# Fluence Corporation Limited (formerly Emefcy Group Limited)

ABN 52 127 734 196

# Audited financial report for the year ended 31 December 2017

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# Audited financial report - 31 December 2017

## Contents

**Fluence Corporation Limited (formerly Emefcy Group Limited)**
**Corporate directory**

| | |
|---|---|
| **Directors** | Mr Richard Irving<br>*Executive Chairman*<br><br>Mr Ross Haghighat<br>*Non-Executive Director*<br><br>Mr Peter Marks<br>*Non-Executive Director*<br><br>Mr Robert Wale<br>*Non-Executive Director*<br><br>Mr Henry Charrabe (appointed 14 July 2017)<br>*Managing Director and CEO*<br><br>Dr Ramesh Rengarajan (appointed 14 July 2017)<br>*Non-Executive Director*<br><br>Mr Arnon Goldfarb (appointed 19 September 2017)<br>*Non-Executive Director* |
| **Company Secretary** | Mr Ross Kennedy |
| **Registered Office** | Level 3, 62 Lygon Street<br>Carlton VIC 3053<br>Australia<br>Phone: +61 (0)3 9824 5254<br>Fax: +61 (0)3 9822 7735 |
| **Principal Place of Business** | 10 Bank Street<br>8th Floor<br>White Plains New York 10606<br>United States of America<br>Phone: +1 212 572 5700 |
| **Share Registry** | Boardroom Pty Ltd<br>Level 12, 225 George Street,<br>Sydney, New South Wales, 2000, Australia<br>Phone: 1300 737 760 (local)<br>Fax: +61 (0)2 9290 9600 (international) |
| **Auditors** | BDO East Coast Partnership<br>Tower 4, Level 18, 727 Collins Street,<br>Melbourne, Victoria, 3008, Australia |
| **Solicitors** | Hall & Wilcox Lawyers<br>Level 11, Rialto South Tower, 525 Collins Street,<br>Melbourne, Victoria, 3000, Australia |
| **Bankers** | National Australia Bank (NAB)<br>Melbourne, Victoria, Australia |
| **Securities Quoted** | *Australian Securities Exchange*<br>- Ordinary Fully Paid Shares (Code: FLC) |
| **Website** | www.fluencecorp.com |

The directors present their report for the consolidated entity consisting of Fluence Corporation Limited (formerly Emefcy Group Limited) and the entities it controlled at the end of, or during, the year ended 31 December 2017. Throughout the report, the consolidated entity is referred to as the Group.

## Directors

The following persons held office as directors of Fluence Corporation Limited (formerly Emefcy Group Limited) during the financial year:

Mr Richard Irving, Executive Chairman
Mr Eytan Levy, Executive Director (resigned 31 August 2017)
Mr Ross Haghighat, Non-Executive Director
Mr Peter Marks, Non-Executive Director
Mr Robert Wale, Non-Executive Director
Mr Henry Charrabe, Managing Director and CEO (appointed 14 July 2017)
Dr Ramesh Rengarajan, Non-Executive Director (appointed 14 July 2017)
Mr Arnon Goldfarb, Non-Executive Director (appointed 19 September 2017)

## Principal activities

On 14 July 2017, Emefcy Group Limited completed the acquisition of RWL Water Group to form Fluence Corporation Limited.

Prior to the acquisition, the Group's principal activities were:

- The research, development and commercialisation of innovative wastewater treatment systems incorporating Membrane Aerated Biofilm Reactor ("MABR")
- Implementing the multi-faceted China strategy;
- Implementing the US strategy based on an initial Reuse as a Service ("RaaS") development phase and appointment of regional manufacturing representatives; and
- Developing the larger scale SUBRE (a submerged larger scale version of MABR) product ready for field testing;

Subsequent to the acquisition, the Group's principal activities were:

- Offering an integrated range of services across the complete water cycle, from early stage evaluation with established operations in North America, South America, the Middle East and Europe, Fluence is continuing to expand into China’s rural wastewater treatment market.
- In particular, Fluence is striving to become a leading global provider of fast-to-deploy decentralised and packaged water and wastewater treatment solutions
- Fluence has experience operating in over 70 countries worldwide and employs more than 300 highly trained water professionals around the globe. The Group provides local, sustainable treatment and reuse solutions, while empowering businesses and communities worldwide to make the most of their water resources.

Otherwise there were no other significant changes in the nature of the Group's principal activities during the financial year.

## Dividends

No dividends have been paid during the financial year. The directors do not recommend that a dividend be paid in respect of the financial year (2016: $nil).

## Review of operations

### 1 Financial performance in 2017

Following is a summary of the financial performance of the Group for the year ended 31 December 2017.

## Review of operations (continued)

### 1 Financial performance in 2017 (continued)

These results reflect the performance of Emefcy Group Limited for the full twelve months and the results of RWL Water Group for the period from the date of acquisition of 14 July 2017 to 31 December 2017. These financial results should be read in association with the attached audited financial statements.

- Revenues for the year (Fluence since 1 January, RWL since 14 July) - $33.1 million,
- Revenues for the year on proforma basis as if the acquisition occurred at the beginning of the year - $58.0 million,
- Net loss for the year (Fluence since 1 January, RWL since 14 July) - $23.6 million,
- Net loss for the year on proforma basis as if the acquisition occurred at the beginning of the year - $29.2 million,
- Revenues by segments: Operating units - $33.9 million, P&I - $1.1 million, intersegment eliminations - $(1.8 million), no revenues are allocated to other (unallocated revenues to corporate).
- Net income/(loss) by segment: Operating units - $0.8 million, P&I - $(12.4 million), intersegment eliminations -$1.9 million, unallocated loss - corporate - $(13.8 million).

### 2 Multiple milestones achieved in 2017

During 2017, Emefcy Group Limited successfully undertook the acquisition of the RWL Water Group, with all acquisition-related integration activities completed to form Fluence Corporation Limited. This has enabled Fluence to expand the global reach and market opportunities for its key products: desalination, wastewater treatment and wastewater-to energy.

### 3 Notable successes include:

- Innovation drove new market opportunities, including the first SUBRE product contract awarded to upgrade a centralised wastewater treatment plant in Israel. SUBRE enables compliance with tighter nitrogen discharge rules without using hazardous chemicals, while also increasing plant capacity and increase target markets;
- The Group’s Chinese subsidiary was incorporated and its manufacturing facility in Jiangsu Province is now operating. First production of MABR Modules was achieved in September 2017;
- Progress in China with the signing of a framework agreement with partner Jiangsu Jinzi Environmental Science and Technology Company. The agreement contemplates the delivery of six Containerized Smart Packaged wastewater treatment plants based on Fluence’s MABR technology (C-MABR);
- Exclusive memorandum of understanding (MOU) signed with an African nation to design and construct an advanced water treatment plant;
- €1.5 million contract signed with VINCI Construction Grands Projects (France) to supply three NIROBOX™ containerized seawater desalination units for the island of Mayotte;
- US Virgin Islands MABR installation received approval from the US Environmental Protection Agency;
- US$1.7 million contract executed with Irotop S.A., a leading Ecuadorian fish processing company, to purify wastewater from its tuna and sardine processing and packing plants;
- Agreement executed with Stanford University to deploy, test for compliance with USA environmental regulations and measure the performance of Fluence's MABR wastewater treatment technology at Stanford’s Codiga Resource Recovery Center. The MABR demonstration unit was commissioned in Q1 2018; and
- Awarded the “2018 Global Decentralized Water & Wastewater Treatment Company of the Year” by Frost and Sullivan who noted the key benefits of Fluence’s modular, decentralised systems, such as lower operating cost, easier maintenance, and lower capital outlays.

**Review of operations (continued)**

**3 Notable successes include: (continued)**

**4 Operating in markets with attractive fundamentals**

Water scarcity is increasing due to global economic development and climate change. Communities are being challenged to come up with viable solutions to overcome this problem.

Current centralised water treatment plants present major challenges to address this scarcity issue as they tend to be landlocked, have aging infrastructure and increasingly cannot meet the demands for clean water. Moreover, such centralised water treatment plants cannot be expanded easily, and upgrades are costly.

In response to these challenges, investment is being made in alternative decentralised solutions to address capacity needs quickly and economically, and importantly meet growing regulatory requirements.

**5 China**

The rural wastewater treatment opportunity in China is estimated in the billions of dollars over the next five years. The Chinese Government's 13th five-year plan targets improved water quality nationwide by 2030, and mandates that local city officials improve sewage capacity and treatment. Currently only an estimated 10% of rural wastewater is treated - the five-year plan is targetting an increase to 70%.

The sales momentum in China is building with several opportunities progressing.

A manufacturing facility in Changzhou China was established with first commercial production in the second half of the financial year.

**6 Africa**

Fluence continues to build a pipeline of new opportunities that are converting into new contracts.

In early 2017, the Group won a second contract in Ethiopia to install a wastewater treatment system incorporating MABR technology.

Progress is being made in negotiating the terms of a formal contract for the previously announced exclusive MOU with an African nation to construct a large water treatment plant. Other key conditions to the project commencing, which are typical for projects of this nature, include regulatory approvals and completing financing arrangements. Subject to completing these pre-conditions, the project has the potential to generate revenues of more than US$100 million for the Group. Potential revenues from this project are not included in our 2018 guidance.

In addition, Fluence has submitted several tenders for the provision of desalination water treatment in South Africa and North Africa.

**7 South America**

Fluence is experiencing rapid expansion in South America with US$6 million of new contracts awarded in Ecuador and Argentina during 2017, and the anticipated recommencement of activities under a contract in Venezuela worth US$18 million in 2018.

To meet this growing demand across South America, Fluence is constructing a new manufacturing facility in Argentina, which is scheduled to open in Q2 2018.

**8 Europe**

In Italy, Fluence is contracted to develop and build a wastewater-to-energy treatment plant for Avimecc, a poultry meat processing company. This southern Italian plant processes approximately 40,000 chickens per day with plans to increase capacity to 70,000. Avimecc expects to recoup the cost of the expanded operation through energy recovery and waste reduction within 5 years of plant operation.

**Review of operations (continued)**

**8 Europe (continued)**

Worldwide regulations regarding total nitrogen content in treated effluent are becoming increasingly stricter. As a result, the Group estimates the SUBRE market opportunity in Europe alone may be US$2 billion, with even larger market potential in the US and China.

**9 North America**

The deployment of an MABR demonstration unit at the Código Resource Recovery Center (CR2C) at Stanford University in California has been successfully achieved. This will serve as a demonstration plant and reference site to underpin US sales.

**10 Significant changes to the affairs of the entity**

Following the acquisition of the RWL Water Group during 2017, Group revenues increased significantly. The Group now has an expanded global footprint with operations in Argentina, Italy, Israel, USA, China and Middle East. Further details of the financial impact of the acquisition, including positive goodwill on consolidation are set out in Note 3 of the financial statements attached.

**Likely developments and expected results of operations**

The Group expects to continue to grow its global footprint through the design, manufacture and sale of smart packaged plant solutions for water and wastewater treatment, based on the core product portfolio which has been established:

- MABR for wastewater treatment;
- NiroboxTM for water desalination and treatment of brackish water;
- Anaerobic Digester for processing waste sludge from food processing industries; particularly in the poultry and fish industries.
- TORNADO® subsurface aerators for extended aeration and activated sludge processes for lagoons and oxidation ditch applications.

Revenues for the 2018 year will reflect a full year of revenues from the former RWL Water Group. Based on the Group’s current backlog and pipeline of new tenders, revenue for 2018 is expected to be in the range of US$105 million to US$115 million. At start of the year, visibility of forecasted 2018 revenues was high, with approximately 70% (US $75 million) covered by the current backlog expected to be recognised in 2018.

Reflecting the changing mix of contracts in 2018, Gross Profit is anticipated to be in the range of US$22 million to US$25 million. This reflects the lower gross profit margin during the construction phase of a large project in San Quintin, Mexico.

Based on current backlog and pipeline, and consistent with historic experience, the Group anticipates bookings and revenue to be weighted to the latter part of the year. We continue to target the achievement of a positive EBITDA run rate at some time in 2019.

The Product and Innovation segment is focused on improving existing technologies, identifying opportunities for cross fertilisation of technology ideas between different products in the Group, developing new technologies applicable to water and wastewater treatment, and ensuring that the intellectual property of the group is protected. An important priority for the Product & Innovation Group is the ongoing commerialisation of the SUBRE technology solution for municipal wastewater treatment.

**Events since the end of the financial year**

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

**Information on directors**

| **Richard Irving** *Executive Chairman* | |
|---|---|
| **Qualifications** | B. Sc. (First class honours) in Electrical Engineering, Manchester University, UK<br>M. Sc. Electrical Engineering, Manchester University, UK |
| **Experience and expertise** | Richard Irving is the Executive Chairman of Fluence Corporation Limited. Prior to Fluence Corporation, Mr. Irving served as Executive Chairman & Chairman of Emefcy since 2010.<br><br>Based in Silicon Valley, Richard co-founded Pond Venture Partners in 1997 and brings over 30 years' experience in venture capital, business management, marketing and engineering in technology companies including AT&T Bell Labs, AMD, and Brooktree.<br><br>Richard has helped create over $3 billion in shareholder value through IPOs, acquisitions, and private financings.<br><br>Past exits include LiveRail (Facebook), Gigle Networks (Broadcom), 4Home (Motorola Mobility), Transitive (IBM), and Microcosm Communications (Conexant).<br><br>Richard also serves as a Venture Advisor to Samsung. |
| **Other current public company directorships** | None |
| **Former public company directorships in last 3 years** | None |
| **Special responsibilities** | Executive Chairman<br>Member of the Remuneration and Nomination Committee |
| **Interest in shares** | Richard has an indirect interest through Pond Venture Nominees III Limited in 36,264,579 shares in the Group. |
| **Interest in options** | Direct interest in:<br>500,000 Director options with an exercise price of A$0.30;<br>500,000 Director options with an exercise price of A$0.40;<br>950,000 Director options with an exercise price of A$1.20;<br>950,000 Director options with an exercise price of A$1.50 |
| **Contractual rights to shares** | Nil |

**Information on directors (continued)**

| **Eytan Levy** *Managing Director and Chief Executive Officer (resigned 31 August 2017)* |
|---|

| **Ross Haghighat** *Non-Executive Director* | |
|---|---|
| **Qualifications** | B.Sc. and a Masters in Material Science in Organometallic Chemistry, Rutgers University (USA). MBA, Boston College - Carroll School of Management (USA) |
| **Experience and expertise** | Ross Haghighat serves as a Non-Executive Director for Fluence Corporation. He has over 30 years of experience in the technology sector as founder or co-founder of half a dozen companies with a combined shareholder value exceeding $4.5B.<br><br>With over 20 years in operating and strategic roles and a decade in the investment arena, he has helped to create a number of global enterprises in the private and public space in the US, China, Australia and Europe. Mr. Haghighat was Non-Executive Director for Emefcy from 2015.<br><br>He serves as Chairman for Triton Systems Group - a Global Investment and Product Venturing firm. He serves as a Director at Aduro Biotech a clinical stage biopharma (Nasdaq: ADRO), is Chairman of FRX Polymers, a specialty chemicals firm with operations in the US, Europe, and China. |
| **Other current directorships** | Aduro Biotech, Inc, Triton Systems, Inc, FRX Polymers, Inc, Redrock Biometrics, Inc. |
| **Former directorships in last 3 years** | None |
| **Special responsibilities** | Chair of the Remuneration and Nomination Committee and Member of the Audit and Risk Committee. |
| **Interest in shares** | None |
| **Interest in options** | Direct interest in:<br>500,000 employee options with an exercise price of A$0.30;<br>500,000 employee options with an exercise price of A$0.40;<br>700,000 Director options with an exercise price of A$1.20;<br>700,000 Director options with an exercise price of A$1.50. |
| **Contractual rights to shares** | None |

