

Company Registration No. 07848318

MASTernaut LIMITED

Annual Report and Financial Statements

For the year ended 31 December 2019



MASTERNAUT LIMITED

REPORT AND FINANCIAL STATEMENTS 2019

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MASTernaut LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

Directors

G Santiago
D Souici
R Dimenna

Company Secretaries

S Gray
D Souici

Registered office

Priory Park
Great North Road
Aberford
Leeds
LS25 3DF

Company registration number

07848318

Auditor

Deloitte LLP
Statutory Auditor
1 City Square
Leeds
United Kingdom
LS1 2AL

Solicitors

Henmans Freeth (Freeth LLP)
80 Mount Street
Nottingham
NG1 6HH

Bankers

HSBC Bank plc
3 Rivergate
Temple Quay
Bristol
BS1 6ER

MASTernaut LIMITED

STRATEGIC REPORT

The directors present their Strategic Report and audited financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITY

The Company is the main trading Company of the Masternaut Group ("the Group"). The principal activity of the Company is the provision of sophisticated data and information solutions to customers based on vehicle telematics technology and software applications developed by Masternaut.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

Business review

The Group was acquired by Compagnie Générale des Établissements Michelin SCA, ("Michelin") on 22 May 2019.

The company's key financial performance indicators (KPI) during 2019 and 2018 are as follows:

	2019	2018	Change
	£'000	£'000	
Turnover	27,654	29,212	(5.3%)
Gross profit	23,286	24,855	(6.3%)
Operating loss	(10,098)	(2,131)	373.8%
Net liabilities	69,947	56,885	22.9%

The Company generated turnover of £27,654k (2018: £29,212k). Turnover reduced as the value of customer contracts that came to the end of their term or the reduction in price for those that renewed exceeded the value of new business signed in the year. The gross profit reduction reflected the change in reduced revenue in the year. The operating costs in 2019 were higher due to further investments in sales and marketing and in R&D. Total operating loss for the year has increased significantly, but this is largely due to one-off exceptional transaction costs incurred in 2019 as a result of the Masternaut Group's acquisition by Michelin (note 8).

The Company had net liabilities of £69,947k (2018: £56,885k) at the balance sheet date. The increase in net liabilities is due to the loss made in the year. The Company represents Masternaut Group's trading activities in the UK as well as the headquarters of the Masternaut Group.

The Company's balance sheet includes net amounts owed to group undertakings of £88,325k (2018: £75,423k) which relate to the restructuring of Masternaut Group's UK legal entities plus funding of ongoing losses. Excluding amounts owed to group undertakings, the Company's net assets amounted to £18,378k (2018: £18,538k).

Future developments and subsequent events

The outlook remains positive despite the current challenging economic environment. The Group has started to leverage the strategic potential that now exists as part of one of the world's most recognised and respected brands in Michelin. The Group has begun to push ahead with its growth strategy, exploring new sales channels and geographical expansion across Europe which has been helped by having access to substantial resources within the Michelin Group.

MASTernaut LIMITED

STRATEGIC REPORT (continued)

The appearance of the Coronavirus COVID19 in China in December 2019 and its global expansion in 2020, led to the World Health Organisation in March 2020 to classify the virus as a pandemic. The Company is taking all the necessary measures required to safeguard the health of its employees. The spread of the Coronavirus is being continually monitored and the Company is taking all the actions required to minimise the impact of this pandemic on its operations and its financial statements as well as to manage its liquidity risk. The Company has the financing and support in place from Michelin to deal with the uncertainty surrounding the crisis. The Company's turnover growth has been impacted by the restrictions the government imposed and the recovery will largely depend on how the UK manages the pandemic in the coming months but costs have been controlled to offset any negative impact on the financial statements. Although it is not possible to anticipate nor assess whether this situation will continue and to what extent in the future, the current risk to the Company is low, due to its diverse customer base and the financing and support in place from Michelin.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board has a policy of continuous identification and review of key business risks and uncertainties. It oversees the development of processes to ensure that these risks are managed appropriately, and operational management are delegated with the tasks of implementing these processes and reporting to the Board on their outcomes. The key risks identified by the Board are as follows:

- Failure of information technology systems
- Dependence on key personnel
- Competition and technological change
- Generation of cash to fund operations
- Continuing products and services developments
- Provision of adequate leasing facilities
- Dependence on mobile networks
- Adverse economic and market conditions (e.g. Eurozone sovereign indebtedness)

The above risks are reviewed by the Board and appropriate processes put in place to monitor and mitigate them. If more than one event occurs, it is possible that the overall effect of such events would compound the possible adverse effects on the Company.

The UK left the EU on 31 January 2020 and the transition period is due to expire on 31 December 2020. The full impact of Brexit on the Company is not yet known and developments are being monitored closely. The main areas of risk are to inventory supplies if there are delays at the borders and any restrictions on the movement of employees between the UK and Masternaut's European offices. In order to mitigate the risk, the Company has formed a Brexit team who have put a contingency plan in place.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to several financial risks including credit risk, cash flow risk and liquidity risk.

