Gentrack

Gentrack Group Limited

Financial Statements 2020

FINANCIAL STATEMENTS **2020**

CONTENTS

Independent Auditor's Report

To the shareholders of Gentrack Group Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Gentrack Group Limited (the 'company') and its subsidiaries (the 'group') on pages 7 to 43:

i. present fairly in all material respects the Group's financial position as at 30 September 2020 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 September 2020;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the group in relation to tax compliance, tax advisory and other assurance services. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $1m determined with reference to a benchmark of group Revenue. We chose the benchmark because, in our view, this is a key measure of the group's performance.

KPMG

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
1. Revenue from implementation services	
Refer to note 3.2 of the consolidated financial statements. The Group has reported revenues of \$101m (2019: \$112m) which includes implementation services revenue of \$15m. We focused on the revenue from implementation services as a key audit matter due to inherent complexities of software implementation projects and the estimates involved. Revenue from implementation services is recognised based on the stage of completion calculated using either the proportion of actual hours at the reporting date compared to managements estimates for total forecast hours or with reference to milestones. Accurate recording of revenue is highly dependent on: — Detailed knowledge of individual characteristics of a contract, including unique terms, knowledge of software and length of time to complete contractual milestones; — Ongoing adjustments to estimated hours to complete implementation taking into consideration changes in scope, estimated timing and project delays; and — Changes to total project revenue for contract variations or additional billing for changes in scope or additional hours incurred.	We focused our procedures on the implementation service projects that were in progress at balance date based on the significance of implementation service revenue to the total revenue of the Group. For the projects selected for testing we checked that revenue recognised is consistent with contractual terms, including considering how the initial licence fee, design and implementation, and maintenance phases of the contract are arranged. We recalculated the stage of completion based on hours to date as a proportion of total forecast hours or with reference to milestones. We also inspected a sample of milestone billings and compared those to invoice and cash receipts and considered the reasonableness of the related balance sheet positions. We assessed the forecast hours through discussion with project managers and senior management and challenged key assumptions, including consideration of alternative scenarios and how management addressed risks in the contract. We compared significant changes in total forecast hours to correspondence with customers, legal documentation or contract variations. We evaluated potential exposure to liquidated damages by reviewing legal correspondence and correspondence with customers. We also considered the historical accuracy of managements' estimates of forecast hours by analysing previous forecasts to actual hours.

The key audit matter	How the matter was addressed in our audit
2. Impairment assessment	
Refer to notes 5.3 and 5.4 of the consolidated financial statements. Impairment assessment is considered a key audit matter due to the subjective nature of impairment models and the significant judgements and estimates management uses to determine the expected financial performance and value in use of the Group's cash generating units. This requires management to make assumptions in relation to forecasted cash flows, the terminal growth rate and discount rates used in a discounted cash flow model. As a result of management's impairment assessment, goodwill, intangibles and capitalised development amounting to $34m has been impaired during the financial year.	To evaluate management's assessment of the carrying value of the respective cash generating units: — We considered management's conclusion on separately identifiable cash generating units. — We assessed the significant future cash flow assumptions by comparing actual results to business plans, strategies and budgets. We examined the documentation supporting the budgeting process and inspected the forecasted pipeline for FY 2021. — Our corporate finance specialists examined whether the methodology adopted in the discounted cash flow value in use models are consistent with accepted valuation approaches within the software industry. In addition, our specialists assessed the mathematical accuracy of the models, and considered whether the discount and terminal growth rate assumptions applied to the estimated future cash flows are within an acceptable range for the industry and lifecycle of the businesses. — We challenged the assumptions and judgements used by management by performing sensitivity analysis, considering a range of likely outcomes based on various scenarios. — Where management concluded impairment is necessary (Blip Systems A/S and Utilities), we considered the extent of impairment with reference to historic performance, future business plans and pipelines, and degree of uncertainty in relation to future financial performance. — We also assessed the reasonableness of the incurred impairment expense by comparing the carrying value of cash generating units to the market capitalisation value as of 30 September 2020. To evaluate management's assessment of the carrying value of capitalised development we assessed the probability of future economic benefits arising from capitalised development by considering future revenue pipelines attributed to each type of capitalised development recognised on the balance sheet.

Other information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information may include the Chairman and Chief Executive's report and disclosures relating to corporate governance. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report. Our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit, or otherwise appear misstated. If so, we are required to report such matters to the Directors.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent 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 shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the company, are responsible for:

— the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;

— implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

— to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an independent 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 NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Jason Doherty.

For and on behalf of

KPMG

KPMG
Auckland

26 November 2020

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are required to prepare financial statements for each financial year that present fairly the financial position of Gentrack Group and its operations and cash flows for that period.

The Directors consider these financial statements have been prepared using accounting policies suitable to Gentrack Group's circumstances, which have been consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy, at any time, the financial position of Gentrack Group and to enable them to ensure that the financial statements comply with the Companies Act 1993. They are also responsible for safeguarding the assets of Gentrack Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board of Directors of Gentrack Group authorised these financial statements for issue on 26 November 2020.

For and on behalf of the Board of Directors:

Andy Green

Chairman
Date: 26 November 2020

Fiona Oliver

Director
Date: 26 November 2020

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2020

	NOTES	2020 NZ$000	2019 NZ$000
Revenue	3.2,3.3	100,533	111,682
Expenditure	3.4	(88,440)	(86,869)
Profit before depreciation, amortisation, revaluation of financial liabilities, impairment of goodwill and intangible assets, financing and tax		**12,093**	**24,813**
Depreciation and amortisation	3.5	(12,354)	(9,440)
Revaluation of acquisition related financial liability	5.8	891	384
Impairment of goodwill and intangible assets	5.2,5.3,5.4	(34,511)	(14,551)
(Loss)/Profit before financing and tax		**(33,881)**	**1,206**
Net finance expense	3.6	(386)	(763)
(Loss)/Profit before tax		**(34,267)**	**443**
Income tax benefit/(expense)	7.1	2,561	(3,758)
Loss attributable to the shareholders of the company		**(31,706)**	**(3,315)**
OTHER COMPREHENSIVE INCOME			
Translation of international subsidiaries		(882)	(1,675)
Total comprehensive loss for the period		**(32,588)**	**(4,990)**
EARNINGS PER SHARE FOR LOSS ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY (EXPRESSED IN DOLLARS PER SHARE)			
Basic earnings per share	6.4	($0.32)	($0.03)
Diluted earnings per share	6.4	($0.32)	($0.03)
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES ISSUED			
Basic	6.4	98,645	98,605
Diluted	6.4	100,053	98,872

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2020

	SECTION	2020 NZ$000	2019 NZ$000
CURRENT ASSETS			
Cash and cash equivalents	4.3	19,321	8,626
Trade and other receivables	5.1	18,951	31,279
Inventory	5.9	464	572
Total current assets		**38,736**	**40,477**
NON-CURRENT ASSETS			
Property, plant and equipment	5.5	2,763	3,453
Lease assets	2.5,9.1	10,338	-
Goodwill	5.2	106,599	134,434
Intangibles	5.4	45,428	60,482
Deferred tax assets	7.2	4,649	2,793
Total non-current assets		**169,777**	**201,162**
Total assets		**208,513**	**241,639**
CURRENT LIABILITIES			
Bank loans	4.2	2,536	4,000
Trade payables and accruals	5.6	3,905	5,487
Lease liabilities	2.5,9.1	2,692	-
Contract liabilities		12,419	12,173
GST payable		3,206	2,030
Financial liabilities	5.8	-	2,451
Employee entitlements	5.7	5,552	4,588
Income tax payable		(150)	2,051
Total current liabilities		**30,160**	**32,780**
NON-CURRENT LIABILITIES			
Related party loan	4.2	-	450
Lease liabilities	2.5, 9.1	12,435	-
Lease incentives	2.5	-	3,028
Employee entitlements	5.7	428	411
Deferred tax liabilities	7.2	4,997	7,361
Total non-current liabilities		**17,860**	**11,250**
Total liabilities		**48,019**	**44,030**
Net assets		**160,494**	**197,609**
EQUITY			
Share capital	6.1	191,229	191,229
Share based payment reserve		699	389
Foreign currency translation reserve		6,782	7,664
Retained earnings		(38,216)	(1,673)
Total equity		**160,494**	**197,609**

For and on behalf of the Board who authorised these financial statements for issue on 26 November 2020.