**Information on directors (continued)**

| **Peter Marks** *Non-Executive Director* | |
|---|---|
| **Qualifications** | B.Ec, LLB and Graduate Diploma in Commercial Law, Monash University, Melbourne, Australia<br>MBA degree from the University of Edinburgh, Scotland |
| **Experience and expertise** | Peter Marks serves as Non-Executive Director for Fluence Corporation. Mr. Marks has over 30 years of experience in corporate finance and investment banking, specialising in capital raisings (for listed and unlisted companies), underwriting, IPOs, corporate restructurings, and venture capital transactions with a focus on emerging technologies and life sciences.<br><br>Furthermore, he has participated in over $3 billion in public and private capital raisings, and has served as an Executive and Non-Executive Director of many entities which have been listed on the ASX, NASDAQ and AIM markets. |
| **Other current directorships** | Prana Biotechnology Limited (listed on ASX and NASDAQ) and Noxopharm Ltd |
| **Former directorships in last 3 years** | Armadale Capital plc (listed on AIM) |
| **Special responsibilities** | Member of the Remuneration and Nomination Committee and Chair of the Audit and Risk Committee. |
| **Interest in shares** | Indirect interest in 2,254,403 shares through Lampam Pty Ltd. |
| **Interest in options** | Direct interest in:<br>500,000 employee options with an exercise price of A$0.30;<br>500,000 employee options with an exercise price of A$0.40;<br>700,000 Director options with an exercise price of A$1.20;<br>700,000 Director options with an exercise price of A$1.50. |
| **Contractual rights to shares** | None |

**Information on directors (continued)**

| **Rob Wale** *Non-Executive Director* | |
|---|---|
| **Qualifications** | Bachelor of Science (BSc), Mech. Eng, Uni of Wollongong (Aust). |
| **Experience and expertise** | Robert Wale serves as Non-Executive Director for Fluence Corporation. Mr. Wale has over 30 years of executive level experience within the global water industry in multiple roles in Australia, the USA and throughout the Asia-Pacific region.<br><br>Prior to Fluence, he was the Non-Executive Director of Emefcy and Managing Director of BlueSand Consulting. Throughout the years, Mr. Wale has had significant experience managing businesses (e.g.; Memtec Limited, US Filter Inc., Veolia Environment, Siemens Water etc) across the cycle, from early stage start up, through commercialization to maturity and obtaining a global leadership position.<br><br>Robert has been a Director of the Company since 5 April 2016. |
| **Other current directorships** | Nil |
| **Former directorships in last 3 years** | None |
| **Special responsibilities** | Development of the RaaS business model as a discrete project during part of 2017 and facilitated the successful MOU/agreement for supplying Stanford MABR demonstration facility. |
| **Interest in shares** | None |
| **Interest in options** | Direct interest in:<br>500,000 Director options with an exercise price of 35 cents each;<br>750,000 Director options with an exercise price of A$1.20;<br>750,000 Director options with an exercise price of A$1.50. |
| **Contractual rights to shares** | None |

**Information on directors (continued)**

| **Henry Charrabé** *Managing Director & CEO (appointed 14 July 2017)* | |
|---|---|
| **Qualifications** | Henry Charrabé serves as the Managing Director and Chief Executive Officer of Fluence. He brings more than a decade of experience in developing water management and investment solutions to his role at the Company.<br><br>Prior to the establishment of Fluence, Mr. Charrabé served as President and Chief Executive Officer of RWL Water since its inception in 2010. During his tenure, Mr. Charrabé was instrumental in establishing RWL Water as a global player through strategic acquisitions and significant organic growth. Prior to RWL Water Mr. Charrabé was a senior executive at RSL Investments Corp. in the United States and Europe.<br><br>From 2003 to 2005, Mr. Charrabé served as Chief Operating Officer of W2W, an electrocoagulation wastewater technology company.<br>Mr. Charrabé received a B.A. from the Freie Universität in Berlin and Tel Aviv University. He earned an M.A. in Political Science and an M.A. in International Economics and Finance, both from Brandeis University, as well as an M.A. in Public Administration from the John F. Kennedy School of Government at Harvard University. |
| **Experience and expertise** | Henry was President and Chief Executive Officer of RWL Water up to the time of the acquisition with Emefcy Group Limited on 14 July 2017.<br>Henry has been a Director of the Company since 14 July 2017. |
| **Other current directorships** | Nil |
| **Former directorships in last 3 years** | Nil |
| **Special responsibilities** | Nil |
| **Interest in shares** | Nil |
| **Interest in options** | Direct interest in 11,191,336 Director options with an expiry price of A$0.93 |
| **Contractual rights to shares** | None |

**Information on directors (continued)**

| **Dr Ramesh Rengarajan** *Non-Executive Director (appointed 14 July 2017)* | |
|---|---|
| **Qualifications** | Dr. Ramesh serves as Non-Executive Director for Fluence Corporation. Currently he is a partner at Eagletree Capital. Previously, Dr. Ramesh supported RWL Water's efforts to evaluate the best water treatment technologies and companies around the world.<br><br>Dr. Ramesh has held senior management positions at GE Water and Process Technologies, including Chief Technology Officer (CTO), a role which he held for more than four years. As CTO, Dr. Ramesh played a key role in the development and implementation of the strategy that led to the creation of GE's $2.5 billion global water platform. While at GE, he also led the technology and engineering organisations for GE Sensing, GE Security, and GE Fanuc. He also served on the board of GE's Asia Pacific American Forum.<br><br>In addition to his role at GE, Dr. Ramesh served in numerous senior management roles over a two-decade career with A. Schulman, Inc., a global multi-billion-dollar specialty chemicals manufacturer. He also served on the International Advisory Board for the Ministry of Environment and Water, Government of Singapore from 2006-2016.<br><br>He currently serves on the board of Students2Science a non-profit organisation serving inner-city schools by proving hands on lab training to teachers and students. |
| **Experience and expertise** | Dr Ramesh has been a Director of the Group since 14 July 2017. |
| **Other current directorships** | Nil |
| **Former directorships in last 3 years** | Nil |
| **Special responsibilities** | Nil |
| **Interest in shares** | Nil |
| **Interest in options** | Direct interest in 1,500,000 Director options with an expiry price of A$0.835 |
| **Contractual rights to shares** | None |

**Information on directors (continued)**

| **Arnon Goldfarb** *Non-Executive Director (appointed 19 September 2017)* | |
|---|---|
| **Qualifications** | Arnon Goldfarb serves as Non-Executive Director for Fluence Corporation. Currently he is a partner at Israel Cleantech Ventures and has significant entrepreneurial experience and interests in chemistry, materials and industrial processes.<br><br>Until early 2011, Arnon served as CEO of TMB Water, a water project company active in desalination, aquaculture and water treatment efforts in Israel and abroad, and the predecessor to RWL Water. Prior to establishing TMB in 2001, Arnon spent 17 years with Israel Chemicals Ltd., where he served as Corporate VP for Business Development and Chairman of the R&D, Fertilisers and Chemicals, and Ceramics units. He was also a director at ICL's Israel Desalination Engineering (IDE) subsidiary as well as its potash, phosphate and bromine subsidiaries.<br><br>Previously, Arnon worked in the oil and gas industry in Israel and the US as a production and facilities engineer with Superior Oil and Israel National Oil Co., and as a production and field manager for Israel's Sadot natural gas field.<br><br>Arnon serves as Chairman of Atlantium Technologies, as well as on the boards of TGA, a waste treatment facility, and TSP, a chemical company. Arnon holds a B.Sc. in chemistry from Hebrew University, Jerusalem, and a M.Sc. in Ocean Engineering from University of Rhode Island, USA. |
| **Experience and expertise** | Arnon has been a director of the Group since 19 September 2017. |
| **Other current directorships** | Nil |
| **Former directorships in last 3 years** | Nil |
| **Special responsibilities** | Nil |
| **Interest in shares** | Nil |
| **Interest in options** | Nil |
| **Contractual rights to shares** | None |

**Company secretary**

The company secretary is Ross Kennedy. Ross Kennedy was appointed to the position of company secretary on 23 December 2015. Ross was previously Company Secretary and Executive General Manager of St Barbara Limited for ten years. Ross is an experienced Company Secretary, holding the professional qualifications of Fellow Governance Institute of Australia; Fellow Australian Institute of Company Directors; and Chartered Accountant.

**Meetings of directors**

The number of meetings of the Group's Board of Directors and of each board committee held during the year ended 31 December 2017, and the number of meetings attended by each director were:

**Meetings of directors (continued)**

| **Emefcy - 1.1.17 to 13.7.17** | **Full Board** | | **Meetings of committees** | | | |
|---|---|---|---|---|---|---|
| | | | **Audit** | | **Remuneration and Nomination** | |
| | **A** | **B** | **A** | **B** | **A** | **B** |
| Mr Richard Irving** | 7 | 7 | | | | |
| Mr Eytan Levy *(resigned 31 August 2017)*** | 7 | 7 | | | | |
| Mr Ross Haghighat | 7 | 7 | 1 | 3 | | |
| Mr Peter Marks | 7 | 7 | 2 | 3 | | |
| Mr Robert Wale** | 7 | 7 | | | | |

| **Fluence - 14.7.17 to 31.12.17** | **Full Board** | | **Meetings of committees** | | | |
|---|---|---|---|---|---|---|
| | | | **Audit** | | **Remuneration and Nomination** | |
| | **A** | **B** | **A** | **B** | **A** | **B** |
| Mr Richard Irving** | 8 | 8 | | | - | 1 |
| Mr Eytan Levy *(resigned 31 August 2017)*** | 5 | 5 | | | | |
| Mr Ross Haghighat | 7 | 8 | 2 | 3 | 1 | 1 |
| Mr Peter Marks | 8 | 8 | 3 | 3 | 1 | 1 |
| Mr Robert Wale** | 8 | 8 | | | | |
| Mr Henry Charrabe *(appointed 14 July 2017)*** | 8 | 8 | | | | |
| Dr Ramesh Rengarajan *(appointed 14 July 2017)*** | 6 | 8 | | | | |
| Mr Arnon Goldfarb *(appointed 19 September 2017)*** | 3 | 3 | | | | |
| Mr Ross Kennedy (Company secretary and audit committee member) | | | 1 | 1 | | |

A = Number of meetings attended
B = Number of meetings held during the time the director held office or was a member of the committee during the year
** = Not a member of a Board Committee

In addition to the committee meeting held, numerous discussions took place between committee members in relation to the integration of the employees of Emefcy Group Limited and RWL Water LLC which took place on 14 July 2017. There was also significant work undertaken by the committee in relation to the benchmarking of revenue and remuneration design for the combined group - as described elsewhere in the Remuneration Report.

**Environmental regulation**

As a provider of water and wastewater treatment solutions, the Group is subject to environmental regulations in each jurisdiction in which it operates. The C-MABR has demonstrated compliance to China Class 1A effluent standards.The Group has deployed a MABR waste water solution in the US Virgin Islands, which is compliant to USA EPA regulations. The consolidated entity is not subject to any other significant environmental regulation under Australian Commonwealth or State law.

**Remuneration report (Audited)**

***(a) Principles used to determine the nature and amount of remuneration***

The directors present the Fluence Corporation Limited 2017 remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year.

By way of introduction, 2017 was a year of significant change, particularly with the acquisition of RWL Water LLC to form Fluence Corporation Limited, which took effect on 14 July 2017. The merger provided an immediate global footprint for the development and distribution of decentralised water treatment solutions.

**Remuneration report (Audited) (continued)**

***(a) Principles used to determine the nature and amount of remuneration (continued)***

***(continued)***

In recognition of the significantly changed scale of business and responsibilities of the Board and executives, a comprehensive remuneration benchmarking exercise was undertaken by Mercer Consulting - a global remuneration consulting group - to determine market competitive remuneration for the combined group. Further details are set out herein.

***Principles used to determine the nature and amount of remuneration***

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- Competitiveness and reasonableness;
- Acceptability to shareholders;
- Performance linkage / alignment of executive compensation; and
- Transparency.

Remuneration is aligned to shareholders' interests and program participants' interests as follows:

(a) Alignment to shareholders' interests:
- Has achievement of strategic goals as a core component of plan design;
- Focuses on sustained growth in shareholder wealth, consisting of growth in share price and in time, delivering constant or increasing return on assets as well as focusing the executives on key non-financial drivers of value; and
- Attracts and retains high calibre executives.

(b) Alignment to program participants' interests:
- Rewards capability and experience;
- Reflects competitive reward for contribution to growth in shareholder wealth; and
- Provides a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of Non-Executive Directors and executive remuneration are separate.

***Directors remuneration***

Fees and payments to Non-Executive Directors reflect the demands and responsibilities of their role. Non-Executive Directors' fees and payments are reviewed annually by the Remuneration and Nomination Committee with recommendations made to the full Board.

Concurrently, with the acquisition of RWL Water Group to form Fluence Corporation Limited on 14 July 2017, Mercer Consulting was engaged to advise on remuneration for the Executive Chair and Non-Executive Director roles. Mercer is regarded as one of the world's largest remuneration benchmarking and consulting services companies. The firm was engaged by the Remuneration and Nomination Committee to recommend Executive Chair and Non-Executive Directors' fees, including Board Committee fees, are appropriate for the demands on being on the Board of a developing and global technology business, and as benchmarked against market rates for comparable positions for peer companies.

The Board has determined that there will be no increase in Non-Executive Director fees for 2018.

**Remuneration report (Audited) (continued)**

***(a) Principles used to determine the nature and amount of remuneration (continued)***

***Directors remuneration (continued)***

The Executive Chair's fees are determined in parallel to the fees of other Non-Executive Directors, and also based on comparative roles in the external market. The Executive Chairman does not participate in any discussions relating to the determination of his own remuneration.

In view of the growing and developing nature of the company, Non-Executive Directors may also be engaged on specific projects, on commercial arm's length terms, where the executive team either does not have the same skill sets or capacity. All such special purpose project arrangements are approved by the full Board with the relevant Director abstaining.

Directors may receive share options but do not receive other incentives.

ASX listing rules require the aggregate Non-Executive Directors remuneration be determined periodically by a general meeting. The most recent determination on 12 July 2017 was that shareholders approved an aggregate remuneration of USD 767,000 (equivalent of AUD 1,000,000).

***Executive remuneration***

The consolidated entity aims to reward executives with a level and mix of remuneration based on their position and responsibility, which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- Base pay and non-monetary benefits;
- Short-term performance incentives;
- Share-based payments; and
- Other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

As mentioned earlier, executive remuneration levels were considered by reference to a detailed benchmarking review of peer companies undertaken by Mercer Consulting.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, were reviewed by the Remuneration and Nomination Committee based on the Mercer review following the acquisition of the RWL Water Group to form Fluence Corporation Limited. The review also had regard to individual responsibilities, performance and business unit performance.

Executives receive their fixed remuneration in the form of cash or other fringe benefits where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

A short-term incentive ('STI') program is planned to be designed to align the targets of the business units with the targets of those executives responsible for meeting those targets. STI payments may be granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include meeting or exceeding budget goals for the year.

The Board has determined that no discretionary short-term incentives will be payable to Executives in respect of the 2017 year. Discretionary bonuses that were paid during the year for former Emefcy executives related to bonuses earned during 2016. For Henry Charrabé and Philippe Laval, discretionary bonuses paid during the year subsequent to the RWL Water acquisition were in respect of bonuses earned during a prior period as set out in (b) details of remuneration below.

Long-term incentives ('LTI') include share-based payments. An employee option plan was originally approved by shareholders on 17 November 2015. Options are awarded to executives as a long-term incentive and retention incentive measures.