Cash flow risk

The Company's activities expose it primarily to interest rate risk. Interest bearing assets and liabilities are currently subject to a floating rate. Given the current outlook for interest rate changes management is satisfied with the risk of likely change.

Credit risk

The Company's principal financial assets are bank balances and cash, trade and other receivables.

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of expected credit losses. An allowance for impairment is made where there is an identified loss event which, based on expected future losses, is evidence of a reduction in the recoverability of the cash flows.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

MASTernaut LIMITED

STRATEGIC REPORT (continued)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Company is currently investing in its sales and research and development activities which are forecast to exceed cash inflows from operating activities from time to time. To maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company uses intercompany finance

S.172 STATEMENT

In accordance with the Companies Act 2006 (the 'Act') (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Directors provide this statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company, under section 172.

The Board always aims to act in the best interests of the Company, and to be fair and balanced in its approach. The needs of different stakeholders are always considered as well as the consequences of any decision in the long-term and the importance of our internally published high standards of business conduct. More specific information is given in sub-paragraphs (a) to (f), which correspond to the individual factors disclosed under Section 172(1).

a. Long-term decision making

The Board delegates day-to-day management and decision making to its senior management team, but it maintains oversight of the Company's performance, and reserves to itself specific matters for approval. In addition to this, any major decisions with long-term implications, including significant new business initiatives, would need shareholder approval, to ensure that the business decisions taken locally are in alignment with the long-term strategy of the Group. Any decisions approved either locally or by the Shareholder, are then implemented, with subsequent Board oversight to ensure management act in accordance with the agreed strategy. Processes are in place to ensure that the Board receives all relevant information to enable it to make well-judged decisions in support of the Company's long-term success, including management KPIs, other financial information, and a robust suite of internal controls.

b. Stakeholders: Employees

Our people are essential to our success, future growth, and our aim to build leading positions in our long-term markets. We continue to invest substantial time and effort to employ, train, develop and retain employees who are passionate about our business and have up-to-date knowledge and expertise in our key functional areas. Hearing their views on what we do well, and what we can do better, is an important driver for improvement and retaining our best talent. With this in mind, we hold quarterly company-wide informational events with both the leadership team and all employees spanning the whole business, in order to give employees a coherent insight into recent business performance and also future plans and expectations; which also acts as a forum for thoughts, ideas, feedback and suggestions. In addition, we publish regular internal newsletters to ensure they are kept informed of any personnel changes; business progress and developments, and various team building events in order to further strengthen cooperation and teamwork across the workforce.

c. Stakeholders: Customers, Suppliers, Others

We aim to be fair and ethical in dealings with all our external stakeholders, including our suppliers, customers and other business partners, in line with our Code of Conduct and ethical policies. We endeavour to pay suppliers to agreed terms and be a collaborative and responsive partner. With customers, our goal is to act as partners in order to understand their needs and collaborate effectively in order to provide the products and service they need in order to succeed. Each customer has a sales representative, backed by a dedicated sales administration team in order to facilitate this relationship and ensure the smooth operation day-to-day. The local sales team report to the Board with regular KPIs, and these assist in maintaining and developing our understanding of current customer and market trends, issues and likely future needs, and how these can be addressed.

MASTERNAUT LIMITED

STRATEGIC REPORT (continued)

S.172 STATEMENT (continued)

a. Stakeholders: Community & Environment

Contributing positively to our local and global communities and environments is a responsibility and an opportunity. As European and UK regulations are reinforced to lower carbon emissions to combat climate change, companies also have a key role to play in becoming compliant and addressing this issue. We believe strongly that our product and service offering actively encourages and supports businesses across the UK & Ireland to reduce the carbon footprints of their fleets. Our complimentary Fleet CO2 Certification programme for customers, verified by The Energy Saving Trust, rewards businesses' efforts to improve environmental performance and reduce their carbon footprint. In addition, we participate in and actively encourage charitable activities each year in order to raise donations for local worthy causes.

b. Reputation for high standards of business conduct

The Board is responsible for developing the Group corporate culture across the Company, which promotes integrity and transparency. The Group has established comprehensive systems of corporate governance, and approves policies and procedures which promote corporate responsibility and ethical behaviour, and these are implemented within the Company. Central to these policies is the Group's Code of Conduct. This applies to all Directors and employees, and is embedded into the Company's operations. All employees have received these policies and received full training, to ensure they understand the principles and objectives.

c. Acting fairly as between members of the Company

The Board aims to understand the views of its sole shareholder and always to act in their best interests. In order to do this, the Board works closely with the shareholder on a daily basis to ensure operations, strategy and performance are aligned with the long-term objectives of the shareholder, while complying with the Articles of Association of the Company, and in line with the highest standards of conduct as laid out in Group policies.