Andy Green

Chairman
Date: 26 November 2020

Fiona Oliver

Director
Date: 26 November 2020

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2020

2020 NZ$000	SECTION	SHARE CAPITAL	SHARE BASED PAYMENT RESERVE	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL EQUITY
Balance as at 1 October		**191,229**	**389**	**(1,673)**	**7,664**	**197,609**
Change in accounting policy	2.5	-	-	(1,833)	-	(1,833)
Restated total equity at 1 October		**191,229**	**389**	**(3,506)**	**7,664**	**195,776**
Loss attributable to the shareholders of the company		-	-	(31,706)	-	(31,706)
Other comprehensive loss		-	-	-	(882)	(882)
Total comprehensive loss for the period, net of tax		**-**	**-**	**(31,706)**	**(882)**	**(32,588)**
TRANSACTION WITH OWNERS						
Dividend paid	6.3	-	-	(3,004)	-	(3,004)
Share based payments	6.2	-	310	-	-	310
Balance at 30 September		**191,229**	**699**	**(38,216)**	**6,782**	**160,494**

2019 $000	SHARE CAPITAL	SHARE BASED PAYMENT RESERVE	RETAINED EARNINGS	TRANSLATION RESERVE	TOTAL EQUITY
Balance as at 1 October	**190,968**	**570**	**15,548**	**9,339**	**216,425**
Change in accounting policy	-	-	(443)	-	(443)
	190,968	**570**	**15,105**	**9,339**	**215,982**
Profit attributable to the shareholders of the company	-	-	(3,315)	-	(3,315)
Other comprehensive income	-	-	-	(1,675)	(1,675)
Total comprehensive income for the period, net of tax	**-**	**-**	**(3,315)**	**(1,675)**	**(4,990)**
TRANSACTION WITH OWNERS					
Issue of capital	-	-	-	-	-
Dividend paid	-	-	(13,463)	-	(13,463)
Share based payments	261	(181)	-	-	80
Balance at 30 September	**191,229**	**389**	**(1,673)**	**7,664**	**197,609**

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

	SECTION	2020 NZ$000	2019 NZ$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		110,731	108,083
Payments to suppliers and employees		(83,547)	(87,154)
Lease liability finance charge	9.1	(931)	-
Income tax paid		(4,287)	(8,138)
Net cash inflow from operating activities		**21,966**	**12,791**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	5.5	(324)	(640)
Purchase of intangible assets	5.4	(331)	(5,653)
Payment of acquisition related option	5.8	(2,419)	-
Net cash outflow from investing activities		**(3,074)**	**(6,293)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments for lease liabilities		(2,497)	-
Drawdown of borrowings		5,007	8,439
Repayment of borrowings		(6,871)	(4,000)
Interest (paid)		(375)	(679)
Dividends paid	6.3	(3,004)	(13,463)
Net cash (outflow) from financing activities		**(7,740)**	**(9,703)**
Net increase/(decrease) in cash held		**11,152**	**(3,205)**
Foreign currency translation adjustment		(457)	431
Cash at beginning of the financial period		8,626	11,400
Closing cash and cash equivalents		**19,321**	**8,626**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

General information | Accounting polices | Critical judgements

General information

The notes are consolidated into nine sections. Each section contains an introduction and general information which is indicated by the symbol above. The layout of these financial statements has been streamlined to present them in a way that is more intuitive for readers to follow. This is achieved by laying out the accounting policies and critical judgements alongside the notes and focusing information in a way which provides increased clarity and ease of understanding.

The first section details general information about Gentrack Group and guidance on how to navigate through the financial statements.

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out throughout the document where they are applicable. These policies have been consistently applied to all the years presented, unless otherwise stated. Certain comparatives have been updated to ensure consistency with current year presentation.

Accounting policies are identified by this symbol above.

Critical judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on various other factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values for assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these critical judgements and estimates may be found throughout the financial statements as they are applicable and are identified by this symbol.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

1. GENERAL INFORMATION

Gentrack Group Limited is a limited liability company, domiciled and incorporated in New Zealand and registered under the New Zealand Companies Act 1993. The registered office of the Company is 17 Hargreaves Street, St Marys Bay, Auckland 1011, New Zealand.

The financial statements presented are for Gentrack Group Limited and its subsidiaries for the year ended 30 September 2020. Prior year comparatives are for the year ended 30 September 2019.

The financial statements of Gentrack Group for the year ended 30 September 2020 were authorised for issue in accordance with a resolution of the directors on 26 November 2020.

Gentrack Group's principal activity is the development, integration, and support of enterprise billing and customer management software solutions for the utility (energy and water) and airport industries.

COVID-19 PANDEMIC

On 11 March 2020, the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19. Gentrack Group, like most other organisations is impacted by COVID-19 in a variety of ways, both financially and operationally. During the period from 11 March 2020 onwards due to restrictions imposed to contain the spread of COVID-19 many businesses were forced to close or move to remote ways of working. Gentrack Group had the necessary infrastructure in place and had thoroughly tested its ability to support remote working and during this period Gentrack Group has been able to largely operate as normal. In these challenging times Gentrack Group has been able to keep its people safe and follow all directions from the Governments where it operates with minimal operational disruption.

The financial impact of COVID-19 on Gentrack Group has been felt through a reduction in expected revenue, as our customers have delayed projects. Pleasingly our Utilities customers in the second half of FY2020 have displayed resilience to the impacts of COVID-19 and continue to interact with Gentrack Group on largely normal terms. However, the longer-term implications of COVID-19 are still somewhat uncertain particularly for the Airport business where our customers have been severely impacted.

Gentrack Group continues to closely monitor the longer-term financial and economic implications of COVID-19 on its operations.

In preparing these financial statements Gentrack Group has considered the increased level of uncertainty resulting from COVID-19 in applying its accounting estimates and judgements, details of these are provided below:

ACCOUNTING ESTIMATE AND JUDGEMENT AREA	REFERENCE
Recoverability of trade receivables	Section 5.1
Impairment testing – Five year cashflow forecasts	Section 5.3
Blip Systems – full impairment of goodwill and intangibles	Section 5.3
Impairment testing – Capitalised Development	Section 5.4

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This section outlines the legislation and accounting standards which have been followed in the preparation of the financial statements along with explaining how the information has been consolidated and presented.

2.1 KEY LEGISLATION AND ACCOUNTING STANDARDS

The financial statements of Gentrack Group have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to profit-oriented entities. The financial statements comply with International Financial Reporting Standards (IFRS).

Gentrack Group is an FMC entity for the purposes of the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013 and is listed on the New Zealand Stock Exchange (NZX) and the Australian Securities Exchange (ASX).

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013, Financial Markets Conduct Act 2013 and the Companies Act 1993.

2.2 BASIS OF CONSOLIDATION

Subsidiaries are entities over which Gentrack Group has control. Gentrack Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that currently are exercisable are taken into account. Subsidiaries are fully consolidated from the date that control is transferred to Gentrack Group. They are deconsolidated from the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by Gentrack Group.

Intra-group balances and any unrealised income and expenses arising from intra-group transactions, are fully eliminated in preparing the financial statements.

FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of each of Gentrack Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in New Zealand dollars (NZD) which is Gentrack Group's presentation currency. All financial information has been presented rounded to the nearest thousand dollars ($000) in the financial statements.

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Foreign exchange gains and losses are presented in the statement of comprehensive income within net finance expense.

FOREIGN CURRENCY TRANSLATION RESERVE (FCTR)

Gentrack Group translates the results of its foreign operations from their functional currencies to the presentation currency using the closing exchange rate at balance date for assets and liabilities and the average monthly exchange rates for income and expenses. The difference arising from the translation of the statement of financial position at the closing rates and the statement of comprehensive income at the average rates is recorded within the foreign currency translation reserve within the statement of changes in equity.

2.3 BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to Gentrack Group. Control is the exposure or right to variable returns from involvement with the entity and the ability to affect those returns through power over the entity.

Gentrack Group recognises the fair value of all identifiable assets, liabilities and contingent liabilities of the acquired business. Goodwill is measured as the excess cost of the acquisition over the recognised assets and liabilities. When the excess is negative (negative goodwill), the amount is recognised immediately in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

2.3 BUSINESS COMBINATIONS (CONTINUED)

Gentrack Group applies the anticipated acquisition method where it has the right and the obligation to purchase any remaining non-controlling interest (so-called put/call arrangements). Under the anticipated acquisition method, the interests of the non-controlling shareholder are derecognised when Gentrack Group's liability relating to the purchase of its shares is recognised. The recognition of the financial liability implies that the interests subject to the purchase are deemed to have been acquired already. Therefore, the corresponding interests are presented as already owned by Gentrack Group even though legally they are still non-controlling interests. The initial measurement of the fair value of the financial liability recognised by Gentrack Group forms part of the consideration for the acquisition.

Gentrack Group has not made any acquisitions during the year ended 30 September 2020 or 2019. For details of acquisitions made in prior years refer to the 2018 Annual Report.