**Remuneration report (Audited) (continued)**

***(a) Principles used to determine the nature and amount of remuneration (continued)***

***Executive remuneration (continued)***

In the first six months of the year:

- Employee options had an exercise price calculated as the five day VWAP up to the date of the option grant, plus 10%.
- For Israeli employees, options commence vesting after twelve months service and are fully vested after three years and expire after four years.
- For non-Israeli employees, options vest 100% after three years and expire after four years.
- To be eligible to exercise performance options, an executive must remain in continuous employment with the company up to and including the exercise date.

Subsequent to the acquisition of RWL Water Group, employee options were issued to former RWL Water employees continuing in the business and below the level of executive at an exercise price of A$0.81 per option. These options vest in equal quarterly instalments on each quarterly anniversary of 14 July 2017 (the deemed option commencement date), until all of these options have vested four years after the deemed option commencement date, except for one tranche of options with an initial vesting date of 14 July 2017 and thereafter quarterly vesting on the first day of each calendar quarter. All of these options will then expire on 10 September 2021.

The Board has subsequently established that the exercise price for employee options will be the 20-day Volume Weighted Average Price up to the grant date, plus a 10% premium.

*Consolidated entity performance and link to remuneration*

The Board has resolved that no discretionary STI bonuses are payable to Executives in respect of the post-acquisition period from 14 July 2017 to 31 December 2017.

The Remuneration and Nomination Committee is of the opinion that otherwise, the adoption of performance based compensation will continue to increase shareholder wealth if maintained over the coming years.

Key management personnel bonuses in the future will be considered by the Remuneration and Nomination Committee and the Board on the basis of both the individual’s and consolidated entity’s performance during the financial year.

Directors consider that the option program and the exercise prices provide incentives to management and Directors which are aligned with the interests of shareholders to lift the value of the company in the medium term. Any remuneration derived by employees from the employee option program is directly linked to the improved share price performance of the consolidated entity relative to the exercise price determined at the time of the issue of the options.

***(b) Details of remuneration***

*Amounts of remuneration (shown in USD)*

The following tables show details of the remuneration expense recognised for the Group's executive key management personnel for the current and previous financial year measured in accordance with the requirements of the accounting standards.

Remuneration for the year ended 31 December 2017 has been split between the period from 1 January 2017 to 13 July 2017 and 14 July 2017 to 31 December 2017, reflecting the material change in the company on acquisition of RWL Water Group.

**Remuneration report (Audited) (continued)**

***(b) Details of remuneration (continued)***

*Amounts of remuneration (shown in USD) (continued)*

Directors and other key management personnel for the period 1 January 2017 to 13 July 2017 consisted of:
• Richard Irving - Executive Chairman
• Eytan Levy - Managing Director and CEO
• Peter Marks - Non-Executive Director
• Robert Wale - Non-Executive Director
• Ross Haghighat - Non-Executive Director
• Ross Kennedy - Company Secretary and Advisor to the Board
• Ronen Shechter - Chief Technology Officer
• Yaron Bar-Tal - Vice President of Engineering
• Lior Zitershpiler - Vice President of Finance
• Illan Wilf - Vice President of Global Sales and Business Development

Directors and other key management personnel for the period 14 July 2017 to 31 December 2017 consisted of:
• Richard Irving - Executive Chairman
• Henry Charrabe - Executive Director and Managing Director
• Eytan Levy - Executive Director (resigned 31 August 2017)
• Peter Marks - Non-Executive Director
• Robert Wale - Non-Executive Director
• Ross Haghighat - Non-Executive Director
• Ramesh Rengarajan - Non-Executive Director
• Arnon Goldfarb - Non-Executive Director
• Ross Kennedy - Company Secretary and Advisor to the Board
• Philippe Laval - Chief Operating Officer
• Robert Wowk - Chief Financial Officer

**Remuneration report (Audited) (continued)**

***(b) Details of remuneration (continued)***

*Amounts of remuneration (shown in USD) (continued)*

| | Short-term benefits | | | | | Post-employment benefits | | Long-term benefits | Share-based payment | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Emefcy 1-1-17 to 13-7-17** | Cash salary and fees | | | | | Superannuation | Long service leave | Equity settled shares | Equity settled options | Total |
| | Standard | Special projects (Note 1) | Total cash salary and fees inclusive of special projects | Bonus (Note 2) | Non-monetary | | | | | |
| | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| **Executive directors:** | | | | | | | | | | |
| Richard Irving | 84,291 | | 84,291 | - | - | - | - | - | - | 84,291 |
| Eytan Levy*** | 154,654 | - | 154,654 | 55,710 | - | 29,405 | - | - | 139,671 | 379,440 |
| **Total** | 238,945 | - | 238,945 | 55,710 | - | 29,405 | - | - | 139,671 | 463,731 |
| **Non-executive directors:** | | | | | | | | | | |
| Peter Marks | 39,877 | | 39,877 | - | - | - | - | - | - | 39,877 |
| Robert Wale | 24,614 | 53,680 | 78,294 | - | - | - | - | - | - | 78,294 |
| Ross Haghighat | 66,362 | | 66,362 | - | - | - | - | - | - | 66,362 |
| **Total** | 130,853 | 53,680 | 184,533 | - | - | - | - | - | - | 184,533 |
| **Other key management personnel:** | | | | | | | | | | |
| Ross Kennedy | 44,478 | 23,006 | 67,484 | - | - | - | - | - | - | 67,484 |
| Ronen Shechter | 105,286 | - | 105,286 | 25,912 | - | 20,677 | - | - | - | 151,875 |

**Fluence Corporation Limited (formerly Emefcy Group Limited)**
**Directors' Report**
**31 December 2017**
(continued)

**Remuneration report (Audited) (continued)**

***(b) Details of remuneration (continued)***

*Amounts of remuneration (shown in USD) (continued)*

| **Emefcy 1-1-17 to 13-7-17** | **Short-term benefits** | | | | | **Post-employment benefits** | | **Long-term benefits** | **Share-based payments** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Cash salary and fees** | | | | | **Superannuation** | **Long service leave** | **Equity settled shares** | **Equity settled options** | **Total** |
| | **Standard** | **Special projects (Note 1)** | **Total cash salary and fees inclusive of special projects** | **Bonus (Note 2)** | **Non-monetary** | | | | | |
| | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| Yaron Bar-Tal | 101,589 | - | 101,589 | 26,323 | - | 16,480 | - | - | 4,875 | 149,267 |
| Lior Zitershpiler | 62,400 | - | 62,400 | 20,565 | - | 10,921 | - | - | 3,250 | 97,136 |
| Ilan Wilf | 94,203 | - | 94,203 | 24,678 | - | 15,779 | - | - | 119,673 | 254,333 |
| **Total** | 407,956 | 23,006 | 430,962 | 97,478 | - | 63,857 | - | - | 127,798 | 720,095 |
| **Grand total** | 777,754 | 76,686 | 854,440 | 153,188 | - | 93,262 | - | - | 267,469 | 1,368,359 |

**Remuneration report (Audited) (continued)**

***(b) Details of remuneration (continued)***

*Amounts of remuneration (shown in USD) (continued)*

| | Short-term benefits | | | | | Post-employment benefits | | Long-term benefits | Share-based payments | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Fluence 14-7-17 to 31-12-17** | Cash salary and fees | | | | | Superannuation | Long service leave | Equity settled shares | Equity settled options | Total |
| | Standard | Special projects (Note 4) | Total cash salary and fees inclusive of special projects | Sign on Bonus and Deferred Remuneration | Non-monetary | | | | | |
| | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| **Executive directors:** | | | | | | | | | | |
| Richard Irving | 88,253 | - | 88,253 | - | - | - | - | - | 36,142 | 124,395 |
| Henry Charrabé (Note 3)** | 335,189 | - | 335,189 | 300,000 | - | 17,795 | - | - | 249,883 | 902,867 |
| **Total** | 423,442 | - | 423,442 | 300,000 | - | 17,795 | - | - | 286,025 | 1,027,262 |
| **Non-executive directors:** | | | | | | | | | | |
| Peter Marks | 52,019 | - | 52,019 | - | - | - | - | - | 26,631 | 78,650 |
| Robert Wale | 42,796 | - | 42,796 | - | - | - | - | - | 79,313 | 122,109 |
| Ross Haghighat | 52,018 | - | 52,018 | - | - | - | - | - | 24,899 | 76,917 |
| Ramesh Rengarajan | 44,688 | - | 44,688 | - | - | - | - | - | 43,574 | 88,262 |
| Arnon Goldfarb | 23,790 | - | 23,790 | - | - | - | - | - | - | 23,790 |
| **Total** | 215,311 | - | 215,311 | - | - | - | - | - | 174,417 | 389,728 |
| **Other key management personnel:** | | | | | | | | | | |
| Ross Kennedy | 42,944 | 76,686 | 119,630 | - | - | - | - | - | 16,415 | 136,045 |

**Remuneration report (Audited) (continued)**

***(b) Details of remuneration (continued)***

*Amounts of remuneration (shown in USD) (continued)*

| Fluence 14-7-17 to 31-12-17 | Short-term benefits | | | | | Post-employment benefits | | Long-term benefits | Share-based payments | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Cash salary and fees | | | | | Superannuation | Long service leave | Equity settled shares | Equity settled options | Total |
| | Standard | Special projects (Note 4) | Total cash salary and fees inclusive of special projects | Bonus | Non-monetary | | | | | |
| | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Phillippe Laval (Note 4)** | 145,833 | - | 145,833 | 50,000 | - | - | - | - | 35,789 | 231,622 |
| Robert Wowk | 206,784 | - | 206,784 | - | - | - | - | - | - | 206,784 |
| **Total** | 395,561 | 76,686 | 472,247 | 50,000 | - | - | - | - | 52,204 | 574,451 |
| **Grand total** | 1,034,314 | 76,686 | 1,111,000 | 350,000 | - | 17,795 | - | - | 512,646 | 1,991,441 |
| **Grand total (1-1-17 to 31-12-17)** | 1,812,068 | 153,372 | 1,965,440 | 503,188 | - | 111,057 | - | - | 780,115 | 3,359,800 |

Note 1 Special Projects for Mr Wale comprised a detailed review of the USA market for MABR wastewater solutions. Special Projects for Mr Kennedy comprised additional work for project managing the acquisition of the RWL Water Group.

Note 2 All bonuses paid to former Emefcy Directors and KMP in 2017 are discretionary bonuses relating to performance in the 2016 year. In respect of KMPs who were former RWL Water employees, the bonuses paid in 2017 relate to the period prior to acquisition.

Note 3 Mr Charrabé received a $150,000 sign on fee for assuming the role of Managing Director & CEO of Fluence Corporation Limited, plus a deferred remuneration payment of $150,000.

Note 4 Special Projects comprised additional work in relation to the integration of Emefcy Group Limited and RWL Water Group.

**Remuneration report (Audited) (continued)**

***(b) Details of remuneration (continued)***

*Amounts of remuneration (shown in USD) (continued)*

***Henry Charrabe and Phillippe Laval's percentage of remuneration subject to performance is 37.6% and 32.3% respectively.*

****Eytan Levy's percentage of 2017 remuneration subject to performance is 0%.*

All other directors have fixed remuneration with no performance hurdles.

**Remuneration report (Audited) (continued)**

***(b) Details of remuneration (continued)***

*Amounts of remuneration (shown in USD) (continued)*

| | Short-term benefits | | | | | Post-employment benefits | | Long-term benefits | Share-based payment | |
|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | Cash salary and fees | | | | | Superannuation | Long service leave | Equity settled shares | Equity settled options | Total |
| | Standard | Special projects* | Total cash salary and fees inclusive of special projects | Bonus | Non-monetary | | | | | |
| | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| **Executive directors:** | | | | | | | | | | |
| Richard Irving | 130,136 | 55,773 | 185,909 | - | - | - | - | - | 77,202 | 263,111 |
| Eytan Levy | 244,591 | - | 244,591 | 114,896 | - | 44,641 | - | - | 186,878 | 591,006 |
| **Total** | 374,727 | 55,773 | 430,500 | 114,896 | - | 44,641 | - | - | 264,080 | 854,117 |
| **Non-executive directors:** | | | | | | | | | | |
| Peter Marks | 60,234 | 44,618 | 104,852 | - | - | - | - | - | 80,045 | 184,897 |
| Phillip Hains | 11,164 | - | 11,164 | - | - | - | - | - | - | 11,164 |
| Robert Wale | 22,544 | 15,029 | 37,573 | - | - | - | - | - | 69,366 | 106,939 |
| Ross Haghighat | 74,586 | 55,773 | 130,359 | - | - | - | - | - | 77,202 | 207,561 |
| **Total** | 168,528 | 115,420 | 283,948 | - | - | - | - | - | 226,613 | 510,561 |
| **Other key management personnel:** | | | | | | | | | | |
| Ross Kennedy | 59,863 | 7,436 | 67,299 | 7,436 | - | - | - | - | 4,538 | 79,273 |
| Ronen Shechter | 172,089 | - | 172,089 | 24,606 | - | 30,709 | - | - | - | 227,404 |

**Remuneration report (Audited) (continued)**

***(b) Details of remuneration (continued)***

*Amounts of remuneration (shown in USD) (continued)*

| 2016 | Short-term benefits | | | | | Post-employment benefits | | Long-term benefits | Share-based payments | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Cash salary and fees | | | | | Superannuation | Long service leave | Equity settled shares | Equity settled options | Total |
| | Standard | Special projects* | Total cash salary and fees inclusive of special projects | Bonus | Non-monetary | | | | | |
| | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Yaron Bar-Tal | 162,771 | - | 162,771 | 24,996 | - | 24,347 | - | - | 14,781 | 226,895 |
| Lior Zitershpiler | 92,478 | - | 92,478 | 23,131 | - | 15,560 | - | - | 9,854 | 141,023 |
| Ilan Wilf | 93,526 | - | 93,526 | 23,522 | - | 13,710 | - | - | 84,308 | 215,066 |
| **Total** | 580,727 | 7,436 | 588,163 | 103,691 | - | 84,326 | - | - | 113,481 | 889,661 |
| **Grand total** | 1,123,982 | 178,629 | 1,302,611 | 218,587 | - | 128,967 | - | - | 604,174 | 2,254,339 |

**Short-term cash salary and fee remuneration, classified as ‘special projects,’ comprises remuneration paid to KMP’s in relation to one-off, ad hoc projects throughout the year. Such remuneration is not expected to re-occur in the future.*

*Bonuses paid in the 2016 financial year were discretionary bonuses approved by the Board relating to corporate and operating performance.*

**Remuneration report (Audited) (continued)**

***(b) Details of remuneration (continued)***

*Issue of shares*

The number of shares in the Group held during the period by each Director and other Key Management Personnel, including their personally related parties, are set out below.

| 2017 | Balance at the start of the year | Received as compensation | Options exercised | Net change other | Total |
|---|---|---|---|---|---|
| ***Executive Directors*** | | | | | |
| Richard Irving - *see Note 1 below* | 28,944,080 | - | - | 7,320,499 | 36,264,579 |
| Henry Charrebe (appointed 14 July 2017) | - | - | - | - | - |
| Eytan Levy (resigned 31 August 2017) - *see Note 2 below* | 9,267,810 | - | - | (9,267,810) | - |
| | **38,211,890** | **-** | **-** | **(1,947,311)** | **36,264,579** |
| ***Non-Executive Directors*** | | | | | |
| Peter Marks | 1,854,403 | - | 400,000 | - | 2,254,403 |
| Robert Wale | - | - | - | - | - |
| Ross Haghighat | - | - | - | - | - |
| Ramesh Rengarajan (appointed 14 July 2017) | - | - | - | - | - |
| Arnon Goldfarb (appointed 19 September 2017) | - | - | - | - | - |
| | **1,854,403** | **-** | **400,000** | **-** | **2,254,403** |
| ***Key Management Personnel*** | | | | | |
| Ross Kennedy | 210,000 | - | - | - | 210,000 |
| Ronen Shechther (1 January 2017 through 14 July 2017) - *see Note 2 below* | 9,267,810 | - | - | (9,267,810) | - |
| Yaron Bar-Tal (1 January 2017 through 14 July 2017) - *see Note 2 below* | 782,149 | - | - | (782,149) | - |
| Lior Zitershpiler (1 January 2017 through 14 July 2017) - *see Note 2 below* | 325,896 | - | - | (325,896) | - |
| Ilan Wilf (1 January 2017 through 14 July 2017) | - | - | - | - | - |
| Phillip Laval (Since 14 July 2017) | - | - | - | - | - |
| Robert Wowk (Since 14 July 2017) | - | - | - | - | - |
| | **10,585,855** | **-** | **-** | **(10,375,855)** | **210,000** |
| **Total** | **50,652,148** | **-** | **400,000** | **(12,323,166)** | **38,728,982** |

Note 1 Richard Irving has an indirect interest through Pond Venture Nominees III Limited. During the year, Pond Venture Nominees III Limited was allotted 7,320,499 additional shares in the Group as deferred consideration for the achievement of a Second Milestone as defined in the original 2015 Emefcy Ltd sale agreement.