Approved by the board, authorised for issue and signed on its behalf by:



D Souici
Director

Date: 18th September 2020

MASTERNAUT LIMITED

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2019.

The Company's principal activities, review of the business, KPIs, principal risks and uncertainties, future developments and subsequent events can be found on page 2-3 and form part of this report by cross reference.

DIVIDENDS

The directors do not recommend the payment of any final dividend (2018: £nil).

DIRECTORS' INDEMNITY

The group has indemnified its directors, by way of directors and officer's liability insurance, against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force at the date of approving the directors' report.

DIRECTORS

The Directors who served during the year and subsequent to the year end, unless otherwise stated, were as follows:

G Santiago (appointed 9 April 2020)
A Johnson (resigned 22 May 2019)
D Souici
R Dimenna (appointed 22 May 2019)

RESEARCH AND DEVELOPMENT

During the year ended 31 December 2019, the Company invested in research and development activities relating to the ongoing development and enhancement of its fleet management platform and related applications. The Company holds a portfolio of intellectual property rights relating to its technologies and applications. The Company has incurred expenditure in relation to developing and enhancing these solutions during the year. The expenditure incurred during the year in respect of these developments is detailed within the financial statements, in Note 5.

EMPLOYEE ENGAGEMENT

The Company recognises its responsibilities towards keeping employees informed of matters affecting them as employees and the economic factors affecting the performance of the Company, as referred to in the S.172 statement. To this end, consultations take place at appropriate times with employees.

DISABLED EMPLOYEES

Applications for employment made by disabled persons are given full and fair consideration, having regard to the abilities and aptitudes of the candidates. If existing employees become disabled, every effort is made to accommodate them within their existing jobs or, if this proves to be impossible, to find them suitable alternative employment. Opportunities for development and promotion are open to all employees.

MASTernaut LIMITED

DIRECTORS' REPORT (continued)

GOING CONCERN

During the year the entire share capital of the Group was acquired by Michelin. (note 23). As part of the acquisition all the Group's external debt was repaid and a financing facility with the shareholder was established. The directors have received a comfort letter from Michelin confirming their financial support for a period of at least 12 months from the date of approval of these financial statements.

The Coronavirus pandemic discussed in the strategic report has not significantly impacted the Company. The forecasts for the next 12 months have considered the impact of the pandemic on the financial statements and the Directors have assessed the risk on future growth and liquidity. The Directors believe due to the Groups diverse customer base and the financing and support in place from Michelin that the Company has all the necessary measures in place to deal with the uncertainty surrounding this crisis.

Based on the above factors, the Directors have a reasonable expectation that the Company and Group have adequate resources, to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

AUDITOR

Each of the persons who is a Director at the date of approval of these financial statements confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed as auditor in the absence of the Annual General Meeting.

Approved by the Board of Directors and signed on its behalf by:



D Souici
Director

Date: 18th September 2020

MASTernaut LIMITED.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report 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 of the company and of 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK 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 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MASTernaut LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Masternaut Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 24.

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).

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 Financial Reporting Council's (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.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MASTERNAUT LIMITED (continued)

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MASTernaut LIMITED (continued)

Report on other legal and regulatory requirements

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 has been prepared in accordance with applicable legal requirements.

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 any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

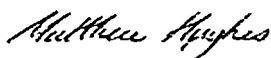
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.

We have nothing to report in respect of these matters.

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.



Matthew Hughes BSc (Hons) ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
18 September 2020

MASTernaut LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Turnover	4	27,654	29,212
Cost of sales		(4,368)	(4,357)
Gross profit		23,286	24,855
Other operating income - R&D tax credit		486	617
Administrative expenses:			
Depreciation and amortisation		(8,089)	(7,487)
Exceptional costs	8	(6,187)	(613)
Other administrative expenses		(19,595)	(19,503)
Total administrative expenses		(33,871)	(27,603)
Operating loss		(10,098)	(2,131)
Interest receivable and similar income	9	-	27
Interest payable and similar charges	10	(2,884)	(3,322)
Loss before taxation		(12,982)	(5,426)
Tax	11	(80)	(124)
Loss for the financial year	5	(13,062)	(5,550)

All amounts derive from continuing operations.

There was no other income or expenses in the year, other than the loss for the current and preceding financial year; accordingly, no Statement of Comprehensive Income has been presented.