2.4 GROUP INFORMATION

The financial statements include the following subsidiaries:

ENTITY	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION	SHAREHOLDING 2020	SHAREHOLDING 2019
Gentrack Group Australia Pty Limited	Holding company	Australia	100%	100%
Gentrack Pty Limited	Software sales and support	Australia	100%	100%
Veovo Holdings (Denmark) ApS	Holding company	Denmark	100%	100%
Veovo A/S (formally Blip Systems A/S)	Software development sales and support	Denmark	100%	79.81%
CA Plus Limited	Software development sales and support	Malta	100%	75%
Veovo Group Limited	Holding company	New Zealand	100%	100%
Gentrack Limited	Software development sales and support	New Zealand	100%	100%
Gentrack Holdings (UK) Limited	Holding company	United Kingdom	100%	100%
Gentrack UK Limited	Software development sales and support	United Kingdom	100%	100%
Junifer Systems Limited	Dormant	United Kingdom	100%	100%
Evolve Parent Limited	Holding company	United Kingdom	100%	100%
Evolve Analytics Limited	Dormant	United Kingdom	100%	100%
Gentrack (Singapore) Pte Limited	Software sales and support	Singapore	100%	100%
Veovo Inc	Software sales and support	USA	100%	100%
Veovo NZ Limited	Dormant	New Zealand	100%	100%
Veovo UK Limited	Dormant	United Kingdom	100%	100%
Veovo IP Limited	Dormant	New Zealand	100%	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

2.5 ADOPTION OF NEW ACCOUNTING STANDARDS

During the current reporting period Gentrack Group has adopted NZ IFRS 16 Leases (NZ IFRS 16) and has had to change its accounting policies as a result of adopting this new standard. The impact of adopting NZ IFRS 16 is disclosed below and in further details in section 9.1.

NZ IFRS 16 LEASES – IMPACT OF ADOPTION

NZ IFRS 16 deals with the recognition, measurement, presentation and disclosure of leases and replaces NZ IAS 17 Leases (NZ IAS 17). NZ IFRS 16 introduces a single model for lessees which recognises all leases on the balance sheet through an asset representing the exclusive rights to use the lease item during the lease term and a liability for the obligation to make lease payments. NZ IFRS 16 removes the distinction between operating and finance leases and aims to provide the users of the financial statements relevant information to assess the effect that leases have on the statement of financial position, statement of comprehensive income and cash flows of the reporting entity.

NZ IFRS 16 is effective for Gentrack Group beginning on or after 1 October 2019. Gentrack Group has adopted NZ IFRS 16 using the modified retrospective transition approach. Under this approach, the cumulative effect of initially applying NZ IFRS 16 is recognised as an adjustment to retained earnings at 1 October 2019. Comparative figures for the year ended 30 September 2019 are not restated but instead continue to reflect the accounting policies under NZ IAS 17.

On transition to NZ IFRS 16 Gentrack Group has recognised lease liabilities in relation to leases which were previously classified as operating leases under NZ IAS 17. These liabilities were measured at the present value of the remaining lease payments discounted using the lessees incremental borrowing rate as of 1 October 2019. The weighted average lessees incremental borrowing rate applied to these lease liabilities on 1 October 2019 was 5.68%.

PRACTICAL EXPEDIENTS APPLIED

On transition to NZ IFRS 16, Gentrack Group has used the following practical expedients permitted by the standard:

- Exclusion of initial direct costs for the measurement of the lease asset at the date of initial application;
- Excluded lease contracts of insignificant value;
- Use of hindsight in determining a lease term;
- Reliance on previous assessments on whether leases are onerous.

A reconciliation of operating lease commitments at 30 September 2019 to the lease liability recognised at 1 October 2019 is shown below.

	2020 **NZ$000**
Operating lease commitments at 30 September	29,395
The effect of discounting	(5,062)
Adjustments related to options and lease term	(6,713)
Lease liabilities at 1 October 2019	**17,620**
Less than one year	2,530
One to five years	6,568
More than five years	8,522
Lease liabilities at 1 October 2019	**17,620**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

PRACTICAL EXPEDIENTS APPLIED (CONTINUED)

A reconciliation of the adjustment to retained earnings at 1 October 2019 in applying NZ IFRS 16 is shown below.

	2020 NZ$000
Lease incentives	3,739
Prepaid lease payments	(388)
Lease asset	12,671
Lease liability	(17,620)
Foreign currency differences	149
Deferred tax	(384)
Adjustment to retained earnings from applying NZ IFRS 16	**(1,833)**

2.6 IMPACT OF STANDARDS ISSUED BUT NOT YET ADOPTED

The International Accounting Standards Board has issued IFRS 17 *Insurance Contracts*, as well as amendments to existing international accounting standards. IFRS 17 is mandatory for reporting periods on, or after 1 January 2021. Gentrack Group does not intend to adopt this standard before its mandatory date.

Gentrack Group financial reporting will be presented in accordance with these new and amended standards when they become mandatory, however none are expected to have a material impact on Gentrack Group's consolidated results.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

3. GROUP PERFORMANCE

This section outlines further details of Gentrack Group's financial performance by building on the information presented in the statement of comprehensive income.

3.1 OPERATING SEGMENTS

An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Operating segments are aggregated for disclosure purposes where they have similar products and services, production processes, customers, distribution methods and regulatory environments.

Gentrack Group currently operates in two business segments, utility billing software and airport management software, as at 30 September 2020. These segments have been determined based on the reports reviewed by the Board (Chief Operating Decision Maker) to make strategic decisions.

The assets and liabilities of Gentrack Group are reported to and reviewed by the Chief Operating Decision Maker in total and are not allocated by business segment. Therefore, operating segment assets and liabilities are not disclosed.

2020	UTILITY NZ$000	AIRPORT NZ$000	TOTAL NZ$000
TIMING OF REVENUE RECOGNITION			
Point in time	7,379	2,018	9,397
Over time	74,397	16,739	91,136
Total revenue	**81,776**	**18,757**	**100,533**
Expenditure	(71,565)	(16,875)	(88,440)
Segment contribution (1)	**10,211**	**1,882**	**12,093**

2019	UTILITY NZ$000	AIRPORT NZ$000	TOTAL NZ$000
TIMING OF REVENUE RECOGNITION			
Point in time	6,326	5,440	11,766
Over time	81,853	18,063	99,916
Total revenue	**88,179**	**23,503**	**111,682**
Expenditure	(68,174)	(18,695)	(86,869)
Segment contribution (1)	**20,005**	**4,808**	**24,813**

A reconciliation of segment contribution to loss attributable to the shareholders of the company is provided below:

	2020 NZ$000	2019 NZ$000
Segment contribution (1)	**12,093**	**24,813**
Depreciation and amortisation	(12,354)	(9,440)
Revaluation of acquisition related financial liabilities	891	384
Impairment of goodwill and intangible assets	(34,511)	(14,551)
Net finance expense	(386)	(763)
Income tax benefit/(expense)	2,561	(3,758)
Loss attributable to the shareholders of the company	**(31,706)**	**(3,315)**

(1) Segment contribution is defined as profit before depreciation, amortisation, acquisition related costs, revaluation of financial liabilities, impairment of goodwill and intangible assets, financing and tax

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

3.1 OPERATING SEGMENTS (CONTINUED)

	2020 NZ$000	2019 NZ$000
REVENUE BY DOMICILE OF ENTITY		
Australia	22,659	22,724
New Zealand	16,447	18,142
United Kingdom	55,458	60,469
Rest of World	5,969	10,347
Total revenue	**100,533**	**111,682**
REVENUE BY DOMICILE OF CUSTOMER		
Australia	25,755	24,947
New Zealand	8,456	12,244
United Kingdom	52,746	58,913
Rest of World	13,576	15,578
Total revenue	**100,533**	**111,682**

In 2020 and 2019, no single customer including their subsidiaries accounted for 10% or more of Gentrack Group's revenue.

3.2 OPERATING REVENUE

Gentrack Group recognises revenue from customers when the performance obligation has been accomplished. A performance obligation is accomplished when the customer has received all of the benefits promised under the performance obligation. The following sections detail the type of revenue recognised within each category. Effective from 1 October 2018 Gentrack Group adopted NZ IFRS 15 *Revenue from Contracts with Customers,* this did not result in significant changes in accounting policies related to revenue recognition. Refer to the 2019 Annual Report for details on the method and timing of revenue recognition.

Revenue recognition involves certain revenue streams being recognised based on the stage of completion. This process uses estimations of time required to complete the project and is based on detailed information on hours worked to date, prior experience and project scheduling tools. Gentrack Group employs project managers to provide regular information to management on the progress of all projects. All estimates are reviewed by management prior to revenue recognition.

ANNUAL FEES

Annual fees include software support and maintenance charged on software licenses, software subscriptions and managed services. Revenue from annual fees is generally recognised over the period as the benefits are consumed by the customer.

SUPPORT SERVICES

Support services are post implementation value-add professional services related to ongoing upgrades, minor software revisions and extended support. Support services revenue is recognised when the service is complete or on a stage of completion basis.

LICENSES

Revenue from license fees is recognised when the customer is able to benefit from the licensed software. License fees that are highly interrelated with project services are recognised based on a stage of completion of the project.

PROJECT SERVICES

Revenue from project services is recognised based on the stage of completion of the project. This is typically in accordance with the achievement of contract milestones and/or hours expended and forecast hours to complete the project.