Note 2 A negative adjustment is shown where the person ceased to be a director or KMP during the year.

**Remuneration report (Audited) (continued)**

***(b) Details of remuneration (continued)***

*Issue of shares (continued)*

| 2016 | Balance at the start of the year | Received as compensation | Options exercised | Net change other | Total |
|---|---|---|---|---|---|
| ***Directors*** | | | | | |
| Peter Marks | 1,547,052 | - | 307,351 | - | 1,854,403 |
| Phillip Hains (resigned 5 April 2016) - *see Note 1 below* | 468,111 | - | - | (468,111) | - |
| Robert Wale (appointed 5 April 2016) | - | - | - | - | - |
| Ross Haghighat | - | - | - | - | - |
| | **2,015,163** | **-** | **307,351** | **(468,111)** | **1,854,403** |
| ***Executive directors*** | | | | | |
| Richard Irving - *see Note 2 below* | 21,629,388 | - | - | 7,314,692 | 28,944,080 |
| Eytan Levy - *see Note 2 below* | 6,409,416 | - | - | 2,858,394 | 9,267,810 |
| | **28,038,804** | **-** | **-** | **10,173,086** | **38,211,890** |
| Ross Kennedy | 210,000 | - | - | - | 210,000 |
| Ronen Schechter - *see Note 2 below* | 6,409,416 | - | - | 2,858,394 | 9,267,810 |
| Yaron Bar-Tal - *see Note 2 below* | 269,183 | - | - | 512,966 | 782,149 |
| Lior Zitershpiler - *see Note 2 below* | 224,319 | - | - | 101,577 | 325,896 |
| Ilan Wilf | - | - | - | - | - |
| | **7,112,918** | **-** | **-** | **3,472,937** | **10,585,855** |
| **Total** | **37,166,885** | **-** | **307,351** | **13,177,912** | **50,652,148** |

Note 1 A negative adjustment is shown where the person ceased to be a director or KMP during the year.

Note 2 Additional shares allotted as deferred consideration for the achievement of the First Milestone as defined in the original 2015 Emefcy Ltd sale agreement.

**Remuneration report (Audited) (continued)**

***(b) Details of remuneration (continued)***

*Issue of options*

The number of options over ordinary shares in the Group held during the period by each Director and other Key Management Personnel, including their personally related parties, are set out below. An Employee Option Plan was approved by shareholders on 17 November 2015. Refer to description of Long Term Incentives under executive remuneration for details.

| **2017** | **Balance at start of year** | **Granted as compensation** | **Option expired / exercised** | **Net change other** | **Balance at end of year** | **Vested & Exercisable*** | **Escrowed / Unvested** |
|---|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | | |
| Richard Irving | 1,000,000 | 1,900,000 | - | - | 2,900,000 | 1,000,000 | 1,900,000 |
| Henry Charrabe (Since 14 July 2017) | - | 11,191,336 | - | - | 11,191,336 | 699,458 | 10,491,878 |
| Eytan Levy (resigned 31 August 2017) | 4,000,000 | 1,000,000 | - | (5,000,000) | - | - | - |
| | **5,000,000** | **14,091,336** | **-** | **(5,000,000)** | **14,091,336** | **1,699,458** | **12,391,878** |
| **Directors** | | | | | | | |
| Peter Marks | 1,400,000 | 1,400,000 | (400,000) | - | 2,400,000 | 1,000,000 | 1,400,000 |
| Robert Wale | 500,000 | 1,500,000 | - | - | 2,000,000 | 250,000 | 1,750,000 |
| Ross Haghighat | 1,000,000 | 1,400,000 | - | - | 2,400,000 | 1,000,000 | 1,400,000 |
| Ramesh Rangarajan (Since 14 July 2017) | - | 1,500,000 | - | - | 1,500,000 | - | 1,500,000 |
| | **2,900,000** | **5,800,000** | **(400,000)** | **-** | **8,300,000** | **2,250,000** | **6,050,000** |
| **Key Management Personnel** | | | | | | | |
| Ross Kennedy | 200,000 | 500,000 | - | - | 700,000 | - | 700,000 |
| Ronen Shechter (1 January 2017 through 14 July 2017) | - | - | - | - | - | - | - |
| Yaron Bar-Tal (1 January 2017 through 14 July 2017) | 265,768 | - | - | (265,768) | - | - | - |
| Lior Zitershpiler (1 January 2017 through 14 July 2017) | 177,178 | - | - | (177,178) | - | - | - |
| Ilan Wilf (1 January 2017 through 14 July 2017) | 1,500,000 | - | - | (1,500,000) | - | - | - |

**Remuneration report (Audited) (continued)**

***(b) Details of remuneration (continued)***

*Issue of options (continued)*

| 2017 | Balance at start of year | Granted as compensation | Option expired / exercised | Net change other | Balance at end of year | Vested & Exercisable* | Escrowed / Unvested |
|---|---|---|---|---|---|---|---|
| Philippe Laval (Since 14 July 2017) | - | 1,500,000 | - | - | 1,500,000 | 93,750 | 1,406,250 |
| Robert Wowk (Since 14 July 2017) | - | - | - | - | - | - | - |
| | **2,142,946** | **2,000,000** | **-** | **(1,942,946)** | **2,200,000** | **93,750** | **2,106,250** |
| **Total** | **10,042,946** | **21,891,336** | **(400,000)** | **(6,942,946)** | **24,591,336** | **4,043,208** | **20,548,128** |

**Remuneration report (Audited) (continued)**

***(b) Details of remuneration (continued)***

*Issue of options (continued)*

| 2016 | Balance at start of year | Granted as compensation | Option Expired | Net change other | Balance at end of year | Vested & Exercisable* | Escrowed / Unvested |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Peter Marks | 1,707,351 | - | - | (307,351) | 1,400,000 | 1,400,000 | - |
| Phillip Hains (resigned 5 April 2016) | 326,870 | - | - | (326,870) | - | - | - |
| Robert Wale (appointed 5 April 2016) | - | 500,000 | - | - | 500,000 | - | 500,000 |
| Ross Haghighat | 1,000,000 | - | - | - | 1,000,000 | 1,000,000 | - |
| Richard Irving | 1,000,000 | - | - | - | 1,000,000 | 1,000,000 | - |
| Eytan Levy | 4,000,000 | - | - | - | 4,000,000 | 1,000,000 | 3,000,000 |
| | **8,034,221** | **500,000** | **-** | **(634,221)** | **7,900,000** | **4,400,000** | **3,500,000** |
| **Key Management Personnel** | | | | | | | |
| Ross Kennedy | 200,000 | - | - | - | 200,000 | - | 200,000 |
| Ronen Shechter | - | - | - | - | - | - | - |
| Yaron Bar-Tal | 265,768 | - | - | - | 265,768 | 88,584 | 177,184 |
| Lior Zitershpiler | 177,178 | - | - | - | 177,178 | 59,090 | 118,088 |
| Ilan Wilf | - | 1,500,000 | - | - | 1,500,000 | - | 1,500,000 |
| | **642,946** | **1,500,000** | **-** | **-** | **2,142,946** | **147,674** | **1,995,272** |
| **Total** | **8,677,167** | **2,000,000** | **-** | **(634,221)** | **10,042,946** | **4,547,674** | **5,495,272** |

*Options vested and exercisable as at 31 December

**Remuneration report (Audited) (continued)**

***(b) Details of remuneration (continued)***

*Share-based payments granted as compensation during the year*

For the period, options were issued to directors as approved by shareholders and to Key Management Personnel under the Fluence Corporation Limited Employee Share Option Plan amended (2017). In accordance with AASB 2 Share Based Payments IGI 4, the tables include employee options agreed to be issued up to and including 31 December 2017, even though for registration with Israeli tax authorities and other reasons, they may not have been formally granted as at 31 December 2017. Key Management Personnel options vest subject to the employee continuing to be employed by the Group at the vesting date.

Details of options granted to directors and other key management personnel as compensation during the reporting period are as follows:

No share based payments were made during the period 1 January 2017 to 13 July 2017.

**Remuneration report (Audited) (continued)**

***(b) Details of remuneration (continued)***

***Share-based payments granted as compensation during the year (continued)***

| Fluence 14-7-17 to 31-12-17 | Grant date | No. of options granted | No. of options vested | Fair value per option at grant date | Exercise price | Expiry date | Value of options at grant date |
|---|---|---|---|---|---|---|---|
| | | | | US$ | AU$ | | US$ |
| **Executive directors** | | | | | | | |
| Richard Irving | 14 July 2017 | 950,000 | - | 0.1809 | 1.20 | 13 July 2021 | 171,860 |
| | 14 July 2017 | 950,000 | - | 0.1458 | 1.50 | 13 July 2021 | 138,533 |
| Henry Charrabe | 31 May 2017 | 5,595,664 | 670,314 | 0.3202 | 0.93 | 25 May 2025 | 1,791,760 |
| | 31 May 2017 | 5,595,664 | - | 0.2418 | 0.93 | 25 May 2025 | 1,353,072 |
| **Non-executive directors** | | | | | | | |
| Peter Marks | 14 July 2017 | 700,000 | - | 0.1809 | 1.20 | 13 July 2021 | 126,633 |
| | 14 July 2017 | 700,000 | - | 0.1458 | 1.50 | 13 July 2021 | 102,077 |
| Robert Wale | 14 July 2017 | 750,000 | - | 0.1809 | 1.20 | 13 July 2021 | 135,679 |
| | 14 July 2017 | 750,000 | - | 0.1458 | 1.50 | 13 July 2021 | 109,368 |
| Ross Haghighat | 14 July 2017 | 700,000 | - | 0.1809 | 1.20 | 13 July 2021 | 126,633 |
| | 14 July 2017 | 700,000 | - | 0.1458 | 1.50 | 13 July 2021 | 102,077 |
| Ramesh Rengarajan (Appointed 14 July 2017) | 14 July 2017 | 1,500,000 | - | 0.2495 | 0.835 | 13 July 2021 | 374,220 |
| Arnon Goldfarb (Appointed 19 September 2017) | - | - | - | - | - | - | - |
| **Key Management Personnel** | | | | | | | |
| Philippe Laval | 31 May 2017 | 750,000 | 89,844 | 0.3346 | 0.85 | 25 May 2025 | 250,966 |
| | 31 May 2017 | 750,000 | - | 0.2596 | 0.85 | 25 May 2025 | 194,676 |

**Remuneration report (Audited) (continued)**

***(b) Details of remuneration (continued)***

***Share-based payments granted as compensation during the year (continued)***

| | Grant date | No. of options granted | No. of options vested | Fair value per option at grant date | Exercise price | Expiry date | Value of options at grant date |
|---|---|---|---|---|---|---|---|
| | | | | US$ | AU$ | | US$ |
| Robert Wowk | - | - | - | - | - | - | - |
| Ross Kennedy | 14 July 2017 | 250,000 | - | 0.1809 | 1.20 | 13 July 2021 | 45,226 |
| | 14 July 2017 | 250,000 | - | 0.1458 | 1.50 | 13 July 2021 | 36,456 |

For the prior year ended 31 December 2016, options were issued to directors as part of the director remuneration packages, and as the Group was in the early stages of restructuring, there are no performance conditions associated with these options.

Details of options granted to directors and other key management personnel as compensation during the prior financial year are as follows:

**Remuneration report (Audited) (continued)**

***(b) Details of remuneration (continued)***

***Share-based payments granted as compensation during the year (continued)***

| 2016 | Grant date | No. of options granted | No. of options vested | Fair value per option at grant date | Exercise price | Expiry date | Value of options at grant date |
|---|---|---|---|---|---|---|---|
| | | | | US$ | AU$ | | US$ |
| **Non-Executive Directors** | | | | | | | |
| Peter Marks | - | - | - | - | - | - | - |
| Phillip Hains (resigned 5 April 2016) | - | - | - | - | - | - | - |
| Robert Wale (appointed 5 April 2016) | 11 April 2016 | 500,000 | - | 0.2592 | 250,000 AU0.35 | 13 April 2020 | 64,795 |
| | - | - | - | 0.2592 | 250,000 AU0.35 | 13 April 2020 | 64,795 |
| **Ross Haghighat** | - | - | - | - | - | - | - |
| **Executive Directors** | | | | | | | |
| Richard Irving | - | - | - | - | - | - | - |
| Eytan Levy | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - |
| **Key Management Personnel** | | | | | | | |
| Ross Kennedy | - | - | - | - | - | - | - |
| Ronen Shechter | - | - | - | - | - | - | - |
| Yaron Bar-Tal | - | - | - | - | - | - | - |
| Lior Zitershpiler | - | - | - | - | - | - | - |
| Ilan Wilf | 15 June 2016 | 1,000,000 | - | 0.3881 | AU0.93 | 31 May 2020 | 388,124 |
| | 1 November 2016 | 500,000 | - | 0.5344 | AU0.74 | 31 Oct 2019 | 267,193 |

## Remuneration report (Audited) (continued)

### *Service agreements*

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

**Name:** Richard Irving
**Title:** Executive Chairman
**Agreement commenced:** December 18, 2015. Mr Irving was previously Non-Executive Chairman of Emefcy Limited Israel.
**Term of agreement:** Open
**Details:** Remuneration for the year ending 31 December 2017 comprised AU$100,000 to 13 July 2017 and AU$125,000 fees from 14 July 2017 to 31 December 2017 as Executive Chairman. Remuneration is reviewed annually by the Remuneration and Nomination Committee.

**Name:** Eytan Levy (resigned 31 August 2017)
**Title:** Managing Director and Chief Executive Officer
**Agreement commenced:** December 18, 2015. Mr Levy joined Emefcy Limited Israel in November 15, 2007.
**Details:** Remuneration paid for the period 1 January 2017 to 31 August 2017 was $239,769.

**Name:** Ross Haghighat
**Title:** Non-Executive Director
**Agreement commenced:** December 18 2015
**Term of agreement:** Open
**Details:** Non-executive Director fees of US$64,200 to 13 July 2017 and US$73,000 fees from 14 July to 31 December 2017 (including Committee fees). Remuneration is reviewed annually by the Remuneration and Nomination Committee.

**Name:** Peter Marks
**Title:** Non-Executive Director
**Agreement commenced:** May 12 2015
**Term of agreement:** Open
**Details:** Non-Executive Director fees of AU$32,097 fees to 13 July 2017 and AU$67,833 fees from 14 July 2017 to 31 December 2017 (including Committee fees). Remuneration is reviewed annually by the Remuneration and Nomination Committee.