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

MASTERNAUT LIMITED

BALANCE SHEET

As at 31 December 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Intangible assets	12	11,241	11,554
Tangible assets	13	10,417	9,798
		<u>21,658</u>	<u>21,352</u>
Current assets			
Stock	14	434	207
Debtors	15	11,409	12,795
Cash at bank and in hand		418	1,117
		<u>12,261</u>	<u>14,119</u>
Total assets		<u>33,919</u>	<u>35,471</u>
Creditors: Amounts falling due within one year:			
Trade and other payables	16	(101,386)	(90,037)
Deferred revenue		(1,290)	(1,263)
		<u>(102,676)</u>	<u>(91,300)</u>
Net current liabilities		<u>(90,415)</u>	<u>(77,181)</u>
Total assets less current liabilities		<u>(68,757)</u>	<u>(55,829)</u>
Creditors: Amounts falling due after more than one year:			
Deferred revenue		(1,290)	(990)
Obligations under finance lease	17	(90)	(66)
		<u>(103,866)</u>	<u>(92,356)</u>
Total liabilities		<u>(103,866)</u>	<u>(92,356)</u>
Net liabilities		<u>(69,947)</u>	<u>(56,885)</u>
Capital and reserves			
Called up share capital	19	-	-
Profit and loss account	19	(69,947)	(56,885)
Total shareholders' deficit		<u>(69,947)</u>	<u>(56,885)</u>

The financial statements of Masternaut Limited, registered number 07848318, were approved by the board of directors and authorised for issue on 18th September 2020.

They were signed on its behalf by:



D Souici,
Director

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

MASTernaut LIMITED

STATEMENT OF CHANGES IN EQUITY For the year ended 31 December 2019

	Share capital £'000	Profit and loss account £'000	Total £'000
At 1 January 2018	-	(51,335)	(55,335)
Loss for the year	-	(5,550)	(5,550)
At 31 December 2018	-	(56,885)	(56,885)
Loss for the year	-	(13,062)	(13,062)
Balance at 31 December 2019	-	(69,947)	(69,947)

A description of each reserve is provided in note 19.

MASTERNAUT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

1. GENERAL INFORMATION

Masternaut Limited (the "Company") is a private company limited by shares, incorporated in England and Wales under the Companies Act. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the strategic report on page 2.

These financial statements are presented in pounds sterling which is also the functional currency because that is the currency of the primary economic environment in which the Company operates. Financial information in these financial statements are presented rounded to the nearest thousand.

Adoption of new and revised standards

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting year that begins on or after 1 January 2019.

IFRS 16	Leases
IFRS 9 (amendments)	Prepayment Features with Negative Compensation
IFRS 28 (amendments)	Long-term interests in Associates and Joint Ventures
IAS 19 (amendments)	Employee Benefits Plan Amendment, Curtailment or Settlement
IFRIC 23	Uncertainty over Income Tax Treatments

Annual Improvements to IFRS Standards 2015-2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs.

The adoption of these has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRS 16 Leases

In the current year, the Company has applied IFRS 16 (as issued by the IASB in January 2016), effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets.

A lessee can apply IFRS 16 either by a full retrospective approach or a modified retrospective approach. The Masternaut Group policy is to use the latter approach, whereby comparative information is not restated and the cumulative effect of initially applying IFRS 16 is presented as an adjustment to opening retained earnings.

A lease review was carried out to assess the impact of IFRS 16 on the financial statements. Following the adoption of IFRS 16 most of the leases identified were already treated as finance leases. All off-balance sheet leases identified (which would have qualified as an operating lease under the superseded standard IAS 17), related to car leases and were deemed to be either low-value or short-term leases (lease terms of 12 months or less to run). As permitted by IFRS 16, the Company has elected to apply the exemption to recognise all low-value and short-term leases as a lease expense on a straight-line basis over the lease term. This expense is presented within other administrative expenses in the profit and loss account.

Therefore, there has been no accounting adjustment required upon transition and so no material impact on the financial statements as a result of implementing IFRS 16.

MASTERNAUT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

1. GENERAL INFORMATION (continued)

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

IFRS 17	Insurance Contracts
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an investor and its Associate or Joint Venture
IFRS 3 (amendments)	Definition of a business
IAS 1 and IAS 8 (amendments)	Definition of material
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards

None of these new standards are expected to have an impact on future financial statements.

MASTERNAUT LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of a cash-flow statement, share based payments, impairment of assets and related party transactions.

Where relevant, equivalent disclosures have been given in the consolidated financial statements. (note 23)

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

b) Going concern

During the year the entire share capital of the Group was acquired by Michelin. (note 23). As part of the acquisition all the Group's external debt was repaid and a financing facility with the shareholder was established. The directors have received a comfort letter from Michelin confirming their financial support for a period of at least 12 months from the date of approval of these financial statements.

The Coronavirus pandemic discussed in the strategic report has not significantly impacted the Company. The forecasts for the next 12 months have considered the impact of the pandemic on the financial statements and the Directors have assessed the risk on future growth and liquidity. The Directors believe due to the Groups diverse customer base and the financing and support in place from Michelin that the Company has all the necessary measures in place to deal with the uncertainty surrounding this crisis.