OTHER

Other revenue is primarily revenue from hardware and the recharge of ad-hoc costs that are recharged to customers. Revenue from hardware sales is recognised when the hardware has been delivered to the customer.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

3.2 OPERATING REVENUE (CONTINUED)

	SECTION	2020 NZ$000	2019 NZ$000
OPERATING REVENUE:			
Annual fees		60,394	54,904
Support services		20,636	23,335
Project services		13,286	21,377
Licenses		2,177	5,708
Other		2,070	5,006
Total operating revenue		**98,563**	**110,330**
OTHER INCOME:			
Government grants	3.3	1,970	1,352
Total revenue		**100,533**	**111,682**

3.3 OTHER INCOME

GOVERNMENT GRANTS

Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received, and Gentrack Group will comply with all attached conditions. When a grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

During 2020, Gentrack Group recognised a total of $2.0m (2019: $1.0m) of grants from Callaghan Innovation in New Zealand and Research and Development Expenditure Credits (RDEC) from the UK Government. These government grants provide a percentage return for eligible Research and Development conducted by Gentrack Group. At balance date, the Callaghan grant has a 10% retention of $0.1m which is yet to be paid and is subject to an independent auditor review. The RDEC grant is a tax incentive and at balance date $0.6m was outstanding, the benefit will be applied to Gentrack Group's tax payable when the income tax return for 30 September 2020 is filed.

3.4 EXPENDITURE

The table below provides a detailed breakdown of the total expenditure presented in the statement of comprehensive income.

	2020 NZ$000	2019 NZ$000
PROFIT/(LOSS) BEFORE TAX INCLUDES THE FOLLOWING SPECIFIC EXPENSES		
Employee entitlements	65,780	58,914
Administrative costs	6,721	11,691
Third party customer-related costs	6,450	6,967
Advertising and marketing	898	1,565
Consulting and subcontracting	5,754	5,346
Other operating expenses	2,837	2,386
Total expenditure	**88,440**	**86,869**

Included in the total expenditure shown above, Gentrack Group has expensed $15.7m of research and development expenditure in 2020 (2019: $8.4m) related to software research and development in the statement of comprehensive income. This research and development expenditure includes payroll overheads, employee benefits and other employee-related expenses.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

3.5 DEPRECIATION AND AMORTISATION

Depreciation on assets is calculated using the straight-line method to allocate the difference between their original costs and their residual values over their estimated useful lives.

Except for goodwill and brands, intangible assets are amortised on a straight-line basis in the statement of comprehensive income over their estimated useful lives, from the date that they are available for use.

	2020 NZ$000	2019 NZ$000
Depreciation	3,289	1,001
Amortisation	9,065	8,439
Total depreciation and amortisation	**12,354**	**9,440**

3.6 NET FINANCE EXPENSE

Finance income comprises interest income and foreign currency gains that are recognised in the statement of comprehensive income. Interest income is recognised as it accrues, using the effective interest method.

Finance expense comprises interest expense on borrowings, lease liability finance charges, foreign currency losses and impairment losses recognised on the financial assets (except for trade receivables) that are recognised in the statement of comprehensive income. All borrowing costs are recognised in the statement of comprehensive income using the effective interest method.

	SECTION	2020 NZ$000	2019 NZ$000
FINANCE INCOME			
Interest income		7	11
		7	**11**
FINANCE EXPENSE			
Interest expense		(383)	(690)
Lease liability finance charges	9.1	(931)	-
Interest paid - NPV discount		(7)	(54)
Foreign exchange losses		928	(30)
		(393)	**(774)**
Net finance expense		**(386)**	**(763)**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

4. CASH, BORROWINGS AND CASH FLOWS

This section outlines further from the statement of cashflows and provides details on the cash and cash equivalents held in the statement of financial position.

Cash comprises cash at bank and on hand.

4.1 RECONCILIATION OF NET SURPLUS TO CASH FLOWS

	SECTION	2020 NZ$000	2019 NZ$000
RECONCILIATION OF OPERATING CASH FLOWS WITH NET PROFIT AFTER TAX			
Loss after tax		**(31,706)**	**(3,315)**
ADJUSTMENTS FOR NON-CASH ITEMS			
Deferred tax	7.2	(4,237)	(2,386)
Impairment provision - Trade receivables		1,939	1,866
Loss on foreign exchange transactions		(928)	28
Share based payments	6.2	310	80
Net interest expense	3.6	375	679
Revaluation and interest on financial liability		(884)	(330)
Other non-cash items		(3)	6
Depreciation and amortisation	3.5	12,354	9,440
Impairment of goodwill and other intangibles	5.2,5.3,5.4	34,511	14,551
Non-cash items		**11,731**	**20,619**
ADD/(DEDUCT) MOVEMENTS IN OTHER WORKING CAPITAL ITEMS			
(Increase)/Decrease in trade and other receivables		10,850	(9,717)
(Decrease)/Increase in tax payable		(2,611)	(1,995)
Increase/(Decrease) in GST payable		1,215	728
Increase/(Decrease) in contract liabilities		196	4,409
Increase/(Decrease) in employee entitlements		965	825
(Decrease)/Increase in trade payables and accruals		(380)	(2,078)
Net working capital movements		**10,235**	**(7,828)**
Net cash inflow from operating activities		**21,966**	**12,791**

4.2 BANK FACILITIES AND BORROWINGS

Gentrack Group has a NZ$20m multi-currency facility with ASB Bank Limited to provide additional funding as required for acquisitions and general corporate purposes. This facility expires on 28 March 2022 and at 30 September 2020, $2.5m was drawn down (2019: $4.0m).

The facility is secured by a general security agreement under which ASB has a security interest in Gentrack Group assets. Covenants are in place and compliance is reported quarterly. At all times during the year Gentrack Group has met the covenant requirements.

Interest is payable at a rate calculated as a base rate plus a pre-determined margin. During the year, the average rates for the NZD denominated borrowings were 1.83%.

During the year the Related party borrowings from Shireburn Company Limited, the minority shareholder of CA Plus was repaid in full.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

4.3 CASH AND CASH EQUIVALENTS

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

	2020 NZ$000	2019 NZ$000
Bank balances	19,320	8,625
Cash on hand	1	1
Total cash and cash equivalents	**19,321**	**8,626**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

5. ASSETS AND LIABILITIES

This section outlines further details of Gentrack Group's financial position by building on information presented in the statement of financial position.

5.1 TRADE AND OTHER RECEIVABLES

Gentrack Group recognises trade and other receivables initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. An impairment provision for trade receivables consists of the expected credit loss in accordance with NZ IFRS 9 and a specific provision.

A specific provision is established when there is objective evidence that Gentrack Group will not be able to collect all amounts due according to the original terms of the receivables. The carrying amount of an asset is reduced through the use of provision accounts, and the amount of the loss is recognised in the statement of comprehensive income. When a receivable is uncollectible, it is written off against the specific impairment provision account. Subsequent recoveries of amounts previously written off are credited against the statement of comprehensive income.

	2020 NZ$000	2019 NZ$000
Trade receivables	15,084	22,254
Impairment provision – Expected credit loss	(390)	(460)
Impairment provision – Specific provision	(3,460)	(2,408)
Provision for credits	(131)	(150)
Contract assets	5,683	9,593
Sundry receivables and prepayments	2,165	2,450
Total trade and other receivables	**18,951**	**31,279**

MOVEMENT IN TRADE RECEIVABLES IMPAIRMENT PROVISION

	2020 NZ$000	2019 NZ$000
Opening balance	2,868	504
Increase in impairment provision	2,618	2,794
Write back in impairment provision	(566)	(177)
Effect of movement in foreign exchange	13	(210)
Bad debt written off	(1,083)	(43)
Total trade receivables impairment provision	**3,850**	**2,868**

During the year a specific provision of $0.2m was raised related to the Airports business. This provision was raised as a result of the pressure that COVID-19 has had on our Airport customers.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

5.1 TRADE AND OTHER RECEIVABLES (CONTINUED)

The expected credit loss provision for trade receivables has been measured using the same techniques as the prior year, determined as follows.

2020	CURRENT NZ$000	1-60 DAYS PAST DUE NZ$000	61-120 DAYS PAST DUE NZ$000	121-180 DAYS PAST DUE NZ$000	OVER 180 DAYS PAST DUE NZ$000	TOTAL NZ$000
Gross carrying amount	8,513	3,214	356	806	2,195	15,084
Baseline	21	21	5	20	106	173
Aging and Customer duration	1	6	3	39	112	161
Country, Customer and Market	16	8	2	6	24	56
Total expected credit loss rate	0.45%	1.09%	2.84%	8.08%	11.03%	2.59%
Expected credit loss allowance	**38**	**35**	**10**	**65**	**242**	**390**

2019	CURRENT NZ$000	1-60 DAYS PAST DUE NZ$000	61-120 DAYS PAST DUE NZ$000	121-180 DAYS PAST DUE NZ$000	OVER 180 DAYS PAST DUE NZ$000	TOTAL NZ$000
Gross carrying amount	12,848	3,248	2,842	746	2,570	22,254
Baseline	39	23	7	11	123	202
Aging and Customer duration	9	14	7	13	138	181
Country, Customer and Market	37	7	2	3	27	76
Total expected credit loss rate	0.67%	1.37%	0.57%	3.57%	11.17%	2.07%
Expected credit loss allowance	**85**	**45**	**16**	**27**	**287**	**460**

5.2 GOODWILL

Goodwill represents the difference between the cost of acquisition and the fair value of the net identifiable assets acquired. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units (CGU) and is not amortised but is tested annually for impairment.