**Name:** Robert Wale
**Title:** Non-Executive Director
**Agreement commenced:** April 5 2016
**Term of agreement:** Open
**Details:** Non-Executive Director fees of AU$32,097 fees to 13 July 2017 and AU$55,806 fees from 14 July 2017 to 31 December 2017. Mr. Wale's consulting firm was engaged in a special purpose project and received additional fees of AU$70,000 for the period 1 January 2017 to 31 August 2017. Remuneration is reviewed annually by the Remuneration and Nomination Committee.

**Name:** Dr. Rengarajan Ramesh
**Title:** Non-executive Director
**Agreement commenced:** July 14 2017
**Term of agreement:** Open
**Details:** Non-executive director fees of AU$120,000 per annum. Remuneration is to be reviewed annually by the Remuneration and Nomination Committee.

**Remuneration report (Audited) (continued)**

***Service agreements (continued)***

**Name:** Arnon Goldfarb
**Title:** Non-executive Director
**Agreement commenced:** September 19 2017
**Term of agreement:** Open
**Details:** Non-executive director fees of AU$120,000 per annum. Remuneration is to be reviewed annually by the Remuneration and Nomination Committee.

**Name:** Henry Charrabé
**Title:** Managing Director and Chief Executive Officer
**Agreement commenced:** May 26 2017
**Term of agreement:** Initial two year term followed by automatic one year renewals.
**Details of remuneration:**

| | **Cash salary and fees** | **Bonuses and deferred remuneration** | **Other Benefits** |
|---|---|---|---|
| **Henry Charrabé** | US$600,000 (base salary) | US$150,000 (one-off sign-on fee). | Health insurance and other health and welfare benefits for Mr. Charrabé and his family (capped at 30% of base salary). |
| | | US$150,000 (one-off guaranteed minimum deferred remuneration for 2017). | Housing allowance of US$170,000 per annum. |
| | | US$300,000 (year-end deferred remuneration annually commencing 2018). | |
| | | Discretionary bonus in the target amount of US$75,000, to be paid annually (based on performance metrics set by the Board). | |
| | | A cash bonus of up to 100% of base salary for outperformance on one or more of his performance metrics, measured annually. | |

**Remuneration report (Audited) (continued)**

***Service agreements (continued)***

**Employment Based Option Remuneration:**

| Number of options granted | Grant date | Option Value at Grant Date | Exercise Price | Vesting Period |
|---|---|---|---|---|
| 5,595,668 | May 31 2017 | AU$0.93 (closing market price of then Emefcy ordinary shares on the ASX on grant date). | AU$0.93 | Options will vest and become exercisable in equal instalments at the end of each consecutive three (3) month period over four (4) years, commencing on May 26, 2017 (Share Purchase Agreement signing date). |

**Performance Based Option Remuneration**

| Number of options granted | Grant date | Option Value at Grant Date | Exercise Price | Vesting Period |
|---|---|---|---|---|
| 5,595,668 | May 31 2017 | AU$0.93 (closing market price of then Emefcy ordinary shares on the ASX on grant date). | AU$0.93 | Options are exercisable in equal annual instalments at the end of each consecutive twelve (12)-month period over a four (4)-year period commencing on the SPA Signing Date.<br><br>Vesting of these options will be subject to meeting performance criteria established by the Board. |

If there is a change in control of the Company, however, all of the then unvested options will immediately vest and become exercisable. In addition, all of the options will expire on the earlier of 60 days after termination of Mr Charrabé’s employment and the 8th anniversary of the SPA Signing Date.

**Remuneration report (Audited) (continued)**

***Service agreements (continued)***

**Notice Periods and Termination Payments**

The table below sets out the different types of termination benefits that Mr Charrabé will receive following different types of employment termination events.

| **Description of benefit** | **Termination events** | | | |
|---|---|---|---|---|
| | **Termination for Cause** | **Termination with Good Reason** | **Termination without Cause or as a result of death or disability** | **Resignation without Good Reason** |
| | **Applicable Notice Periods** | | | |
| | **30 days' notice** | **90 days' notice (with further 30 day cure period)** | **90 days' notice - termination without cause**<br><br>**30 days upon determining disability; and immediate termination upon death** | **90 days' notice** |
| **Health insurance plan and other health and welfare benefits; annual housing allowance; and base salary** | Payable only to termination date | Will continue to receive for the Severance Period. | Will continue to receive for the Severance Period. | Payable for one year after resignation if he complies with his non-competition obligation during this period, except for the housing allowance which is payable only to termination date. |
| **Year-end deferred remuneration commencing in 2018; and annual discretionary bonus** | No entitlement. | If terminated in 2018 or later, will receive a pro-rated payment based on the part of the year that he was employed. | If terminated in 2018 or later, will receive a pro-rated payment based on the part of the year that he was employed. | No entitlement. |
| **11,191,336 options** | All unvested options will lapse on termination of employment. | The options that would have vested during the Severance Period will vest at termination, and performance criteria won't apply. | If death or disability, all unvested options immediately vest; if termination without Cause, the options that would have vested during the Severance Period will vest at termination; in each case, performance criteria won't apply. | All unvested options will lapse on termination of employment. |

**Remuneration report (Audited) (continued)**

***Service agreements (continued)***

The Severance Period referred to in the table above means, if terminated during the initial two year term of his employment, the period from his termination through the remainder of the term plus 12 months, and, if terminated after the end of the initial two year term, the 12 month period following termination.

| | |
|---|---|
| **Name:** | Phillippe Laval |
| **Title:** | Chief Operating Officer |
| **Agreement commenced:** | 1 August 2017 (under a consulting agreement between Astaris SAS and Fluence) |
| **Term of agreement:** | August 1 2017 for an initial two year term (the Consulting Term), which may be extended or renewed at the end of the Consulting Term unless Fluence or Astaris SAS gives 90 days' written notice of termination, or gives notice of termination for cause. The agreement may also be terminated on the disability of Phillippe Laval, or his death. |
| **Details:** | Astaris SAS is entitled to receive a US$350,000 annual consulting fee and a US$100,000 annual bonus. Astaris SAS is also entitled to receive a discretionary bonus at the discretion of the CEO based on performance metrics established by the CEO. No target amount is set for the discretionary bonus.<br>Astaris SAS was granted 1,500,000 options, with each option exercisable for one ordinary share in Fluence upon payment of the exercise price of A$0.85. Half of these options vest every three (3) months over four (4) years, while the other half vest in annual instalments over 4 years based on achieving performance criteria. All options (whether vested or unvested) will expire at the earlier of 60 days after any termination of the consulting relationship (unless determined otherwise by the Board) or 5 pm (Australian AEST) on the eighth (8th) anniversary of the SPA Signing Date. |

**Details of Remuneration:**

| **Bonuses and deferred remuneration** | **Cash salary and fees** | **Bonuses and deferred remuneration** | **Other Benefits** |
|---|---|---|---|
| Philippe Laval | US$350,000 (annual consulting fee) | US$100,000 (deferred remuneration payment) | - |
| - | - | Discretionary bonus (at the discretion of the CEO based on performance metrics set by the CEO - no target amount) | - |
| - | - | a cash bonus of up to 100% of the annual consulting fee for out performance on one or more of his performance metrics, measured annually. | - |

**Employment Based Option Remuneration**

| **Number of options granted** | **Grant date** | **Option Value at Grant Date** | **Exercise Price** | **Vesting Period** |
|---|---|---|---|---|
| 750,000 | 31 May 2017 | AU$0.4503 | AU$0.85 | Options will vest every three (3) months over four (4) years. |

**Remuneration report (Audited) (continued)**

***Service agreements (continued)***

**Performance Based Option Remuneration**

| Number of options granted | Grant date | Option Value at Grant Date | Exercise Price | Vesting Period |
|---|---|---|---|---|
| 750,000 | 31 May 2017 | AU$0.3493 | AU$0.85 | Options will vest in annual instalments over four (4) years based on achieving performance criteria. |

All options (whether vested or unvested) will expire at the earlier of 60 days after any termination of the consulting relationship (unless determined otherwise by the Board) or 5 pm (Australian AEST) on the eighth (8th) anniversary of the SPA Signing Date.

**Notice Periods and Termination Payments**

The table below sets out the different types of termination benefits that Astaris SAS **(Consultant)** will receive following different types of consultation termination events.

**Remuneration report (Audited) (continued)**

***Service agreements (continued)***

| **Description of benefit** | **Termination events** | | | |
|---|---|---|---|---|
| | **Termination for Cause** | **Termination without Cause or due to a Material Breach** | **Termination by reason of Philippe Laval's death or disability** | **Terminated by the Consultant other than for a Material Breach** |
| | **Applicable Notice Periods** | | | |
| | **No notice period** | **90 days' notice (with a 30 day cure period in the case of Material Breach)** | **Immediate termination upon death**<br><br>**Termination on determining disability after 90 consecutive days or a total of 120 days in any 12 month period** | **90 days' notice** |
| **Annual Consulting Fee** | Any accrued and unpaid Annual Consulting Fees to the termination date. | Annual Consulting Fees accrued and unpaid to the termination date, and for the Severance Period at the rate in effect immediately prior to the termination date. | Any accrued and unpaid Annual Consulting Fees to the termination date. | Any accrued and unpaid Annual Consulting Fees to the termination date. |
| **Deferred remuneration; and Discretionary Bonus (based on performance metrics)** | Payable only if earned but unpaid as of the termination date. | Deferred remuneration earned but unpaid as of the termination date, and a pro-rated bonus based on the part of the year elapsed to the termination date.<br><br>Payment of earned but unpaid Discretionary Bonuses will be as above, but based on applicable performance metrics. | Payable only if earned but unpaid as of the termination date. | Payable only if earned but unpaid as of the termination date. |
| **1,500,000 options** | All unvested options will lapse on termination of employment. | The options that would have vested during the Severance Period will vest at termination, and performance criteria won't apply. | All unvested options immediately vest. | All unvested options will lapse on termination of engagement. |

**Remuneration report (Audited) (continued)**

***Service agreements (continued)***

The Severance Period referred to in the table above means, if terminated during the initial two year term of the engagement, the period from the termination through the remainder of the term plus 6 months, and, if terminated after the end of the initial two year term, the 6 month period following termination.

| | |
|---|---|
| **Name:** | Ross Kennedy |
| **Title:** | Company Secretary & Advisor to the Board |
| **Agreement commenced:** | December 24 2015 |
| **Term of agreement:** | Notice period by either party of 60 days. |
| **Details:** | Mr Kennedy received fees through a private consulting company Milvian Bridge Pty Ltd of A$23,000 per month from I January 2017 to 31 August 2017, inclusive of special project fees, and A$14,000 per month from 1 September 2017 onwards. In addition, Milvian Bridge also received fees totaling A$82,823 for consulting services provided by another consultant. |

| | |
|---|---|
| **Name:** | Ronen Shechter |
| **Title:** | Chief Technology Officer, Emefcy Limited |
| **Agreement commenced:** | Mr Shechter joined Emefcy Limited Israel in November 15, 2007 |
| **Term of agreement:** | Notice period by either party of 90 Days |
| **Details:** | Mr Shechter ceased to be a Key Management Person from 14 July 2017. Remuneration paid for the period 1 January 2017 to 14 July 2017 was $151,875. |

| | |
|---|---|
| **Name:** | Yaron Bar-Tal |
| **Title:** | Vice President of Engineering, Emefcy Limited |
| **Agreement commenced:** | Mr Bar-Tal joined Emefcy Limited Israel in May 8, 2013 |
| **Term of agreement:** | Notice period by either party of 90 Days |
| **Details:** | Mr Bar-Tal ceased to be a Key Management Person from 14 July 2017. Remuneration paid for the period 1 January 2017 to 14 July 2017 was $144,392. |

| | |
|---|---|
| **Name:** | Lior Zitershpiler |
| **Title:** | Vice President of Finance |
| **Agreement commenced:** | Mr Zitershpiler joined Emefcy Limited Israel in March 16, 2014 |
| **Term of agreement:** | Notice period by either party of 30 Days |
| **Details:** | Mr Zitershpiler ceased to be a Key Management Person from 14 July 2017. Remuneration paid for the period 1 January 2017 to 14 July 2017 was $93,866. |

| | |
|---|---|
| **Name:** | Ilan Wilf |
| **Title:** | Vice President of Global Sales and Business Development, Emefcy Limited |
| **Agreement commenced:** | Mr Ilan Wilf joined Emefcy Limited Israel in May 30, 2016 |
| **Term of agreement:** | Notice period by either party of 60 Days |
| **Details:** | Mr Wilf ceased to be a Key Management Person from 14 July 2017. Remuneration paid for the period 1 January 2017 to 14 July 2017 was $134,660. |

The 2016 Remuneration Report was approved by shareholders at the 2017 Annual General Meeting.

**[This concludes the Remuneration Report, which has been audited]**

## Shares under option

### *Unissued ordinary shares*

Unissued ordinary shares of Fluence Corporation Limited (formerly Emefcy Group Limited) under option at the date of this report are as follows:

| Date options granted | Expiry date | Issue price of shares | Number under option |
|---|---|---|---|
| 18 December 2015 | 18 December 2018 | AU 30 cents | 2,500,000 |
| 18 December 2015 | 18 December 2019 | AU 40 cents | 2,500,000 |
| 28 January 2016 | 31 July 2018 | AU 30 cents | 1,940,000 |
| 28 January 2016 | 31 January 2019 | AU 40 cents | 1,940,000 |
| 11 April 2016 | 13 April 2020 | AU 35 cents | 500,000 |
| 29 February 2016 | 23 December 2019 | AU 30 cents | 431,473 |
| 29 February 2016 | 23 December 2019 | AU 40 cents | 431,473 |
| 29 February 2016 | 28 February 2020 | AU 30 cents | 100,000 |
| 29 February 2016 | 28 February 2020 | AU 40 cents | 100,000 |
| 23 March 2016 | 23 March 2020 | AU 30 cents | 75,000 |
| 23 March 2016 | 23 March 2020 | AU 40 cents | 75,000 |
| 23 March 2016 | 12 April 2020 | AU 30 cents | 50,000 |
| 23 March 2016 | 12 April 2020 | AU 40 cents | 50,000 |
| 17 May 2016 | 16 May 2020 | AU 59 cents | 400,000 |
| 17 May 2016 | 28 May 2020 | AU 59 cents | 100,000 |
| 18 May 2016 | 18 May 2020 | AU 40 cents | 1,000,000 |
| 18 May 2016 | 18 May 2021 | AU 40 cents | 1,000,000 |
| 15 June 2016 | 31 May 2020 | AU 93 cents | 1,000,000 |
| 25 July 2016 | 31 July 2018 | AU 64 cents | 500,000 |
| 25 July 2016 | 25 July 2020 | AU 79 cents | 250,000 |
| 25 August 2016 | 25 August 2020 | AU 87 cents | 325,000 |
| 23 September 2016 | 25 September 2020 | AU 1.00 dollar | 200,000 |
| 27 October 2016 | 26 October 2020 | AU 1.07 dollars | 350,000 |
| 1 November 2016 | 31 October 2020 | AU 74 cents | 500,000 |
| 23 September 2016 | 9 November 2020 | AU 1.00 dollar | 200,000 |
| 9 February 2017 | 9 February 2021 | AU 1.00 dollar | 350,000 |
| 20 December 2016 | 20 December 2020 | AU 87 cents | 75,000 |
| 9 February 2017 | 10 January 2021 | AU 84 cents | 25,000 |
| 28 March 2017 | 4 March 2021 | AU 82 cents | 1,000,000 |
| 8 March 2017 | 31 March 2019 | AU 72 cents | 2,000,000 |
| 8 March 2017 | 31 March 2019 | AU 72 cents | 1,000,000 |
| 5 May 2017 | 3 May 2021 | AU 86 cents | 175,000 |
| 31 May 2017 | 25 May 2025 | AU 93 cents | 11,191,336 |
| 31 May 2017 | 25 May 2025 | AU 85 cents | 1,500,000 |
| 14 July 2017 | 13 July 2021 | AU 1.20 dollars | 3,850,000 |
| 14 July 2017 | 13 July 2021 | AU 1.50 dollars | 3,850,000 |
| 14 July 2017 | 13 July 2021 | AU 84 cents | 1,500,000 |
| 14 July 2017 | 25 May 2025 | AU 84 cents | 350,000 |
| 19 July 2017 | 14 July 2019 | AU 0.72 cents | 300,000 |
| 1 July 2017 | 6 July 2021 | AU 97 cents | 100,000 |
| 7 September 2017 | 30 September 2019 | AU 75 cents | 750,000 |
| 14 September 2017 | 13 November 2021 | AU 86 cents | 1,140,000 |
| 19 September 2017 | 31 December 2020 | AU 95 cents | 1,500,000 |
| 19 September 2017 | 31 December 2020 | AU 1.10 dollars | 1,000,000 |
| 14 July 2017 | 10 September 2021 | AU 81 cents | 4,604,000 |
| | | | **52,778,282** |

**Insurance of officers and indemnities**

***(a) Insurance of officers***

The Group has indemnified the Directors and executives of the Group for costs incurred, in their capacity as a Director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Group paid a premium in respect of a contract to insure the Directors and executives of the Group against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

***(b) Indemnity of auditors***

The Group has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Group or any related entity against a liability incurred by the auditor.