Based on the above factors, the Directors have a reasonable expectation that the Company and Group have adequate resources, to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

MASTERNAUT LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Tangible fixed assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Depreciation is calculated on a straight line basis over the estimated useful life of the asset and recognised in the profit and loss account for each part of an item of property, plant and equipment. Depreciation methods and useful lives are reassessed at each reporting date. The estimated useful lives for the current and comparative periods are as follows:

• Freehold buildings	2% on cost
• Plant and machinery	20% on cost
• Computer equipment	12.5% - 33.3% on cost
• Customer equipment	25% on cost
• Fixtures and fittings	25%-33.3% on cost

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net in the profit and loss account.

d) Intangible assets

Internally generated intangible assets - research and development

Expenditure on research activities undertaken with the prospect of gaining new technical knowledge and understanding is recognised in the profit and loss account as an expense as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for new or substantially improved products or processes is capitalised if the product or process is (i) technically and commercially feasible; (ii) future economic benefits are probable; and (iii) the Company intends to and has sufficient resources to complete the development. Capitalised expenditure includes direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Development costs that have been capitalised in accordance with IAS 38 *Intangible Assets* are therefore not treated, for dividend purposes, as a realised loss.

Amortisation

Amortisation is recognised in the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets and amortisation commences in the year of capitalisation, as this best reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

• Development cost	4 years straight line
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Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. See impairment of goodwill and other intangible assets

e) Cash and cash equivalents

Cash and cash equivalents include cash held at bank and in hand together with short-term highly liquid investments with an original maturity of less than three months that are readily convertible to known amounts of cash and subject to an insignificant change in value.

f) Trade and other receivables

Trade and other receivables are stated at amortised cost less impairment losses.

MASTERNAUT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Stock

Stock are stated at the lower of cost and net realisable value of materials. Cost is determined based on the latest purchase price.

h) Loans and borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss account over the period of the borrowings on an effective interest basis.

i) Trade and other payables

Trade and other payables are stated at the discounted present value of the estimated outflows of funds. Where the maturity is less than one year they are not discounted and are shown at cost.

j) Finance income and finance costs

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss and realised gains on balance sheet hedging instruments that are recognised in the profit and loss account. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets designated at fair value through profit or loss, impairment losses recognised on financial assets, and realised losses on balance sheet hedging instruments that are recognised in the profit and loss account. All borrowing costs are recognised in the profit and loss account using the effective interest method.

The finance costs associated with obtaining third party funding for customer contracts are deferred and netted against deferred revenue. These deferred costs are charged to the profit and loss account over the term of a contract.

k) Turnover recognition

Turnover represents amounts receivable, in the normal course of business, for the provision of telematics-based fleet and vehicle management solutions, and is stated net of any trade discounts, VAT and other sales related taxes. Turnover and profit is recognised in accordance with IFRS 15 *Revenue from Contracts with Customers* and is measured at the fair value of the consideration received or receivable.

Turnover may arise from the supply of hardware that includes subscription services, the supply of services only or the supply of hardware only.

Turnover arising from contracts for the supply of hardware that include subscription services are recognised over the term of the contract on a straight-line basis, as it is not possible to separately fair value the hardware and subscription service components.

Turnover for services only are recognised over the term of a contract on a straight-line basis.

Turnover arising from the supply of hardware only are recognised in full. Turnover arising from the provision of additional airtime is recognised as incurred by the customer.

l) Deferred income

Deferred income represents non-refundable amounts received in advance of services or services and hardware to be provided. It is taken to the profit and loss account over the period of the subscription or contract period as appropriate on a straight-line basis.

m) Short term and low value leases

Payments made under short-term (less than 12 months) and low value leases (less than £5k) are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are released to the profit and loss account over the life of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

MASTERNAUT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Share capital, dividends and reserves

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects. Profit and loss account include all current and prior period profits and losses. Dividend distributions payable to equity shareholders are included in 'other liabilities' when the dividends have been approved in a general meeting prior to the reporting date.

o) Income tax expense and deferred tax

Current tax and deferred tax are recognised in the profit and loss account except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities but where there is an intention to settle current tax liabilities and assets on a net basis or where the tax assets and liabilities will be realised simultaneously. A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which these can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

p) Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

q) Company – as a lessee

Policies applicable from 1 January 2019

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- the amount expected to be payable by the lessee under residual value guarantees; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

MASTERNAUT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Company – as a lessee (continued)

The current lease liability is presented within trade and other payables and for lease liabilities due after more than one year, as a separate line in the balance sheet. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Company did not make any such adjustments during the periods presented.

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease. Right-of-use assets are presented within tangible assets in the balance sheet.

The Company applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient in the periods presented.

Policies applicable prior to 1 January 2019

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset. A corresponding amount is recognised as a finance leasing liability. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease. All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

MASTERNAUT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Employee benefits

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account as incurred. Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided up to the reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at the reporting date.

A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

s) Foreign currencies

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency).