	2020 NZ$000	2019 NZ$000
Opening balance	134,434	146,189
Goodwill impairment	(28,040)	(10,380)
Exchange rate differences	205	(1,375)
Closing net book value	**106,599**	**134,434**
Goodwill allocated to Utilities	103,699	106,758
Goodwill allocated to Airport 20/20	2,900	2,900
Goodwill allocated to Blip Systems	-	8,292
Goodwill allocated to Evolve Analytics	-	16,484
Net book value	**106,599**	**134,434**

During the year due to the further alignment of the Utilities and Evolve Analytics CGU's, the Evolve Analytics CGU has been combined within the Utilities CGU. With the increased alignment it is now no longer possible to meaningfully separate the cashflows and therefore they are now reported as a single CGU.

During the year goodwill was impaired for Utilities ($19.3m) and Blip Systems ($8.7m), refer to section 5.3 for further details.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

5.3 IMPAIRMENT TESTING

IMPAIRMENT OF GOODWILL AND OTHER ASSETS

At each reporting date, Gentrack Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, Gentrack Group makes a formal estimate of the recoverable amount. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the greater of fair value less costs to sell or the asset's value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments and the time value of money and the risks specific to the asset. Value in use is determined by discounting the future cash flows generated by each CGU. Cash flows were projected based on five-year business plans. The Weighted Average Cost of Capital (WACC) is based on CAPM methodology using market specific inputs. The WACC for each CGU is reviewed at least annually. The key assumptions are detailed in the table below.

Gentrack Group tests annually whether goodwill has suffered any impairment or more often as required, in accordance with the accounting policy stated above. The recoverable amounts of cash-generating units have been determined based on value in use calculations. Preparing five-year forecasts in a COVID-19 environment has been a challenging task due to the uncertainty of the future. In preparing the five-year forecasts, management has reviewed the assumptions and weighed up the information available at the time to ensure the forecasts are appropriate given the CGU's position and the prevailing market conditions.

These calculations require the use of assumptions, the details of these assumptions and the potential impact of changes to the assumptions are presented below.

CASH GENERATING UNIT	2020 REVENUE GROWTH 2021 - 2025	WACC 2020	2019 REVENUE GROWTH 2020 - 2024	WACC 2019
Utilities	4% CAGR	9.8%	8% CAGR	8.7%
Airport 20/20	5% CAGR	10.1%	10% CAGR	8.8%

The terminal revenue growth rate for all CGU's is calculated based on the 2025 year and assumes a continuous growth of a minimum of projected inflation estimates of 1.75% (2019: 1.25%). These values assigned to the key assumptions represent management's assessments of future trends and are based on both external and internal sources.

IMPAIRMENT TESTING RESULTS

Airport 20/20

The calculations confirmed there was no impairment of goodwill during the year for the Airport 20/20 CGU's. Management believes that any reasonable possible change in the key assumptions for Airport 20/20 would not cause the carrying amount to exceed the recoverable amount.

Utilities

In the Utilities CGU impairment test the carrying value exceeded the value in use by $19.3m, as such the Utilities CGU goodwill has been impaired by $19.3m and the carrying value following impairment is $137.8m. The Utilities CGU is being impaired because the expected revenue growth has not been delivered. The reduction in revenue growth is a result of a number of factors including; unpredictable market conditions (Brexit and COVID-19) and emergence of stronger competition with new market offerings in the UK energy market.

The business plan is under review by Gentrack Group's new CEO (Gary Miles) who joined Gentrack Group on 1 October 2020.

The carrying value, after the impairment of, $137.8m (value in use) remains sensitive to the future performance of the CGU. Management considers that based on the current customer revenue profile, sales opportunity pipeline and quality of prospects it is not appropriate to recognise any further impairment at this stage. However, if the expected future performance does not eventuate, there may be need for further impairment. Sensitivities are summarised below.

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FOR THE YEAR ENDED 30 SEPTEMBER 2020

IMPAIRMENT TESTING RESULTS (CONTINUED)

Utilities (Continued)

Changes in key assumptions were considered as sensitivities. These are summarised in the table below.

CASH GENERATING UNIT	RECOVERABLE AMOUNT	EBITDA +5%	EBITDA -5%	WACC +1%	WACC -1%
Utilities	137,848	7,192	(7,192)	(17,163)	22,129
Airport 20/20	4,857	463	(463)	(813)	1,046

Following the $19.3m impairment the Utilities CGU remains sensitive to WACC discount rate, EBITDA and terminal growth rate.

Blip Systems – Full impairment

Blip Systems was acquired by Gentrack Group in April 2017, as an innovative supplier of passenger tracking solutions principally for airports. During the 6 months to 31 March 2020, expected sales growth was not delivered. Further, Blip Systems is impacted by COVID-19 with uncertainty over when the business will return to business as usual.

In view of the recent performance and the uncertainties around future performance of Blip Systems in a COVID-19 environment, management considered a full impairment of the $10.7m carrying value of these acquired assets was appropriate to recognise at 31 March 2020. The $10.7m impairment includes $8.7m in goodwill and $2.0m of intangible assets.

Details of the impairment related amounts are included in section 5.2 and section 5.4.

Gentrack Group will continue to leverage the Blip Systems intellectual property and it remains an important part of the overall Veovo product offering. At present there is a pipeline of potential opportunities as airports globally look to technology to address crowd management and social distancing requirements essential to the COVID-19 recovery.

5.4 INTANGIBLE ASSETS

CAPITALISED DEVELOPMENT

Costs that are directly associated with the development of software are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Software development costs that meet the above criteria are capitalised. Other development expenditure that does not meet the above criteria is recognised as an expense as incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period. Software development costs recognised as assets are amortised over their estimated useful lives.

BRANDS

Brands are considered to have an indefinite useful life and are held at cost and are not amortised but are subject to an annual impairment test consistent with the methodology outlined for goodwill above.

OTHER INTANGIBLE ASSETS

Other intangible assets consist of internal use software, acquired source code, trade-marks and customer relationships. They have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

5.4 INTANGIBLE ASSETS (CONTINUED)

AMORTISATION

Except for goodwill and brands, intangible assets are amortised on a straight-line basis in the statement of comprehensive income over their estimated useful lives, from the date that they are available for use.

The estimated useful lives for the current and comparative periods are as follows:

- Acquired source code 10 years
- Customer relationships 10 years
- Trademarks 4 years
- Capitalised development 5 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

2020	SOFTWARE NZ$000	CUSTOMER RELATIONSHIPS NZ$000	BRAND NAMES NZ$000	TRADEMARKS NZ$000	CAPITALISED DEVELOPMENT NZ$000	TOTAL NZ$000
Opening balance	**31,413**	**15,718**	**5,024**	**621**	**7,706**	**60,482**
Additions	-	-	-	-	331	331
Amortisation	(4,861)	(2,473)	-	(169)	(1,562)	(9,065)
Impairment	(1,616)	(390)	-	-	(4,464)	(6,470)
Movement in foreign exchange	110	33	-	2	5	150
Closing net book value	**25,046**	**12,888**	**5,024**	**454**	**2,016**	**45,428**
Cost	44,945	24,129	5,024	839	2,726	77,663
Accumulated amortisation	(19,899)	(11,240)	-	(385)	(710)	(32,235)
Net book value	**25,046**	**12,888**	**5,024**	**454**	**2,016**	**45,428**

2019	SOFTWARE NZ$000	CUSTOMER RELATIONSHIPS NZ$000	BRAND NAMES NZ$000	TRADEMARKS NZ$000	CAPITALISED DEVELOPMENT NZ$000	TOTAL NZ$000
Opening balance	**39,126**	**19,002**	**5,024**	**793**	**4,242**	**68,187**
Additions	526	-	-	-	5,128	5,654
Amortisation	(4,890)	(2,471)	-	(163)	(915)	(8,439)
Impairment	(2,837)	(617)	-	-	(717)	(4,171)
Movement in foreign exchange	(512)	(196)	-	(9)	(32)	(749)
Closing net book value	**31,413**	**15,718**	**5,024**	**621**	**7,706**	**60,482**
Cost	47,170	24,676	5,024	840	8,810	86,520
Accumulated amortisation	(15,757)	(8,958)	-	(219)	(1,104)	(26,038)
Net book value	**31,413**	**15,718**	**5,024**	**621**	**7,706**	**60,482**

During the year capitalised development products have been impaired by $4.5m. These impairments related to the following products:

- GBERS (Great Britain Energy Retail System) $1.5m
- SGERS (Singapore Energy Retail System) $0.8m
- NZERS (New Zealand Energy Retail System) $0.1m
- AUWRS (Australia Water Retail System) $2.0m

These impairments have been made because of product rationalisation and delays in capturing additional customers and market share to support the full carrying value of the products. Apart from GBERS, all the products listed above continue to be used by active customers and there are either known future opportunities or the potential to market these products to customers in the future.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

5.5 PROPERTY, PLANT AND EQUIPMENT

In the statement of financial position property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on assets is calculated using the straight-line method to allocate the difference between their original costs and their residual values over their estimated useful lives, as follows:

- Office equipment, fixtures and fittings — 7 years
- Computer equipment — 3 to 7 years
- Leasehold improvements — Term of lease

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are recognised in the statement of comprehensive income.