During the financial year, the Group has not paid a premium in respect of a contract to insure the auditor of the Group or any related entity.

**Proceedings on behalf of the group**

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

**Non-audit services**

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out in Note 23 in the financial statements.

The board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants.*

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 45.

**Rounding of amounts**

The amounts contained in the directors’ report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors’ Report) Legislative Instrument 2016/191. The Company is an entity in which the Legislative Instrument applies.

**Corporate Governance Statement**

In accordance with ASX listing Rule 4.10.3, the Group’s Corporate Governance Statements can be found on its website https://www.fluencecorp.com/investor-news/.

For and on behalf of the Directors

Henry Charrabé
Managing Director & CEO
29 March 2018
New York

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**DECLARATION OF INDEPENDENCE BY DAVID GARVEY TO THE DIRECTORS OF FLUENCE CORPORATION LIMITED**

As lead auditor of Fluence Corporation Limited for the year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Fluence Corporation Limited and the entities it controlled during the period.

David Garvey
Partner

**BDO East Coast Partnership**

Melbourne, 29 March 2018

**Fluence Corporation Limited (formerly Emefcy Group Limited)**
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**
**For the year ended 31 December 2017**

| | Notes | Consolidated entity 31 December 2017 $'000 | Consolidated entity 31 December 2016 $'000 |
|---|---|---|---|
| **Revenues** | | | |
| Operating revenue | 4 | 33,083 | 792 |
| Other income | | 105 | 19 |
| | | **33,188** | **811** |
| **Expenses** | | | |
| Cost of sales | | (27,230) | (2,007) |
| Research and development expenses | 4 | (5,970) | (2,045) |
| Sales and marketing expenses | 4 | (6,299) | (950) |
| General and administration expenses | 4 | (17,940) | (4,942) |
| Listing expense recognised | | - | (1,000) |
| Other gains/(loss) - net | 4 | (1,191) | 1,080 |
| Finance income/(costs) - net | 4 | 2,561 | (12) |
| **Loss before income tax** | | **(22,881)** | **(9,065)** |
| Income tax expense | 6 | (687) | - |
| **Loss for the year** | | **(23,568)** | **(9,065)** |
| **Loss for the year is attributable to:** | | | |
| Owners of Fluence Corporation Limited | | (23,664) | (9,065) |
| Non-controlling interests | 19 | 96 | - |
| | | **(23,568)** | **(9,065)** |
| **Other comprehensive income** | | | |
| **Items that may be reclassified to profit or loss:** | | | |
| Exchange differences on translation of foreign operations, net of tax | | (721) | (881) |
| **Total comprehensive income for the year** | | **(24,289)** | **(9,946)** |
| **Total comprehensive income for the year is attributable to:** | | | |
| Owners of Fluence Corporation Limited | | (24,385) | (9,946) |
| Non-controlling interests | 19 | 96 | - |
| | | **(24,289)** | **(9,946)** |
| **Losses per share from continuing operations attributable to the ordinary equity holders of the Group:** | | | |
| Basic loss per share | 7 | (0.07) | (0.04) |
| Diluted loss per share | 7 | (0.07) | (0.04) |

*The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes. All amounts are presented in US dollars unless stated differently.*

**Fluence Corporation Limited (formerly Emefcy Group Limited)**
**Consolidated Statement of Financial Position**
**As at 31 December 2017**

| | Notes | Consolidated entity 31 December 2017 $'000 | Consolidated entity 31 December 2016 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 8 | 75,153 | 22,871 |
| Other financial assets | 8 | 4,786 | 134 |
| Trade and other receivables | 9 | 26,684 | 712 |
| Inventories | 10 | 18,538 | 452 |
| Prepayments | | 3,876 | 205 |
| Other assets | 11 | 2,873 | - |
| **Total current assets** | | **131,910** | **24,374** |
| **Non-current assets** | | | |
| Other receivables | 9 | 260 | 50 |
| Investments accounted for using the equity method | 12 | 495 | - |
| Deferred tax assets | 6 | 1,921 | - |
| Property, plant and equipment | 13 | 7,114 | 1,039 |
| Intangible assets | 14 | 60,167 | 2,134 |
| Other assets | 11 | 2,790 | - |
| **Total non-current assets** | | **72,747** | **3,223** |
| **Total assets** | | **204,657** | **27,597** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 15 | 27,811 | 1,372 |
| Borrowings | | 1,145 | - |
| Current tax liabilities | 6 | 72 | - |
| Provisions | 16 | 27,711 | 123 |
| Deferred revenue | 17 | 38,173 | - |
| Other financial liabilities | 15 | 1,000 | 1,000 |
| **Total current liabilities** | | **95,912** | **2,495** |
| **Non-current liabilities** | | | |
| Other payables | 15 | 2,595 | 1,039 |
| Provisions | 16 | 878 | - |
| Deferred tax liabilities | 6 | 1,671 | - |
| **Total non-current liabilities** | | **5,144** | **1,039** |
| **Total liabilities** | | **101,056** | **3,534** |
| **Net assets** | | **103,601** | **24,063** |
| **EQUITY** | | | |
| Contributed equity | 18 | 156,898 | 53,129 |
| Other reserves | 20 | (1,376) | (655) |
| Accumulated losses | | (52,075) | (28,411) |
| | | 103,447 | 24,063 |
| Non-controlling interests | 19 | 154 | - |
| **Total equity** | | **103,601** | **24,063** |

*The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes. All amounts are presented in US dollars unless stated differently.*

**Fluence Corporation Limited (formerly Emefcy Group Limited)**
**Consolidated Statement of Changes in Equity**
**For the year ended 31 December 2017**

| **Consolidated entity** | Notes | **Contributed equity $'000** | **Other reserves $'000** | **Accumulated losses $'000** | **Total $'000** | **Non- controlling interests $'000** | **Total equity $'000** |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2016** | | **28,482** | **226** | **(19,346)** | **9,362** | **-** | **9,362** |
| Loss for the period | | - | - | (9,065) | (9,065) | - | (9,065) |
| Other comprehensive income | | - | (881) | - | (881) | - | (881) |
| **Total comprehensive loss for the year** | | **-** | **(881)** | **(9,065)** | **(9,946)** | **-** | **(9,946)** |
| **Transactions with owners in their capacity as owners:** | | | | | | | |
| Issue of ordinary shares, net of transaction costs | 18 | 22,946 | - | - | 22,946 | - | 22,946 |
| Issue of options | 18 | 1,701 | - | - | 1,701 | - | 1,701 |
| **Balance at 31 December 2016** | | **53,129** | **(655)** | **(28,411)** | **24,063** | **-** | **24,063** |
| | | | | | | | |
| **Balance at 1 January 2017** | | **53,129** | **(655)** | **(28,411)** | **24,063** | **-** | **24,063** |
| Loss for the period | | - | - | (23,664) | (23,664) | 96 | (23,568) |
| Other comprehensive income | | - | (721) | - | (721) | - | (721) |
| **Total comprehensive loss for the year** | | - | **(721)** | **(23,664)** | **(24,385)** | **96** | **(24,289)** |
| **Transactions with owners in their capacity as owners:** | | | | | | | |
| Issue of ordinary shares, net of transaction costs | 18 | 101,538 | - | - | 101,538 | - | 101,538 |
| Issue of options | 18 | 2,231 | - | - | 2,231 | - | 2,231 |
| Transactions with non-controlling interests | 19 | - | - | - | - | 58 | 58 |
| **Balance at 31 December 2017** | | **156,898** | **(1,376)** | **(52,075)** | **103,447** | **154** | **103,601** |

*The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

**Fluence Corporation Limited (formerly Emefcy Group Limited)**
**Consolidated Statement of Cash Flows**
**For the year ended 31 December 2017**

| | Notes | Consolidated entity 31 December 2017 $'000 | Consolidated entity 31 December 2016 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipt from customers | | 28,062 | 284 |
| Payments to suppliers and employees | | (56,395) | (7,452) |
| Royalties paid to chief scientist office (Israel) | | (67) | (12) |
| Receipt from restricted cash | | 261 | 13 |
| Interest received | | 686 | 19 |
| Interest and other costs of finance paid | | (144) | - |
| Income taxes paid | | (870) | - |
| **Net cash (outflow) from operating activities** | 8 | **(28,467)** | **(7,148)** |
| **Cash flows from investing activities** | | | |
| Payment for purchases of plant and equipment | | (3,717) | (368) |
| Cash consideration of acquisition | | - | (1,000) |
| Funds transferred to term deposit | | - | (115) |
| Refund/ (Payment) of long term lease deposit | | - | (47) |
| Proceeds from sale of property, plant and equipment | | 5 | - |
| Proceeds from disposal of short-term deposits | | 1,064 | - |
| Cash acquired as part of acquisition of RWL Water LLC | | 50,583 | - |
| **Net cash inflow (outflow) from investing activities** | | **47,935** | **(1,530)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issues of ordinary shares | | 31,001 | 22,951 |
| Proceeds from exercise of share options | | 808 | - |
| Repayment of borrowings | | (634) | - |
| Transactions costs related to issue of ordinary shares | | (476) | (86) |
| **Net cash inflow from financing activities** | | **30,699** | **22,865** |
| **Net increase in cash and cash equivalents** | | 50,167 | 14,187 |
| Cash and cash equivalents at the beginning of the financial year | | 22,871 | 8,479 |
| Effects of exchange rate changes on cash and cash equivalents | | 2,115 | 205 |
| **Cash and cash equivalents at end of year** | **8** | **75,153** | **22,871** |

*The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.*

## 1 Summary of significant accounting policies

### (a) Corporate information

The Financial Report of Fluence Corporation Limited (formerly Emefcy Group Limited) and its controlled entities (the "Group") for the year ended 31 December 2017 was authorised for issue in accordance with a resolution of the Directors on the 29th day of March 2018. The Group changed its name effective on 14 July 2017.

Fluence Corporation Limited is a for profit listed public company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX"). The Group provides fast-to-deploy, decentralized and packaged water and wastewater treatment solutions.

### (b) Basis of preparation

These general purpose Financial Statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the international accounting standards board.

The financial report has been prepared on an accruals basis and is based on historical costs, except for those assets and liabilities measured at fair value. The financial report is presented in United States Dollars, which is the Group's presentation currency. All values are rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Report) Legislative Instrument 2016/191. The Company is an entity in which the Legislative Instrument applies.

Management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements (refer to Note 1 (ab)).

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

#### *(i)* Going concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

#### *(ii)* New and amended standards adopted by the group

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

All other accounting standards adopted by the Group are consistent with the most recent Annual Report for the year ended 31 December 2016.

## 1 Summary of significant accounting policies (continued)

### (b) Basis of preparation (continued)

#### *(iii)* New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9: *Financial Instruments* and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018)

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specially, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

Although the Group anticipate that the adoption of AASB 9 will impact the Group's financial statements, the Group has not finalised its assessment of the impact of AASB9.

AASB 15: *Revenue from Contracts with Customers* (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-8: *Amendments to Australian Accounting Standards* - Effective Date of AASB 15)

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108: *Accounting Policies, Changes in Accounting Estimates and Errors* (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

Although the Group anticipate that the adoption of AASB 15 will impact the Group's financial statements, the Group has not finalised its assessment of the impact of AASB 15.

AASB 16: *Leases* (applicable to annual reporting periods beginning on or after 1 January 2019)

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

## 1 Summary of significant accounting policies (continued)

### (b) Basis of preparation (continued)

#### *(iii)* New standards and interpretations not yet adopted (continued)

The main changes introduced by the new Standard include:

• recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
• depreciation of right-to-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
• variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
• by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
• additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

Although the Group anticipate that the adoption of AASB 16 will impact the Group's financial statements, the Group has not finalised its assessment of the impact of AASB 16.

### (c) Comparatives

Where necessary comparatives have been reclassified for consistency with the current period disclosures.

#### *(i)* Revision to Appendix 4E Preliminary Final Report for the year ended 31 December 2017

Items previously included in the Consolidated Statement of Cash Flows in the Appendix 4E Preliminary Final Report for the year ended 31 December 2017 within 'Acquired as part acquisition of RWL Water LLC' have been reclassified to operating activities to better reflect the nature of the cash flows.

As a result of this reclassification, for the year ending 31 December 2017, net cash outflows from operating activities has decreased $1,609,000 to ($28,467,000). Net cash inflows from investing activities has decreased $3,384,000 to $47,935,000. The 'Effects of exchange rate changes on cash and cash equivalents' has increased $1,775,000 to $2,115,000.

Items previously included in the Consolidated Statement of Financial Position in the Appendix 4E Preliminary Final Report for the year ended 31 December 2017 within 'Trade and other payables' have been separated into a newly created category 'Provisions' to provide a more accurate and detailed presentation of the Group's financial position.

As a result of this reclassification, for the year ending 31 December 2017, 'Trade and other payables' have decreased $27,711,000 to $27,811,000. The 'Provisions' balance has been presented as $27,711,000.

### (d) Principles of consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent company, Fluence Group Limited, and all of the subsidiaries. Subsidiaries are entities the parent controls. The parent 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. A list of the subsidiaries is provided in Note 27.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation.

## 1 Summary of significant accounting policies (continued)

### (d) Principles of consolidation (continued)

Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group. Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as “non-controlling interests”.

The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary’s net assets on liquidation at either fair value or at the non-controlling interests’ proportionate share of the subsidiary’s net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income.

Non-controlling interests are shown separately within the equity section of the Statement of Financial Position and Statement of Profit or Loss and Other Comprehensive Income.

### (e) Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

### (f) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

#### *(i)* Revenues on equipment sales

Revenue on equipment sales is recognised when all the following conditions have been satisfied: The Group has transferred to the customer the significant risks and rewards of ownership of the goods, the Group retains neither continuing managerial involvement nor effective control over the equipment sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the cost incurred or to be incurred in respect of the transaction can be measured reliably.

#### *(ii)* Revenues on engineering, procurement, construction ("EPC") contracts

Revenues are recognised by reference to the stage of completion of the contract activity at the balance date. The Group uses the percentage of completion method to determine the appropriate amount to recognise in a given period. The assessment of the stage of completion is dependent on the nature of the contract, but will generally be based on the estimated proportion of the total contract costs which have been incurred to date. If a contract is expected to be loss-making, a provision is recognised for the entire loss.