Transactions in currencies other than the company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

t) Exceptional items

Where certain non-recurring revenue or expense items recorded in a period are material by their nature, size or incidence, these are disclosed as exceptional within the profit and loss account. Examples of items which may be classified as exceptional include:

- a) restructuring costs;
- b) provision for onerous contracts;
- c) other significant non-recurring items.

u) Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are measured initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

MASTERNAUT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Financial instruments (continued)

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

u) Financial instruments (continued)

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost, trade debtors and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

MASTERNAUT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

The Company always recognises lifetime ECL for trade debtors and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 60 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

1. the financial instrument has a low risk of default;
2. the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
3. adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

MASTERNAUT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Financial instruments (continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

1. significant financial difficulty of the issuer or the borrower;
2. a breach of contract, such as a default or past due event (see (ii) above);
3. the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
4. it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
5. the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade debtors, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account and does not reduce the carrying amount of the financial asset in the balance sheet.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

MASTernaut LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Financial instruments (continued)

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss.

Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not (i) held-for-trading, or (ii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

MASTERNAUT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Revenue recognition

The company's income principally represents the provision and installation of tracking devices, and monitoring services of fleet tracking devices. All services are deemed to be interrelated and therefore the revenue for a contract is bundled together and recognised on a straight-line basis over the stated term of the subscription.

In making its judgement, management considered the detailed criteria for the recognition of revenue from the provision of services set out in IFRS 15 *Revenue from Contracts with Customers* and, in particular, what the company's service obligation is.

Capitalisation of development costs

As described in note 2, the company capitalises development costs which meet certain recognition criteria, in accordance with IAS 38 'Intangible assets'. In making its judgement, management has considered the detailed criteria for recognition and concluded that development costs in the current year met the criteria for capitalisation, and so were recognised on the balance sheet. During the year, management determined that development costs amounting to £4,687k (2018: £5,893k) met the criteria for capitalisation; this requires a degree of judgement, particularly in respect of the technical feasibility criteria.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Depreciation of customer equipment

All fleet tracking devices are depreciated on a straight-line basis over 48 months despite the length of the subscription contract as this is best estimate of the average time a tracking device is installed on a vehicle and is based on historical customer behaviour and device reliability.

Impairment of intangible assets

Impairment is reviewed by examining the future commerciality of the developments that have been capitalised to consider whether the carrying value is still appropriate. Management assessed the recoverability of its internally-generated intangible assets, the various projects continue to progress in a very satisfactory manner, and management is confident that the carrying amount of the assets will be recovered in full.

MASTERNAUT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

4. TURNOVER

An analysis of the Company's turnover is as follows:

	2019 £'000	2018 £'000
Continuing operations		
Sales of goods	27,654	29,212
	<u>27,654</u>	<u>29,212</u>

All turnover in the current year was derived from the Company's principal activity. All revenues are generated within the UK and Ireland.

5. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging / (crediting):

	2019 £'000	2018 £'000
Staff costs (note 7)	9,417	10,284
Amortisation of internally-generated intangible assets included in other operating expenses	5,000	4,315
Research and development costs	4,803	2,987
Depreciation of in-vehicle equipment	2,528	2,641
Write-off of customer equipment	1,707	1,428
Depreciation of other fixed assets	561	531
Impairment of land & buildings	465	-
Foreign exchange loss	531	145

6. AUDITOR'S REMUNERATION

Fees payable to the Company's auditor for the audit of the Company's annual financial statements were £120,000 (2018: £120,000).

MASTERNAUT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

7. STAFF COSTS

The average monthly number of employees (including executive directors) was:

	2019 Number	2018 Number
Sales and marketing	49	55
Management and administration	33	32
Operations	47	49
Research and development	79	73
	<u>209</u>	<u>209</u>

Their aggregate remuneration comprised:

	2019 £'000	2018 £'000
Wages and salaries	12,343	13,294
Social security costs	1,157	1,244
Other pension costs	279	246
Capitalised development costs	(4,453)	(4,500)
	<u>9,417</u>	<u>10,284</u>

8. EXCEPTIONAL ITEMS

	2019 £'000	2018 £'000
Transaction costs	5,588	-
Restructuring costs	599	122
Development costs write off	-	353
Losses on disposal of legacy ERP	-	138
	<u>6,187</u>	<u>613</u>

The transaction costs are directly related to the Michelin acquisition. The Company has also continued to restructure the business as part of its process transformation initiative. This has resulted in exceptional costs related to the implementation of this transformation.

In 2018 the Group decided to stop development on one of its products which had not been as successful as planned. The costs written off represent the expenditure on this product in 2016.

In 2017 the ERP system was replaced resulting in a loss on disposal of the legacy system.

9. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £'000	2018 £'000
Interest receivable from group undertakings	<u>-</u>	<u>27</u>

MASTERNAUT LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2019

10. INTEREST PAYABLE AND SIMILAR CHARGES

	2019 £'000	2018 £'000
Financing costs of assigning debts to finance companies	19	16
Interest payable to group undertakings	2,865	3,306
	<u>2,884</u>	<u>3,322</u>

11. TAX

	2019 £'000	2018 £'000
Corporation tax:		
UK corporation tax current year	-	-
Adjustment in respect of prior years	80	124
Total current tax	<u>80</u>	<u>124</u>
Deferred tax (note 18)	-	-
	<u>80</u>	<u>124</u>

Corporation tax is calculated at the blended standard rate of 19% (2018: 19%) of the estimated taxable loss for the period.

	2019 £'000	2018 £'000
Loss before tax on continuing operations	<u>(12,982)</u>	<u>(5,426)</u>
Tax credit on loss at blended standard rate of 19% (2017: 19.2%)	(2,467)	(960)
Tax effect of expenses that are not deductible in determining taxable profit	24	202
Deferred tax movement not recognised	1,274	(278)
Tax losses not recognised	-	760
Impact of rate differences in deferred and current tax	150	277
RDEC tax charge	80	123
Fixed asset differences	11	-
R&D expenditure credits	11	-
Group relief surrendered	997	-
Tax expense for the period	<u>80</u>	<u>124</u>

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted by the balance sheet date being 19% effective from 1 April 2017 and 17% effective from 1 April 2020. The closing deferred tax assets and liabilities have been calculated at 17%, on the basis that this is the substantive enacted rate at which those assets and liabilities are expected to unwind. Post year end, the rate effective from 1 April 2020 was revised to 19%.

MASTERNAUT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

12. INTANGIBLE FIXED ASSETS

	Development costs £'000
Cost	
At 1 January 2019	26,843
Additions	4,687
	<hr/>
At 31 December 2019	31,530
Amortisation	
At 1 January 2019	15,289
Charge for the year	5,000
	<hr/>
At 31 December 2019	20,289
	<hr/>
Carrying amount	
At 31 December 2019	11,241
	<hr/>
At 31 December 2018	11,554
	<hr/>

The amortisation period for development costs incurred on the Company's development is 4 years.

MASTERNAUT LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2019

13. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Computer equipment £'000	Customer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost					
At 1 January 2019	3,932	2,889	9,219	374	16,414
Additions	-	336	5,304	240	5,880
Disposals	-	(174)	(4,872)	(186)	(5,232)
At 31 December 2019	3,932	3,051	9,651	428	16,597
Depreciation					
At 1 January 2018	690	1,028	4,619	279	6,616
Charge for the year	58	452	2,528	51	3,089
Disposals	-	(174)	(3,165)	(186)	(3,525)
Impairment	465	-	-	-	465
At 31 December 2019	1,213	1,306	3,982	144	6,180
Carrying amount					
At 31 December 2019	2,719	1,745	5,669	284	10,417
At 31 December 2018	3,242	1,861	4,600	95	9,798

All land and buildings are held on a freehold basis. Related party borrowings to which the land and buildings had been pledged as security were repaid in 2019 and the pledge was released.

Right-of-use computer equipment assets

The Company's obligations under leases (see note 17) are secured by the lessors' title to the leased assets, which have an original cost of £385k (2018: £239k) and a carrying amount of £201k (2018: £118k). These are presented in computer equipment above. Additions of leased assets in the year totalled £145k. The depreciation in the year on the leased assets was £62k (2018: £170k).

14. STOCKS

	2019 £'000	2018 £'000
Finished goods	434	207

The directors consider the carrying value to approximate to the replacement cost.

MASTERNAUT LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2019

15. DEBTORS

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Amount receivable for rendering of services	2,699	2,515
Allowance for doubtful debts	(527)	(85)
	<u>2,172</u>	<u>2,430</u>
Amounts owed by group undertakings	6,889	7,964
Customer financing receivables	11	54
Other debtors and accrued income	2,337	2,347
	<u>11,409</u>	<u>12,795</u>

The amounts owed by group undertakings is unsecured and payable on demand. The interest rate payable is based on the weighted cost of group debt facilities. In 2019 this was 4.60% reducing to 3.13% (2018: 4.67%).

16. TRADE AND OTHER PAYABLES

	2019 £'000	2018 £'000
Trade creditors and accruals	5,246	5,811
Other tax and social security	842	799
Obligations under short term leases (note 17)	84	40
Amounts owed to group undertakings	95,214	83,387
	<u>101,386</u>	<u>90,037</u>

The amounts owed to group undertakings is unsecured and payable on demand. The interest rate payable is based on the weighted cost of group debt facilities. In 2019 this was 4.60% reducing to 3.13% (2018: 4.67%).