2020	FURNITURE & EQUIPMENT NZ$000	COMPUTER EQUIPMENT NZ$000	LEASEHOLD IMPROVEMENTS NZ$000	TOTAL NZ$000
Opening balance	**969**	**849**	**1,635**	**3,453**
Additions	22	300	2	324
Depreciation	(197)	(556)	(185)	(938)
Disposals	-	(16)	-	(16)
Movement in foreign exchange	(6)	(55)	1	(60)
Net book value	**788**	**522**	**1,453**	**2,763**
Cost	2,097	3,918	2,087	8,103
Accumulated depreciation	(1,309)	(3,396)	(635)	(5,340)
Net book value	**788**	**522**	**1,453**	**2,763**

2019	FURNITURE & EQUIPMENT NZ$000	COMPUTER EQUIPMENT NZ$000	LEASEHOLD IMPROVEMENTS NZ$000	TOTAL NZ$000
Opening balance	**1,122**	**930**	**1,784**	**3,836**
Additions	66	547	44	657
Depreciation	(209)	(608)	(184)	(1,001)
Disposals	(2)	(21)	-	(23)
Movement in foreign exchange	(8)	1	(9)	(16)
Net book value	**969**	**849**	**1,635**	**3,453**
Cost	2,133	3,783	2,086	8,002
Accumulated depreciation	(1,164)	(2,934)	(451)	(4,549)
Net book value	**969**	**849**	**1,635**	**3,453**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

5.6 TRADE PAYABLES AND ACCRUALS

Gentrack Group recognises trade and other payables initially at fair value and subsequently measured at amortised cost using the effective interest method. They represent liabilities for goods and services provided prior to the end of the financial year that are unpaid. The amounts are unsecured, non-interest bearing and are usually paid within 45 days of recognition.

	2020 NZ$000	2019 NZ$000
Trade creditors	1,803	3,742
Sundry accruals	2,102	1,745
Total trade payables and accruals	**3,905**	**5,487**

5.7 EMPLOYEE ENTITLEMENTS

Liabilities for salaries and wages, including non-monetary benefits, long service leave and annual leave are recognised in employee benefits in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Cost for non-accumulating sick leave is recognised when the leave is taken and measured at the rates paid or payable.

	2020 NZ$000	2019 NZ$000
CURRENT		
Long service leave	611	635
Other short-term employee benefits	4,941	3,953
	5,552	**4,588**
NON-CURRENT		
Long service leave	428	411
Total employee entitlements	**5,980**	**4,999**

5.8 FINANCIAL LIABILITIES

The potential cash payments related to put options issued by Gentrack Group for the equity of acquired companies is accounted for as a financial liability. The amount that may become payable under the option on exercise is initially recognised at fair value. Options are subsequently reassessed to fair value, using the effective interest rate method, and any change arising is reflected as an adjustment to the financial liability and a corresponding entry is recognised in the statement of comprehensive income.

	2020 NZ$000	2019 NZ$000
CURRENT		
Put/Call option – Blip Systems	-	2,451
NON-CURRENT		
Put/Call option – Blip Systems	-	-
Total financial liabilities	**-**	**2,451**

In December 2019 Gentrack Group settled the call/put option related to the acquisition of Blip Systems with a payment of $2.5m. For more information on the Blip Systems acquisition and the option please refer to the 2018 Annual Report.

In May 2020, deferred consideration of €1 was paid in relation to acquiring the final 25% in CA Plus Limited. The acquisition of CA Plus Limited included $0.9m of trade payables which could be written off if the deferred consideration fell below a certain level. These trade payables were written off during the year resulting in a $0.9m credit in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

5.9 INVENTORY

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using a weighted average method and includes expenditure incurred to purchase the inventory and transport it to its current location. Net realisable value is the estimated selling price of the inventory in the ordinary course of business less costs necessary to make the sale. The cost of inventories consumed during the year are recognised as an expense and included in expenditure in the statement of comprehensive income.

5.10 PROVISIONS

Gentrack Group recognises a provision when it has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance expense in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

6. CAPITAL STRUCTURE

This section outlines Gentrack Group's capital structure and details of share-based employee incentives which have an impact on Gentrack Group's equity.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects. Where any Gentrack Group company purchases the Company's equity share capital (treasury shares), the consideration paid is deducted from equity attributable to the Company's equity holders until the shares are cancelled or transferred outside Gentrack Group.

Ordinary shares are fully paid and have no par value. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company and rank equally with regard to the Company's residual assets.

6.1 CAPITAL MANAGEMENT

The capital structure of Gentrack Group consists of equity raised by the issue of ordinary shares in the parent company.

Gentrack Group manages its capital to ensure that companies in the Group are able to continue as going concerns. Gentrack Group is not subject to any externally imposed capital requirements.

	SHARES ISSUED		SHARE CAPITAL	
	2020 000	2019 000	2020 NZ$000	2019 NZ$000
Ordinary Shares	98,645	98,525	191,229	190,968
Issue of new ordinary shares	-	120	-	261
	98,645	**98,645**	**191,229**	**191,229**

6.2 SHARE-BASED PAYMENTS

Gentrack Group operates equity settled, share-based payments schemes under which it receives services from employees, as consideration for equity instruments of Gentrack Group. A valuation has been completed for each scheme at the grant date to estimate the fair value of the performance rights allocated. Management also make estimates about the number of performance rights that are expected to vest which determines the expense recorded in the statement of comprehensive income.

EQUITY SETTLED LONG TERM INCENTIVE SCHEME – EARNINGS PER SHARE CUMULATIVE AVERAGE GROWTH RATE (EPS CAGR)

During the year the Gentrack Group Board approved the fifth annual issue and two one-off issues of the equity settled long term incentive scheme first implemented in 2016 for selected key personnel. The scheme is intended to attract and reward key personnel to focus on long-term performance. The number of performance rights are allocated based on a percentage of salary or other such percentage and are calculated with reference to the 10-trading day volume weighted average price (VWAP) of shares traded on the NZX based on dates indicated in the issue documentation.

The two one-off issues during the year under this scheme include tenure only components which will vest based on the timelines included in the issue documentation.

The fair value of the performance rights is determined at the grant date using the Black Scholes valuation method. The fair value of the performance rights is recorded as an expense in the statement of comprehensive income over the vesting period, based on Gentrack Group's estimate of the number of performance rights that will vest, with a corresponding entry to the share-based payment reserve within equity. During the year ended 30 September 2020, $0.3m has been recognised in the statement of comprehensive income for that period (2019: $0.1m).

The number of performance rights subject to the EPS hurdle that will vest and be exercisable after three years depends on achievement of the EPS performance hurdle. The performance hurdle is that 50% of the EPS Performance Rights will vest if EPS CAGR of Gentrack Group over the three financial years is 7%, with the number of performance rights that vest increasing on a linear basis to 100% if EPS CAGR of 12% is achieved.

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FOR THE YEAR ENDED 30 SEPTEMBER 2020

6.2 SHARE-BASED PAYMENTS (CONTINUED)

Details of the outstanding performance rights are detailed below:

2020 GRANT DATE	EXPIRY DATE	TOTAL VALUE OF GRANTED PERFORMANCE RIGHTS NZ$000	PERFORMANCE RIGHTS GRANTED 000
EPS SCHEMES 2017-2020			
1 October 2017	30 November 2020	318	55
1 October 2018	30 November 2021	411	86
1 October 2019	30 November 2022	1,055	217
1 April 2020	1 April 2023	1,364	1,026
1 August 2020	1 August 2021	28	24
Total EPS Schemes		**3,176**	**1,408**

2019 GRANT DATE	EXPIRY DATE	TOTAL VALUE OF GRANTED PERFORMANCE RIGHTS NZ$000	PERFORMANCE RIGHTS GRANTED 000
EPS SCHEMES 2016-2018			
1 October 2016	30 November 2019	214	76
1 October 2017	30 November 2020	449	78
1 October 2018	30 November 2021	542	114
Total EPS Schemes		**1,205**	**268**

Below is a summary of the performance rights, granted, exercised and forfeited during 2020 for the EPS schemes:

	2020		2019	
GRANT DATE	AVERAGE EXERCISE PRICE PER PERFORMANCE RIGHT	NUMBER OF PERFORMANCE RIGHTS 000	AVERAGE EXERCISE PRICE PER PERFORMANCE RIGHT	NUMBER OF PERFORMANCE RIGHTS 000
As at 1 October	$4.49	268	$3.25	306
Granted during the year	$1.93	1,267	$4.75	114
Exercised during the year	-	-	$2.18	(120)
Forfeited during the year	$3.78	(127)	$2.18	(32)
As at 30 September	**$2.25**	**1,408**	**$4.49**	**268**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

6.3 DIVIDENDS

Details of the dividends paid during the year ended 30 September 2020 are provided below:

	CENTS PER SHARE		DIVIDENDS PAID	
	2020	2019	2020 NZ$000	2019 NZ$000
Final dividend paid	3.0c	8.7c	3,004	8,572
Interim dividend paid	-	5.0c	-	4,891
	3.0c	**13.5c**	**3,004**	**13,463**

6.4 EARNINGS PER SHARE

Gentrack Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the net profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares on issue during the year, excluding shares purchased and held as treasury shares.