#### *(iii)* Revenues on services

Revenues on services are recognised by reference to the stage of completion of the transaction at the end of the reporting period, if the outcome of the transaction can be reliably estimated. The following conditions need to be satisfied: the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group, the stage of completion of the transaction at the end of the reporting period can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. If the outcome of such a transaction cannot be estimated reliably, revenue is recognised only to the extent that expenses recognised are recoverable.

#### *(iv)* Interest

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

## 1 Summary of significant accounting policies (continued)

### (g) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Note 15 provides further information on how the group accounts for government grants.

Government grants are recognised in profit and loss on a systematic basis over the periods in which the entity recognises expenses for the related costs for which the grants are intended to compensate.

Grants received from the Government of Israel that are required to be repaid by payment of royalties on sales revenue or refunded if relevant conditions are not met are recorded as other payables (refer to Note 15 for further details).

### (h) Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

### (i) Employee benefits

#### *(i)* Wages and salaries

Wages and salaries include non-monetary benefits, annual leave and long service leave. These are recognised and presented in different ways in the financial statements:

- The liability for annual leave and the portion of long service leave expected to be paid within twelve months is measured at the amount expected to be paid.
- The liability for long service leave and annual leave expected to be paid after one year is measured as the present value expected future payments to be made in respect of services provided by employees up to the reporting date.
- The liability for annual leave and the portion of long service leave that has vested at the reporting date included in the current provision for employee benefits.
- The portion of long service leave that has not vested at the reporting date is included in the non-current provision for employee benefits.

#### *(ii)* Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

**Equity-settled transactions**
The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note People costs.

That cost is recognised in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

## 1 Summary of significant accounting policies (continued)

### (i) Employee benefits (continued)

#### *(ii)* Share-based payments (continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

### (j) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IAS 39. Other contingent consideration that is not within the scope of IAS 39 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

## 1 Summary of significant accounting policies (continued)

### (j) Business combinations (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition date. The measurement period ends on either of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

### (k) Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

## 1 Summary of significant accounting policies (continued)

### (k) Investment in associates and joint ventures (continued)

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

### (l) Impairment of non financial assets

Impairment exits when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a Discounted Cash Flow (DCF) model.

The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investment that will enhance the performance of the assets of the Cash Generating Unit (CGU) being tested.

The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in note 14 - intangible assets.

### (m) Cash and cash equivalents

Cash and short-term deposits in the consolidated statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the consolidated statement of cash flow, cash and cash equivalents consist of cash and cash equivalents as defined above.

### (n) Restricted cash

Restricted cash is invested in highly liquid deposits, which are used mainly as security for guarantees provided to lessors of office and production premises, bid bonds and performance guarantees.

### (o) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortized cost, less any appropriate provision for estimated irrecoverable amounts.

An provision for impairment is made when there is objective evidence that the Group will not be able to collect the debts. The criteria used to determine that there is objective evidence that an impairment loss has occurred include whether the Financial Asset is past due and whether there is any other information regarding increased credit risk associated with the Financial Asset. Bad debts which are known to be uncollectible are written-off when identified.

### (p) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

## 1 Summary of significant accounting policies (continued)

### (p) Property, plant and equipment (continued)

| | |
|---|---|
| Buildings | 25-50 years |
| Leasehold improvements | Over the shorter of the term of the lease or useful life of an asset |
| Production equipment | 4-17 years |
| Office furniture and equipment | 3-17 years |
| Computers and peripheral equipment | 3-15 years |
| Vehicles | 5-7 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting 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 the carrying amount. These are included in profit or loss.

### (q) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on basis of First in-First out (FIFO). Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### (r) Foreign currency translation

#### *(i)* Functional Currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The financial statements of Fluence Corporation Limited (the parent entity of the Group) are measured in Australian Dollars which is that entity’s functional currency.

#### *(ii)* Presentation Currency

The consolidated financial statements are presented in US Dollars, which is the Group’s presentation currency.

#### *(iii)* Translation and balances

Transactions in foreign currencies are converted to the functional currency at the exchange rate at the date of the transaction. Amounts payable to and by the Group outstanding at reporting date and denominated in foreign currencies have been converted to local currency using rates prevailing at the end of the financial year. All exchange differences are taken to profit or loss.

#### *(iv)* Group companies

The results of foreign subsidiaries and the parent entity are translated to US Dollars at the exchange rate at the date of the transaction. Assets and liabilities of foreign subsidiaries and the Australian parent are translated to US Dollars at exchange rates prevailing at balance date. All resulting exchange differences are recognised in other comprehensive income and in the foreign currency translation reserve in equity.

#### *(v)* Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences on translation of foreign controlled subsidiaries. Amounts are reclassified to profit or loss when the investment is disposed of.

### (s) Income tax

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## 1 Summary of significant accounting policies (continued)

### (s) Income tax (continued)

Deferred income tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting loss nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting loss nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

### (t) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

Cash flows arising from operating activities are included in the consolidated statement of cash flow on a gross basis (i.e. including GST) and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority. The net amount of GST recoverable from or payable to, the taxation authority is included as part of the receivables or payables in the consolidated statement of financial position.

### (u) Intangible assets

Intangible assets are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in an accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

**Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Goodwill arising from acquisitions of subsidiaries, tested at least annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the statement of profit or loss or other comprehensive income. Subsequent reversals of impairment losses for goodwill are not recognised.

## 1 Summary of significant accounting policies (continued)

### (u) Intangible assets (continued)

**Research and development**

Research costs are expensed as incurred.

An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefits from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not available for use, or more frequently when an indication of impairment arises during the reporting period.

Amortisation commences when the assets are ready for use.

**Concession Asset**

An intangible asset arising from a concession arrangement. The group recognises an intangible asset to the extent that it receives a right to charge users over the life of arrangement for the use of the asset. The intangible asset in measured initially at cost. The intangible assets will be amortised over the useful life of the arrangement and will be measured at cost less any accumulated amortisation and accumulated impairment losses.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not available for use, or more frequently when an indication of impairment arises during the reporting period.

### (v) Impairment of non-financial assets

The carrying values of non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffer impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

Impairment exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is then written down to its recoverable amount.

### (w) Trade and other payables

Trade and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

### (x) Contributed equity

Ordinary shares are classified as equity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction (net of tax) of the share proceeds received.

## 1 Summary of significant accounting policies (continued)

### (y) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Where applicable, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Onerous contracts
An onerous contract is considered to exist where the Group has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations existing under onerous contracts are recognised as a provision to the extent that the present obligations exceed the benefits estimated to be received.

### (z) Earnings per share

Basic earnings per share is calculated as net profit or loss attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit or loss attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### (aa) Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

**Impairment of financial assets**
The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

## 1 Summary of significant accounting policies (continued)

### (aa) Investments and other financial assets (continued)

**Fair value of assets and liabilities acquired on acquisition**

Further to the acquisition of RWL Water Group during the financial year, an independent valuation firm was engaged in order to perform a fair valuation of the net assets acquired and to determine the purchase price allocation across the Cash Generating Units. The purchase price allocation was a key element in the determination of goodwill arising on the business combination and also facilitates the allocation of goodwill across the Cash Generating Units and the subsequent impairment assessment. The purchase price allocation was based on the pro-rata contribution of revenue and profitability and the relative contribution of each of the Cash Generating Unit’s enterprise value. (Refer also to Note 14 Intangible assets, for further details).

### (ab) Significant Accounting Estimates and Assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

*(i)* **Fair Value of Financial Liability**

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

The Group assessed the fair value of the financial milestone payments and government grant liabilities, which incorporate a number of key estimates and assumptions. For further details, please refer to note 15 Trade and Other Payables.

*(ii)* **Income tax**

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

*(iii)* **Share-based payment transactions**

Under AASB 2 Share Based Payments, the consolidated entity must recognise the fair value of shares granted to directors, employees and consultants as remuneration as an expense on a pro-rata basis over the vesting period in profit or loss with a corresponding adjustment to equity.

The consolidated entity provides benefits to employees (including directors) of the consolidated entity in the form of share based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions").

Estimating fair value of share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. For the measurement of the fair value of equity-settled transactions with employees at the grant date, the Group uses a binominal model for the options. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 5 - people costs.

## 1 Summary of significant accounting policies (continued)

### (ab) Significant Accounting Estimates and Assumptions (continued)

#### *(iv)* Fair value measurement hierarchy

The consolidated entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

#### *(v)* Impairment of non financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm’s length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group. Refer to Note 14 for further detail.

#### *(vi)* Business Combination

As discussed in the notes, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets a liabilities, depreciation and amorisation reported.

#### *(vii)* Revenue recognition on EPC contracts

The value of work performed using percentage completion method is used to determine revenue recognition on EPC contracts. This measurement is an accounting judgment as management uses judgement to estimate costs incurred to date as a percentage of total estimated costs.

## 2 Segment information

During the current financial period on 14 July 2017, the Group acquired 100% of the shares in RWL Water LLC. For further details, refer to the Business combination note 3. Prior to the acquisition, the Group recognised its operations in Israel as an operating segment.

Post-acquisition, during the second half of the financial period, the Group conducted a review of internal reporting to the Managing Director and CEO (the Chief Operating Decision Maker (CODM)) and identified two primary reporting segments in assessing performance and determining the allocation of resources.

The revised segment disclosure replicates the manner in which the CODM monitors the business performance. The CODM monitors business performance within a segment at loss before income tax and is measured consistently with profit or loss in the consolidated financial statements. Prior year comparatives have been restated so as to be presented in a consistent manner with the current year segment results.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The Group's operating segments are:

• Operating Units (OUs) - These are defined as operating entities within the Group that earn revenues and incur expenses that are reviewed by the CODM and their discrete financial information is available. OUs' include Argentina, Italy, Israel, USA, China and Middle East. The OUs are aggregated into a single operating segment on the basis that the OUs are similar in each of the following respects:

- nature of the products and services;
- nature of the production processes;
- type or class of customer for their products and services;
- methods used to distribute their products or provide their services; and
- nature of the regulatory environment

• Product and Innovation Group (P&I) - Defined as the Research and Development vehicle within the Group.

| **2017** | **Operating Units $'000** | **Production and Innovation $'000** | **Intersegment Elimination $'000** | **Total $'000** |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Operating revenue | 33,850 | 1,097 | (1,759) | 33,188 |
| Unallocated revenue - corporate | - | - | - | - |
| | **33,850** | **1,097** | **(1,759)** | **33,188** |
| **Segment expense** | | | | |
| Segment depreciation and amortisation expense | (327) | (343) | - | (670) |
| Segment expense | (32,759) | (13,191) | 3,621 | (42,329) |
| Unallocated expenses - corporate | - | - | - | (13,757) |
| | **(33,086)** | **(13,534)** | **3,621** | **(56,756)** |
| **Segment results** | **764** | **(12,437)** | **1,862** | **(23,568)** |
| **Assets** | | | | |
| Segment assets | 164,172 | 6,687 | (40) | 170,819 |
| Unallocated assets - corporate | - | - | - | 33,838 |
| | **164,172** | **6,687** | **(40)** | **204,657** |

## 2 Segment information (continued)

| 2017 | Operating Units $'000 | Production and Innovation $'000 | Intersegment Elimination $'000 | Total $'000 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Segment liabilities | (90,635) | (3,930) | 281 | (94,284) |
| Unallocated liabilities - corporate | - | - | - | (6,772) |
| | **(90,635)** | **(3,930)** | **281** | **(101,056)** |

| 2017 | The Americas $'000 | Rest of the World $'000 | Total $'000 |
|---|---|---|---|
| **Other information** | | | |
| External sales revenue by geographical segment | 18,697 | 14,491 | 33,188 |
| Property, plant and equipment by geographical segment | 3,022 | 4,092 | 7,114 |

| 2016 | Operating Units $'000 | Production and Innovation $'000 | Intersegment Elimination $'000 | Total $'000 |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Operating revenue | - | 792 | - | 792 |
| Unallocated revenue - corporate | - | - | - | 19 |
| | **-** | **792** | **-** | **811** |
| **Segment expense** | | | | |
| Segment depreciation and amortisation expense | - | (299) | - | (299) |
| Segment expense | - | (5,875) | - | (5,875) |
| Unallocated expenses - corporate | - | - | - | (3,702) |
| | **-** | **(6,174)** | **-** | **(9,876)** |
| **Segment result** | **-** | **(5,382)** | **-** | **(9,065)** |
| **Assets** | | | | |
| Segment assets | - | 11,412 | - | 11,412 |
| Unallocated assets - corporate | - | - | - | 16,185 |
| | **-** | **11,412** | **-** | **27,597** |
| **Liabilities** | | | | |
| Segment liabilities | - | (2,222) | - | (2,222) |
| Unallocated liabilities - corporate | - | - | - | (1,312) |
| | **-** | **(2,222)** | **-** | **(3,534)** |

| 2016 | The Americas $'000 | Rest of the World $'000 | Total $'000 |
|---|---|---|---|
| **Other information** | | | |
| External sales revenue by geographical segment | - | 792 | 792 |
| Property, plant and equipment by geographical segment | - | 1,039 | 1,039 |

## 2 Segment information (continued)

**Unallocated revenue**

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| Unallocated revenue | - | 19 |

**Unallocated expenses**

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| Other acquisition cash consideration | - | (1,000) |
| Other corporate expenses | (13,757) | (2,702) |
| | **(13,757)** | **(3,702)** |

**Unallocated assets**

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| Cash and cash equivalents | 28,768 | 16,089 |
| Other assets | 5,070 | 96 |
| | **33,838** | **16,185** |

**Unallocated liabilities**

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| Trade and other payables | (5,772) | (312) |
| Other liabilities | (1,000) | (1,000) |
| | **(6,772)** | **(1,312)** |

**Intersegment transactions**

Intersegment transactions are made at market rates. Intersegment transactions are eliminated on consolidation.

## 3 Business combination

### (a) Summary of acquisition

On 14 July 2017 (the 'Completion Date'), Emefcy Group Ltd completed the acquisition of RWL Water LLC ('RWL') from RSL Investments Corporation ('RSL') (the 'Transaction'). On 26 May 2017, the Emefcy Group Limited and RWL Water LLC announced a binding agreement to combine the two groups to form Fluence Corporation Limited (referred to hereafter as the 'Combined Group' or the 'Group'). The acquisition created a global provider of innovative, decentralised water and wastewater treatment solutions for both municipal and industrial applications.

The acquirer assumed control of 100% of the acquired business with effect from 14 July 2017. The acquisition of RWL included the following transactions:

## 3 Business combination (continued)

### (a) Summary of acquisition (continued)

- Fluence acquired 100% of RWL interests for a consideration comprising the issue of 100.5 million fully paid ordinary shares ('Consideration shares') in Fluence to RSL as follows:

  • 80% of the consideration shares on completion date (being 80.4 million fully paid ordinary shares).

  • 20% of the consideration shares on the release date (being 20.1 million fully paid ordinary shares). The release date means the day immediately after the end of the Holdback Period. The holdback Period means the twelve (12) month period beginning on the Completion Date and ending on the first (1st) anniversary of the Completion Date.

- RSL is restricted from selling, transferring or otherwise disposing of any of the Consideration Shares for two years commencing from the Completion Date according to conditions in the Share Purchase Agreement dated 26 May 2017.

Details of the purchase consideration, the net assets acquired and goodwill are recognised as follows:

| | $'000 |
|---|---|
| Purchase consideration (refer below): | |
| Ordinary shares issued (100,500,000 shares) | 65,828 |
| **Total purchase consideration*** | **65,828** |

*Non-cash transaction.

The fair value of the ordinary shares issued was based on the listed share price of the Group at 14 July 2017 of $0.655 USD per share.

