2016 £'000
Convertible debt investments		
Opening balance	4,700	1,109
Additions	2,214	3,778
Revaluations	2,708	-
Capitalised Interest	192	141
Conversion to equity investments	(7,372)	-
Exchange movements	(48)	72
Impairments	(750)	(400)
Closing	**1,644**	**4,700**
Total Investments	**27,538**	**13,913**

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Change in fair value of equity and debt investments		
Revaluations – equity investments	2,409	128
Revaluations – convertible debt investments	2,708	-
Capitalised Interest	192	141
Exchange movements – equity investments	(25)	121
Exchange movements – convertible debt investments	(48)	72
Impairments – equity investments	-	(675)
Impairments – convertible debt investments	(750)	(400)
	4,486	**(613)**

7. INVESTMENTS (Continued)

Equity investments

As the Company is an investment entity, the equity investments as detailed below are designated at fair value and accounted for in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". The fair value is determined using the IPEV Valuation Guidelines and any change therein is recognised through profit/(loss) in the period in which it occurred.

Company name	Class of share	Proportion of nominal value held (%)
Cocoon Labs Ltd	Preferred Ordinary and Ordinary	23.6
Inova Design Solutions Ltd	Preferred Ordinary	33.7
Zeetta Networks Ltd	Preferred Ordinary	29.3
Amiko Digital Health Limited	Preferred Ordinary	22.7
Sentryo SAS	Preferred Ordinary	13.3
Connecterra Holdings Limited	Preferred Ordinary	19.5
Iotic Labs Limited	Preferred Ordinary	17.0
Senseye Limited	A Preferred Ordinary, Preferred Ordinary and Ordinary	14.3
Razorsecure Limited	Preferred Ordinary	21.1
Wearable Technologies Limited	Preferred Ordinary	14.8
We Predict Limited	A Preferred Ordinary and Preferred Ordinary	16.6
Enmodus Limited	Preferred Ordinary	19.2
Kokoon Technology Ltd	Preferred Ordinary	38.2
Callsign Inc	Preferred Ordinary	3.6
Canard Drones Ltd	Preferred Ordinary	10.9
Foodmarble Digestive Health Limited	Preferred Ordinary	14.6
Yellow Line Parking Ltd	Preferred Ordinary	5.9

All investments are in companies incorporated in England and Wales, except for Sentryo SAS (France), Callsign Inc (USA) and Foodmarble Digestive Health Limited (Ireland).

8. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	At 31 December 2017 £'000	At 31 December 2016 £'000
Other debtors	-	-
	-	-

Other debtors represent £100 for shares issued but not fully paid up (2016: £100).

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	At 31 December 2017 £'000	At 31 December 2016 £'000
Trade creditors	1	-
Amounts owed to Group undertakings	24,559	15,663
Accruals and deferred income	4,435	1,469
	28,995	17,132

Under the terms of a facility agreement dated 15 December 2014 between Reply S.p.A and the Company, Reply S.p.A has made available (until 31 December 2019) loan funding of up to £36m to the Company to enable the Company to carry out its investment activities. The Company shall repay the outstanding loan and interest that has accrued during the Company's financial year within one month of approval of the Company's annual accounts. If any part of the loan and/or accrued interest cannot be repaid in the financial year in which it was drawn and/or the interest accrued, then such amounts shall be carried forward into each subsequent financial year until all amounts outstanding under the agreement have been paid in full.

10. PROVISIONS FOR LIABILITIES

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Deferred tax		
Opening balance	-	52
Movement	-	(52)
Closing Balance	-	-

11. CALLED UP SHARE CAPITAL

Share capital

All shares are authorised, issued and fully paid. The Company has two classes of ordinary shares, A shares and B shares, neither of which carry a right to fixed income. Holders of the A shares and B shares are equally entitled to receive notice of, and to attend, all of the Company's general meetings and to receive and vote on proposed written resolutions of the Company.

The A shares and B shares rank equally with regard to voting and distributions of capital.
The B shares have certain preferential rights with regard to distributions of profits.

The share capital structure of the Company during the current year and in the comparative period was as follows:

	At 31 December 2017 £	At 31 December 2016 £
Allotted, issued and fully paid:		
Ordinary A shares of £1 nominal value: 80 (2016: 80)	80	80
Ordinary B shares of £1 nominal value: 20 (2016: 20)	20	20
	100	100

Called up share capital represents the nominal value of shares that have been issued.

12. RESERVES

Retained earnings account includes all current and prior period retained profits and losses.

13. RELATED PARTY DISCLOSURES

	At 31 December 2017 £'000	At 31 December 2016 £'000
Amounts owed to Reply S.p.A		
Interest bearing debt	24,250	15,353
Non-interest bearing balances	4,670	1,755
	28,920	17,108

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Interest expense payable to Reply S.p.A	2,909	1,445

14. ULTIMATE PARENT COMPANY

Iceberg S.R.L, a company incorporated in Italy, is deemed to be the ultimate parent undertaking and is the largest group of undertakings for which Group accounts are drawn up.

Reply S.p.A. is the immediate parent company and is the smallest group of undertakings in whose consolidated financial statements the Company is included. The Group financial statements can be obtained from Reply S.p.A, Corso Francia 110, 10143 Turin, Italy.

There is no ultimate controlling party.

15. CAPITAL COMMITMENTS

As at 31 December 2017, the Company had committed to make investments totalling £2,910,000 (2016: £2,937,500) in new and existing investee companies developing IoT technology, subject to conditions precedent.

16. EVENTS AFTER THE STATEMENT OF FINANICAL POSITION DATE

Since the statement of financial position date, the Company has invested a further £8,593,000 in return for either share capital or convertible loan notes – £4,104,000 in companies in which the Company has already invested and £4,489,000 in new companies. All the new investments qualify for the investment entity exception under IAS 28 - Investments in Associates and Joint Ventures.