Diluted EPS is determined by adjusting the net profit attributable to ordinary shareholders and the weighted average number of ordinary shares on issue for the effects of the dilutive impact of potential ordinary shares, which comprise performance share rights granted to employees.

Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease EPS or increase the profit per share.

	2020	2019
(Loss)/Profit attributable to the shareholders of the company	(31,706)	(3,315)
(Loss)/Profit attributable to the shareholders of the company adjusted for the effect of dilution	(31,706)	(3,315)
Basic weighted average number of ordinary shares issued	98,645	98,605
Shares deemed to be issued for no consideration in respect of share-based payments	1,408	267
Weighted average number of shares used in diluted earnings per share	100,053	98,872
Basic earnings per share	($0.32)	($0.03)
Diluted earnings per share	($0.32)	($0.03)

NOTES TO THE FINANCIAL STATEMENTS

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7. TAX

7.1 INCOME TAX EXPENSE

In the statement of comprehensive income, the income tax expense comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

	2020 NZ$000	2019 NZ$000
INCOME TAX EXPENSE COMPRISES:		
Current tax expense	1,676	6,144
Deferred tax expense	(4,237)	(2,386)
Tax (benefit)/expense	**(2,561)**	**3,758**

RECONCILIATION OF INCOME TAX EXPENSE

The relationship between the expected income tax expense based on the domestic effective tax rate of Gentrack Group at 28% (2019: 28%) and the reported tax expense in the statement of comprehensive income can be reconciled as follows:

	2020 NZ$000	2019 NZ$000
(Loss)/Profit before tax	(34,267)	443
Taxable income	(34,267)	443
Domestic tax rate for Gentrack Group	28%	28%
Expected tax (benefit)/expense	(9,595)	124
Non-deductible expense	8,350	3,922
Foreign subsidiary company tax	1,009	(543)
Prior period adjustments	(2,325)	255
Actual tax (benefit)/expense	**(2,561)**	**3,758**

As at 30 September 2020 Gentrack Group has $8.7m (2019: $6.3m) of imputation credits available for use in subsequent reporting periods.

7.2 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by Gentrack Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the same taxable entity or different entities where there is an intention to settle the balance on a net basis.

Additional income tax expenses that arise from the distribution of cash dividends are recognised at the same time that the liability to pay the related dividend is recognised. Gentrack Group does not distribute non-cash assets as dividends to its shareholders.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

7.2 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefits will be realised.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Management applies judgement when reviewing current business plans and forecasts to ascertain the likelihood of future taxable profits.

The movement in temporary differences has been recognised in the statement of comprehensive income. Deferred tax has been recognised at a rate at which they are expected to be realised: 28% for New Zealand entities, 30% for Australian entities, 17% for UK entities, 22% for Denmark entities and 35% for Malta entities.

Movement in temporary timing differences during the year:

2020	OPENING BALANCE NZ$000	TEMPORARY MOVEMENT RECOGNISED NZ$000	CURRENCY TRANSLATION NZ$000	CLOSING BALANCE NZ$000
Trade and other receivables	(68)	(15)	(1)	(84)
Intangible assets	(7,196)	2,303	(20)	(4,913)
Contract liabilities	661	202	8	871
Provisions	1,056	673	9	1,738
Losses carried forward	1,076	944	(4)	2,016
Other	(97)	130	(9)	24
Net deferred tax	**(4,568)**	**4,237**	**(17)**	**(348)**

2019	OPENING BALANCE NZ$000	TEMPORARY MOVEMENT RECOGNISED NZ$000	CURRENCY TRANSLATION NZ$000	CLOSING BALANCE NZ$000
Trade and other receivables	(197)	123	6	(68)
Intangible assets	(10,308)	2,948	164	(7,196)
Contract liabilities	701	(28)	(12)	661
Provisions	2,312	(1,216)	(40)	1,056
Losses carried forward	613	511	(48)	1,076
Other	(143)	48	(2)	(97)
Net deferred tax	**(7,022)**	**2,386**	**68**	**(4,568)**

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FOR THE YEAR ENDED 30 SEPTEMBER 2020

8. FINANCIAL RISK MANAGEMENT

Gentrack Group is exposed to credit risk, liquidity risk and market risks which include foreign currency risk, commodity price risk and interest risk. This section details of each of these financial risks and how they are managed by Gentrack Group.

The Board of Directors has overall responsibility for the establishment and oversight of Gentrack Group's risk management framework. Gentrack Group's risk management policies are established to identify and analyse (amongst other risks) the financial risks faced by Gentrack Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Gentrack Group's activities.

8.1 CREDIT RISK

Credit risk is the risk of financial loss to Gentrack Group if a customer or counter party to a financial instrument fails to meet its contractual obligations, and it arises principally from Gentrack Group's trade receivables from customers in the normal course of business.

Gentrack Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The credit worthiness of a customer or counter party is determined by a number of qualitative and quantitative factors. Qualitative factors include external credit ratings (where available), payment history and strategic importance of customer or counter party. Quantitative factors include transaction size, net assets of customer or counter party, and ratio analysis on liquidity, cash flow and profitability.

In relation to trade receivables, it is Gentrack Group's policy that all customers who wish to trade on terms are subject to credit verification on an ongoing basis with the intention of minimising bad debts. The nature of Gentrack Group's trade receivables is represented by regular turnover of product and billing of customers based on the contractual payment terms.

Gentrack Group has an impairment provision that represents its estimate of future incurred losses in respect of trade and other receivables. The impairment provision consists of the expected credit loss provision in accordance with NZ IFRS 9 and a specific doubtful debt provision used where there is objective evidence that indicates a trade receivable is impaired.

The carrying amount of Gentrack Group's financial assets represents the maximum credit exposure as summarised in the table below:

	2020		2019	
	GROSS NZ$000	IMPAIRMENT PROVISION NZ$000	GROSS NZ$000	IMPAIRMENT PROVISION NZ$000
Current	8,513	(38)	12,848	(115)
Past due 1-60 days	3,214	(918)	3,248	(326)
Past due 61-120 days	356	(178)	2,842	(594)
Past due 121-180 days	806	(600)	746	(248)
Past due over 180 days	2,195	(2,116)	2,570	(1,585)
	15,084	**(3,850)**	**22,254**	**(2,868)**

Gentrack Group's trade receivables are not exposed to any significant credit exposure to any single counterparty or group of counterparties having similar characteristics. Trade receivables consist of a number of customers in various geographical areas. Based on historic information about customer default rates, management considers the credit quality of trade receivables that are not past due or impaired to be good.

As at 30 September 2020 there are no significant concentrations of credit risk for financial assets designated as at amortised cost or at fair value. The carrying amount reflects Gentrack Group's maximum exposure to credit risk for these financial assets.

Judgement has been applied to the recovery of all trade receivables, with management confirming that all carrying amounts are deemed to be recoverable and not impaired.

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are highly reputable financial intuitions with high quality external credit ratings.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

8.2 MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect Gentrack Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

FOREIGN CURRENCY RISK

Gentrack Group is exposed to currency risk on transactions that are denominated in a currency other than the functional currency of Gentrack Group (NZD), primarily the following currencies Australian Dollar (AUD), Pound Sterling (GBP), EURO (EUR) and US Dollar (USD), and Danish Kroner (DKK).

Gentrack Group's exposure to foreign currency risk at the reporting date was as follows (all amounts are denominated in New Zealand Dollars):

2020	AUD NZ$000	GBP NZ$000	EUR NZ$000	USD NZ$000	DKK NZ$000
Cash and cash equivalents	5,634	10,675	70	1,029	96
Trade and other receivables	4,790	8,874	1,056	1,369	1,521
Trade and other payables	(218)	(1,479)	(507)	(1,768)	(103)
Bank loans	-	(2,536)	-	-	-
Net exposure	**10,206**	**15,534**	**619**	**630**	**1,514**
2019					
Cash and cash equivalents	1,309	3,903	112	425	208
Trade and other receivables	4,834	14,469	2,271	5,829	2,950
Trade and other payables	(397)	(1,384)	(1,874)	(1,539)	(402)
Financial liabilities	-	-	-	-	(2,451)
Net exposure	**5,746**	**16,988**	**509**	**4,715**	**305**

The following table summarises the sensitivity of profit or loss and equity with regards to Gentrack Group's financial assets and financial liabilities affected by AUD/NZD exchange rate, the GBP/NZD exchange rate, the EUR/NZD exchange rate, the USD/NZD exchange rate and the DKK/NZD exchange rate with all other aspects being equal. It assumes a +/-10% change in the NZD to the currency exchange rate for the year ended 30 September 2020 (2019: 10%). These +/-10% sensitivities have been determined based on the average market volatility in exchange rates in the preceding 12 months.