MASTernaut LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2019

17. LEASE LIABILITIES

	<u>Minimum lease payments</u>	
	2019 £'000	2018 £'000
Obligations under leases:		
Within one year	91	42
In the second to fifth years inclusive	93	67
	<u>184</u>	<u>109</u>
Less: future finance charges	(10)	(3)
Present value of lease obligations	<u>174</u>	<u>106</u>

	<u>Present value of minimum lease payments</u>	
	2019 £'000	2018 £'000
Obligations under leases:		
Within one year	84	40
In the second to fifth years inclusive	90	66
Present value of lease obligations	<u>174</u>	<u>106</u>
Analysed as:		
Amounts due for settlement within 12 months (shown under current liabilities)	84	- 40
Amounts due for settlement after 12 months	90	66
	<u>174</u>	<u>106</u>

The average lease term is 3.0 years (2018: 3.0 years). For the year ended 31 December 2019, the average effective borrowing rate was 5.92% (2018: 5.92%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling. The fair value of the Company's lease obligations is approximately equal to their carrying amount.

MASTERNAUT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

18. DEFERRED TAX

The amounts of deferred tax assets provided for are as follows:

	2019 £'000	2018 £'000
Deferred tax assets	<u>-</u>	<u>-</u>

The amounts of deferred tax assets not recognised are as follows:

	2019 £'000	2018 £'000
Deferred tax assets not recognised	<u>8,620</u>	<u>7,274</u>

At the balance sheet date, the Company has unused tax losses of £50,036k (2018: £42,789k) available for offset against future profits. No deferred tax asset has been recognised as it is not considered probable that there will be sufficient profits available in the foreseeable future.

The tax losses are recoverable against future trading profits from the same trades.

19. SHARE CAPITAL AND RESERVES

	£
Authorised:	
1 million ordinary shares of £1 each	<u>1,000,000</u>
Issued and fully paid:	
1 ordinary share of £1	<u>1</u>

The Company has one class of ordinary shares which carries no right to fixed income.

The profit and loss account represent cumulative profits or losses, net of dividends paid and other adjustments.

20. DIRECTORS' REMUNERATION

	2019 £'000	2018 £'000
Directors' remuneration		
Emoluments	<u>224</u>	<u>287</u>
	<u>224</u>	<u>287</u>

Mr Souici and Mr Dimenna who were directors of the Company during the year, received remuneration from another group company for services to the group as a whole.

The remuneration of the highest paid director for the year was £224k (2018: £287k).

MASTERNAUT LIMITED

NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2019**

21. GUARANTEES

On May 22 2019 all debts and liabilities with third party lenders were repaid and any obligations were unconditionally waived, discharged and released.

Until this date there was a composite Company limited multilateral guarantee with other group undertakings in respect of group borrowings which were secured by a fixed and floating charge over the assets of the Company. The net borrowings of the other group undertakings subject to this guarantee at 31 December 2018 were £78,168k.

22. RELATED PARTY TRANSACTIONS

The Company is exempt, under FRS 101, from the requirement of paragraphs 17 and 18A of IAS 24 Related Party Disclosures, to disclose transactions with other wholly owned members of the group headed by Compagnie Générale des Établissements Michelin SCA. The consolidated accounts of Compagnie Générale des Établissements Michelin SCA are publically available.

23. CONTROLLING PARTY

Mastermaut Holdings Limited, whose registered address is 18 Oxford Road, Marlow, Buckinghamshire, SL7 2NL, owns the entire issued share capital of the Company.

Mastermaut Bidco Limited is the Company's ultimate holding company whose registered office is 1 Eversholt Street, Eversholt Street, London, England, NW1 2DN.

As at 31 December 2019, the ultimate controlling party was Compagnie Générale des Établissements Michelin SCA ("Michelin"), incorporated in France, registered at 23, Place des Carmes, Dechaux, CEDEX 9, 63040, Clermont Ferrand, France. Michelin owns 100% of the voting share capital of Mastermaut Bidco Limited, the Company's ultimate parent company.

The largest group in which the results of the Company are consolidated is that headed by Compagnie Générale des Établissements Michelin SCA. The consolidated accounts are publicly available and also may be obtained from the stated address above.

24. POST BALANCE SHEET EVENTS

The appearance of the Coronavirus COVID19 in China in December 2019 and its global expansion in 2020, led to the World Health Organisation in March 2020 to classify the virus as a pandemic. The Company is taking all the necessary measures required to safeguard the health of its employees. The spread of the Coronavirus is being continually monitored and the Company is taking all the actions required to minimise the impact of this pandemic on its operations and its financial statements as well as to manage its liquidity risk. The Company has the financing and support in place from Michelin to deal with the uncertainty surrounding the crisis. The Company's turnover growth has been impacted by the restrictions the government imposed and the recovery will largely depend on how the UK manages the pandemic in the coming months but costs have been controlled to offset any negative impact on the financial statements. Although it is not possible to anticipate nor-assess whether this situation will continue and to what extent in the future, the current risk to the Company is low due to its diverse customer base and the financing and support in place from Michelin.