	PROFIT/EQUITY				
	AUD NZ$000	**GBP NZ$000**	**EUR NZ$000**	**USD NZ$000**	**DKK NZ$000**
2020					
10% strengthening in NZD	(928)	(1,412)	(56)	(57)	(138)
10% weakening in NZD	1,134	1,726	69	70	168
2019					
10% strengthening in NZD	(522)	(1,544)	(46)	(429)	(28)
10% weakening in NZD	638	1,888	57	524	34

Gentrack Group's exposure to foreign exchange rates varies during the year depending on the volume of foreign currency transactions. Even so, the analysis above is representative of Gentrack Group's exposure to market risk.

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8.3 LIQUIDITY RISK

Liquidity risk is the risk that Gentrack Group will not be able to meet its financial obligations as and when they become due and payable. Gentrack Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they become due and payable, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Gentrack Group's reputation.

Gentrack Group has sufficient cash to meet its requirements in the foreseeable future.

The following table details Gentrack Group's contractual maturities of financial liabilities, as at the reporting date:

	ON DEMAND NZ$000	LESS THAN 3 MONTHS NZ$000	3 TO 12 MONTHS NZ$000	1 TO 5 YEARS NZ$000	>5 YEARS NZ$000	TOTAL NZ$000
2020						
Bank loan	-	-	2,536	-	-	2,536
Related party loan	-	-	-	-	-	-
Trade payables	-	1,803	-	-	-	1,803
Financial liabilities	-	-	-	-	-	-
	-	**1,803**	**2,536**	**-**	**-**	**4,339**
2019						
Bank loan	-	4,000	-	-	-	4,000
Related party loan	-		-	450	-	450
Trade payables	-	3,742	-	-	-	3,742
Financial liabilities	-	-	2,451	-	-	2,451
	-	**7,742**	**2,451**	**450**	**-**	**10,643**

8.4 INTEREST RATE RISK

Gentrack Group's interest rate risk primarily arises from short term bank borrowing, cash and advances from related parties. Borrowings and deposits at variable interest rates expose Gentrack Group to cash flow interest rate risk. Borrowings and deposits at fixed rates expose Gentrack Group to fair value interest rate risk.

The following tables detail the interest rate repricing profile and current interest rate of the interest-bearing financial assets and liabilities.

	EFFECTIVE INTEREST RATE NZ$000	FLOATING NZ$000	FIXED UP TO 3 MONTHS NZ$000	FIXED UP TO 6 MONTHS NZ$000	FIXED UP TO 5 YEARS NZ$000	TOTAL NZ$000
ASSETS						
Bank balances	-	19,320	-	-	-	19,320
LIABILITIES						
Bank loans	1.83%	(2,536)	-	-	-	(2,536)
Total exposure		**16,784**	**-**	**-**	**-**	**16,784**

	EFFECTIVE INTEREST RATE +1% **NZ$000**	EFFECTIVE INTEREST RATE -1% **NZ$000**
Bank balances	195	(195)
Bank loans	(74)	(21)
Total exposure	**121**	**(216)**

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8.5 FINANCIAL INSTRUMENTS

Gentrack Group's financial assets are measured at amortised cost. Gentrack Group's financial assets are held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows and the financial asset gives rise to contractual cash flows on specified dates that are payments of principal and interest on the principal outstanding.

Gentrack Group's financial liabilities are measured at amortised cost except for contingent consideration which is required to be measured at fair value through profit and loss.

Gentrack Group's financial assets and liabilities by category are summarised as follows:

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of cash at bank and on hand and the carrying amount is equivalent to fair value.

TRADE RECEIVABLES

These assets are short term in nature and are reviewed for impairment; the carrying value approximates their fair value.

TRADE PAYABLES

These liabilities are mainly short term in nature with the carrying value approximating the fair value.

LOANS AND BORROWINGS

Loans and borrowings have a floating interest rate. Fair value is estimated using the discounted cash flow model based on current market interest rate for a similar product; the carrying value approximates their fair value.

FAIR VALUES

Gentrack Group's financial instruments that are measured subsequent to initial recognition at fair values are grouped into levels based on the degree to which their fair value is observable:

- Level 1 – fair value measurements derived from quoted prices in active markets for identical assets.
- Level 2 – fair value measurements derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – fair value measurements derived from valuation techniques that include inputs for the asset or liability which are not based on observable market data.

There have been no transfers between levels or changes in the valuation methods used to determine the fair value of Gentrack Group's financial instruments during the period. As at 30 September 2020 Gentrack Group has nil of level 3 financial instruments. In 2019 Gentrack Group had $2.5m in level 3 financial instruments relating to a call/put option for the acquisition of Blip Systems, this financial instrument was contingent consideration and was settled in December (2019: $2.5m). Please Refer to note 33 of the 2018 Annual Report for further information on the Blip Systems acquisition.

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8.5 FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL INSTRUMENTS BY CATEGORY

	2020 NZ$000	2019 NZ$000
FINANCIAL ASSETS MEASURED AT AMORTISED COST		
Cash and cash equivalents	19,321	8,626
Trade and other receivables	18,951	31,279
	38,272	**39,905**
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		
Loans and borrowings	(2,536)	(4,450)
Trade payables	(1,803)	(3,742)
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE		
Financial Liabilities	-	(2,451)
	(4,339)	**(10,643)**

NOTES TO THE FINANCIAL STATEMENTS

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9. OTHER INFORMATION

9.1 LEASE ASSETS AND LEASE LIABILITIES

RECOGNITION AND MEASUREMENT OF GENTRACK GROUP'S LEASING ACTIVITIES

Gentrack Group predominantly leases property for fixed periods of 1-12 years and may have extension options. These extension options are usually at the discretion of Gentrack Group and are included in the measurement of the lease asset if management intends to exercise the extension. Lease terms are negotiated on an individual basis and contain a variety of terms and conditions. However, these lease agreements do not impose any covenants.

Prior to 1 October 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 October 2019, leases are recognised as a right of use asset (lease asset) and a corresponding lease liability at the date at which the leased asset is available for use. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period. The lease asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Lease assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

See section 1 for more information on adjustments recognised on adoption of NZ IFRS 16 Leases, practical expedients applied and the impact of first-time adoption of NZ IFRS 16 on these financial statements.

Key movements related to the lease assets and lease liabilities are presented below:

LEASE ASSETS

	2020 **NZ$000**
Balance at 1 October 2019, due to first time adoption of NZ IFRS 16	12,671
Additions during the year	-
Depreciation charges	(2,350)
Exchange differences	17
Lease assets at 30 September	**10,338**
Property	10,302
Office equipment	36
Lease assets at 30 September	**10,338**

Office equipment includes Coffee Machines and Printer/Copiers.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

9.1 LEASE ASSETS AND LEASE LIABILITIES (CONTINUED)

LEASE LIABILITIES

	2020 NZ$000
Balance at 1 October 2019, due to first time adoption of NZ IFRS 16	17,620
Leases entered into during the period	-
Principal repayments	(2,457)
Exchange differences	(36)
Lease liabilities at 30 September	**15,127**
Less than one year	2,692
One to five years	5,229
More than five years	7,206
Lease liabilities at 30 September	**15,127**

LEASE EXPENSES

	2020 NZ$000
Depreciation charges	2,351
Finance charges	931
Lease expenses	**3,282**

9.2 AUDITORS REMUNERATION

	2020 NZ$000	2019 NZ$000
KPMG – audit fees	517	537
KPMG – review fees	116	43
KPMG – taxation services	221	177
Entrust – audit fees	6	7
Total fees paid to auditor(s)	**860**	**764**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

9.3 KEY MANAGEMENT PERSONNEL AND RELATED PARTIES

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Gentrack Group, directly or indirectly, and include the Directors, the Chief Executive, their direct reports. The following table summarises remuneration paid to key management personnel.

	2020 NZ$000	2019 NZ$000
Salaries, bonus and other benefits	4,157	3,466
Share-based payments	-	261
Directors' fees	386	422
	4,543	**4,149**

Gentrack Group's Directors are also directors of other companies. During the year ended 30 September 2020 no transactions have occurred between Gentrack Group and any of these companies.

Some of the Directors and key management personnel are shareholders in Gentrack Group Limited. Gentrack Group does not transact with the Directors or key management personnel, and their related parties, other than in their capacity as Directors, consultants, and employees. Refer to note 2.4 for more information on other related parties.

9.4 OTHER DISCLOSURES

CAPITAL COMMITMENTS

There are no capital commitments at 30 September 2020 (2019: $Nil).

CONTINGENCIES

ASB New Zealand has provided guarantees of $0.9m (2019: $0.9m) on behalf of the Gentrack Group, these guarantees are in place for software implementation projects, property leases and exchange listings.

EVENTS AFTER BALANCE DATE

There were no material events after balance date.

On 25 November 2020, the Gentrack Group Board determined that no final dividend will be paid out for the 2020 financial year (2019: $3.0m).

Gentrack

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