The provisional fair values of the identifiable assets and liabilities recognised as a result of the acquisition are as follows:

| | Fair value $'000 |
|---|---|
| Cash and cash equivalents | 50,583 |
| Restricted cash | 1,683 |
| Short term deposits | 3,969 |
| Trade and other receivables | 26,642 |
| Inventories | 4,646 |
| Prepayments | 4,576 |
| Other current assets | 741 |
| Intangible assets | 1,225 |
| PPE and other non-current assets (net) | 9,304 |
| Trade and other payables | (51,605) |
| Borrowings | (1,748) |
| Deferred revenues | (36,831) |
| Other non-current liabilities | (3,650) |
| **Net identifiable assets acquired** | **9,535** |
| Add: goodwill | 56,293 |
| **Total purchase consideration** | **65,828** |

## 3 Business combination (continued)

### (a) Summary of acquisition (continued)

The goodwill arising on consolidation is attributed to workforce, experience and working methods of the acquired Group, as well as other assets recognised as goodwill according to the requirements of *IFRS 3 - Business Combination*, such as developed technology, process knowledge, reference list and order backlog. The fair value of assets and liabilities acquired were determined based on a purchase price allocation undertaken by the Group.

RWL contributed US$32 million to Fluence Corporation Limited revenues (additional US$1 million was contributed by Emefcy Group Limited) and US$2 million net profit to Fluence Corporation Limited net income post acquisition.

The proforma below gives effect to the revenues and net loss of the combined entity for the current reporting year as though the acquisition date for the business combination that occurred on 14 July 2017 had been as of the beginning of the annual reporting period.

| | **2017** |
|---|---|
| Proforma | **$'000** |
| Revenues | 58,030 |
| Net loss | (29,214) |

### (b) Purchase consideration - cash outflow

**Acquisition-related costs**

Acquisition-related costs of US$3 million that were not directly attributable to the issue of shares are included in general and administration in the Statement of Profit or Loss and in operating cash flows in the Statement of Cash Flows.

## 4 Operating revenue and expenses

| | **Consolidated entity** | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| **Operating revenue** | | |
| Revenues on equipment sales | 17,795 | 792 |
| Revenues on EPC contracts | 11,113 | - |
| Revenues on services | 2,777 | - |
| Other | 1,398 | - |
| | **33,083** | **792** |
| **Research and development** | | |
| Salaries and other employees related expenses | 2,129 | 1,227 |
| Depreciation | 193 | 173 |
| Occupancy | 179 | 36 |
| Professional fees | 216 | 117 |
| Materials | 3,238 | 477 |
| Other | 15 | 15 |
| | **5,970** | **2,045** |
| **Sales and marketing** | | |
| Salaries and other employees related expenses | 3,488 | 550 |
| Occupancy | 38 | 9 |
| Professional fees | 197 | 71 |
| Marketing activities | 1,293 | 123 |
| Travel | 886 | 155 |
| Other | 397 | 42 |
| | **6,299** | **950** |

## 4 Operating revenue and expenses (continued)

| | Consolidated entity 2017 $'000 | 2016 $'000 |
|---|---|---|
| **General and administration** | | |
| Salaries and other employees related expenses | 5,018 | 1,762 |
| Depreciation | 329 | 34 |
| Professional fees | 7,991 | 1,059 |
| Director expense | 1,196 | 1,005 |
| Bank charges | 263 | 12 |
| Insurance | 250 | 72 |
| Maintenance | 251 | 33 |
| Occupancy | 496 | 13 |
| Office expenses | 568 | 60 |
| Travel | 918 | 497 |
| Other | 660 | 395 |
| | **17,940** | **4,942** |
| **Other Gains/(Losses) - Net** | | |
| Foreign exchange gain / (loss) | (1,382) | (1,080) |
| Fair value adjustment for shares in trust | 2,006 | - |
| Increase in provision | 286 | - |
| Loss from investments accounted for using the equity method | 29 | - |
| Other | 252 | - |
| | **1,191** | **(1,080)** |
| **Finance Income/(Costs) - Net** | | |
| Interest income | (1,514) | - |
| Foreign exchange losses on foreign currency borrowings | (1,474) | - |
| Interest expense | 89 | - |
| Project financing and other | 338 | 12 |
| | **(2,561)** | **12** |

## 5 People costs

### (a) Share-based payments

**Employee Option Plan**

A share option plan has been established by the consolidated entity and approved by shareholders at a general meeting, whereby the consolidated entity may, at the discretion of the Board of Directors, grant options over ordinary shares in the Group to certain key management personnel of the consolidated entity. The options are issued for nil consideration and are granted in accordance with performance guidelines established by the Remuneration and Nomination Committee.

Set out below are summaries of options granted under the plan:

## 5 People costs (continued)

### (a) Share-based payments (continued)

**Employee Option Plan (continued)**

| **2017 Grant date** | **Expiry Date** | **Exercise Price** | **Granted** | **Exercised** | **Vested** | **Cancelled / Reversed** | **Balance at the end of the year** |
|---|---|---|---|---|---|---|---|
| **Opening balance** | | | **30,499,536** | **(9,788,644)** | **5,934,464** | **(4,192,946)** | **16,517,946** |
| 09-02-17 | 09-02-21 | A$1.00 | 350,000 | | - | - | 350,000 |
| 01-01-17 | 20-12-21 | A$0.87 | 75,000 | - | - | - | 75,000 |
| 09-02-17 | 10-01-21 | A$0.84 | 25,000 | - | - | - | 25,000 |
| 28-03-17 | 04-03-21 | A$0.82 | 1,000,000 | - | - | - | 1,000,000 |
| 08-03-17 | 31-03-19 | A$0.72 | 2,000,000 | - | - | - | 2,000,000 |
| 08-03-17 | 31-03-19 | A$0.72 | 1,000,000 | - | - | - | 1,000,000 |
| 04-05-17 | 03-05-21 | A$0.86 | 175,000 | - | - | - | 175,000 |
| 31-05-17 | 25-05-25 | A$0.93 | 11,191,336 | - | 1,398,917 | - | 11,191,336 |
| 31-05-17 | 25-05-25 | A$0.85 | 1,500,000 | - | 187,500 | - | 1,500,000 |
| 14-07-17 | 13-07-21 | A$1.20 | 3,850,000 | - | - | - | 3,850,000 |
| 14-07-17 | 13-07-21 | A$1.50 | 3,850,000 | - | - | - | 3,850,000 |
| 14-07-17 | 13-07-21 | A$0.84 | 1,500,000 | - | - | - | 1,500,000 |
| 14-07-17 | 25-05-25 | A$0.84 | 350,000 | - | 43,750 | - | 350,000 |
| 19-07-17 | 14-07-19 | A$0.72 | 300,000 | - | - | - | 300,000 |
| 1-07-17 | 06-07-21 | A$0.97 | 100,000 | - | - | - | 100,000 |
| 07-08-17 | 30-09-09 | A$0.75 | 750,000 | - | - | - | 750,000 |
| 14-09-07 | 13-11-21 | A$0.86 | 1,140,000 | - | 71,250 | - | 1,140,000 |
| 19-09-17 | 31-12-20 | A$0.95 | 1,500,000 | - | - | - | 1,500,000 |
| 19-09-17 | 31-12-20 | A$0.95 | 1,000,000 | - | - | - | 1,000,000 |
| 14-07-17 | 10-09-21 | A$0.81 | 4,604,000 | - | 575,500 | - | 4,604,000 |
| **Closing balance** | | | **66,759,872** | **(9,788,644)** | **8,211,381** | **(4,192,946)** | **52,778,282** |

The opening balance has been adjusted to reflect the exercise, vesting and cancellation of options issued in the prior period. Refer to note Contributed equity for details.

#### *(i)* Fair value of options granted

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date are outlined below. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

## 5 People costs (continued)

**(a) Share-based payments (continued)**

**Employee Option Plan (continued)**

*(i)* **Fair value of options granted (continued)**

| Grant date | Expiry Date | Share price at grant date | Exercise Price | Dividend yield | Risk-free interest rate | Fair value at grant date |
|---|---|---|---|---|---|---|
| 09-02-17 | 09-02-21 | A$0.77 | A$1.00 | Nil | 2.12 | 0.5030 |
| 20-12-17 | 20-12-21 | A$0.81 | A$0.87 | Nil | 2.29 | 0.5556 |
| 09-02-17 | 10-01-21 | A$0.77 | A$0.84 | Nil | 2.12 | 0.5254 |
| 28-03-17 | 04-03-21 | A$0.84 | A$0.82 | Nil | 2.20 | 0.5882 |
| 08-03-17 | 31-03-19 | A$0.76 | A$0.72 | Nil | 1.87 | 0.4167 |
| 08-03-17 | 31-03-19 | A$0.76 | A$0.72 | Nil | 1.87 | 0.4167 |
| 04-05-17 | 03-05-21 | A$0.80 | A$0.86 | Nil | 2.16 | 0.5480 |
| 31-05-17 | 25-05-25 | A$0.93 | A$0.93 | Nil | 2.19 | 0.3782 |
| 31-05-17 | 25-05-25 | A$0.93 | A$0.85 | Nil | 2.19 | 0.3998 |
| 14-07-17 | 13-07-21 | A$0.86 | A$1.20 | Nil | 2.08 | 0.2254 |
| 14-07-17 | 13-07-21 | A$0.86 | A$1.50 | Nil | 2.08 | 0.1743 |
| 14-07-17 | 13-07-21 | A$0.86 | A$0.84 | Nil | 2.08 | 0.3214 |
| 14-07-17 | 25-05-25 | A$0.86 | A$0.84 | Nil | 2.47 | 0.4028 |
| 19-07-17 | 14-07-19 | A$0.85 | A$0.72 | Nil | 2.01 | 0.2506 |
| 01-07-17 | 06-07-21 | A$0.82 | A$0.97 | Nil | 2.06 | 0.2918 |
| 07-09-17 | 30-09-19 | A$0.71 | A$0.75 | Nil | 1.99 | 0.1543 |
| 14-09-17 | 13-11-21 | A$0.74 | A$0.86 | Nil | 2.19 | 0.2385 |
| 19-09-17 | 31-12-20 | A$0.74 | A$0.95 | Nil | 2.18 | 0.1782 |
| 19-09-17 | 31-12-20 | A$0.74 | A$1.10 | Nil | 2.18 | 0.1484 |
| 14-07-17 | 10-09-21 | A$0.86 | A$0.81 | Nil | 2.13 | 0.3384 |

The weighted average remaining contractual life of options outstanding at year-end was 3.76 years.

The fair value of the options granted to employees is considered to represent the value of the employee services received over the vesting period.

The weighted average fair value of options granted during the year was $0.2341. These values were calculated using the binomial lattice, based on the Cox, Ross Rubinstein (1979) method applying the following inputs:

Weighted average exercise price: $0.65
Expected share price volatility: 50%

Since listed for trading on ASX in December 2015, the Group's share price was quite volatile with a wide range of trading volumes. Therefore, the expected volatility was determined based on typical volatility measure for environmental and waste services companies.

## 5 People costs (continued)

### (a) Share-based payments (continued)

### (a) Expenses arising from share-based payment transactions

| | Consolidated entity | |
|---|---|---|
| **Share based payment expense** | 31 December 2017 $'000 | 31 December 2016 $'000 |
| Consultant Share based payments | 992 | 1,003 |
| Employee Share based payments | 588 | 227 |
| Director Share based payments | 651 | 553 |
| | **2,231** | **1,783** |

### (b) Key Management Personnel Disclosures

**Compensation**

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $ | 31 December 2016 $ |
| Short-term employee benefits | 2,468,628 | 1,521,198 |
| Post-employment benefits | 111,057 | 128,967 |
| Share based payments | 780,115 | 604,174 |
| | **3,359,800** | **2,254,339** |

The above Key Management Personnel disclosures represents the remuneration of Key Management Personnel defined in the Remuneration Report and paid or payable for the 12 months ended 31 December 2017 and 31 December 2016.

For more information on Key Management Personnel Compensation disclosed under the *Corporations Act 2001*, please refer to Remuneration Report contained under Directors' Report.

## 6 Income tax

### (a) Income tax expense

The components of tax expense comprise:

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| **Current tax** | | |
| Current tax | 687 | - |
| Adjustments for current tax of prior periods | - | - |
| (Increase)/decrease in deferred tax assets | - | - |
| Increase/(decrease) in deferred tax liabilities | - | - |
| | **687** | **-** |

## 6 Income tax (continued)

### (b) Numerical reconciliation of income tax expense to prima facie tax payable

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| Loss from continuing operations before income tax expense | (22,881) | (9,065) |
| The prima facie tax on profit from ordinary activities before income tax is reconciled to income tax as follows: | (6,864) | (2,443) |
| Tax losses carried forward | 6,864 | 2,443 |
| Tax expense - Fluence Italy S.R.L. | 338 | - |
| Tax expense - Fluence Israel Ltd | 68 | - |
| Tax expense - Fluence Argentina | 281 | - |
| **Income tax expense** | **687** | **-** |

### (c) Deferred tax balances

#### *(i)* Deferred tax assets

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| **The balance comprises temporary differences attributable to:** | | |
| Tax losses | 1,133 | - |
| Unrealised foreign exchange gain/loss | 114 | - |
| Accrued work in progress | 142 | - |
| Accruals | 30 | - |
| License fee accrual | 276 | - |
| Doubtful debts provisions | 47 | - |
| Other | 115 | - |
| Provision for annual leave | 64 | - |
| **Total Deferred tax assets** | **1,921** | **-** |

## 6 Income tax (continued)

### (c) Deferred tax balances (continued)

#### *(ii)* Deferred tax liabilities

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| **The balance comprises temporary differences attributable to:** | | |
| Unrealised foreign exchange | 55 | - |
| Inventories/ Work in progress | 949 | - |
| Intangibles | 667 | - |
| **Total Deferred tax liabilities** | **1,671** | **-** |

### (d) Current tax liabilities

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| Current tax liabilities | 72 | - |
| | **72** | **-** |

## 7 Loss per share

### (a) Basic loss per share

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $ | 31 December 2016 $ |
| Loss attributable to the ordinary equity holders of the Group | (0.07) | (0.04) |

### (b) Diluted loss per share

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $ | 31 December 2016 $ |
| Loss attributable to the ordinary equity holders of the Group | (0.07) | (0.04) |

### (c) Reconciliation of earnings used in calculating earnings per share

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| Loss attributable to the ordinary equity holders of the Group used in calculating basic earnings per share: | | |
| From continuing operations | (23,568) | (9,065) |

## 7 Loss per share (continued)

### (d) Weighted average number of shares used as the denominator

| | Consolidated entity 2017 Number | Consolidated entity 2016 Number |
|---|---|---|
| **Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share** | **319,728,992** | **214,111,481** |

The outstanding share options as at 31 December 2017 are considered to be anti-diilutive and therefore were excluded from the diluted weighted average number of ordinary shares calculation.

## 8 Cash and cash equivalents, Other financial assets, Cash Flows

### (a) Cash and cash equivalents

| | Consolidated entity 31 December 2017 $'000 | Consolidated entity 31 December 2016 $'000 |
|---|---|---|
| Cash and cash equivalents | 75,153 | 22,871 |

### (b) Other financial assets

| | Consolidated entity 31 December 2017 $'000 | Consolidated entity 31 December 2016 $'000 |
|---|---|---|
| Restricted cash | 1,674 | 134 |
| Short term deposits | 3,112 | - |
| | **4,786** | **134** |

## 8 Cash and cash equivalents, Other financial assets, Cash Flows (continued)

### (c) Cash flow information

**Reconciliation of loss after income tax to net cashflow from operating activities**

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| Loss before income tax | (22,881) | (9,065) |
| Adjustment for: | | |
| Depreciation and amortisation expenses | 688 | 299 |
| Bad debt expense | 185 | - |
| Reversal of inventory reserve | (24) | - |
| Warranty provision | 52 | - |
| Loss on disposal of property, plant and equipment | (22) | - |
| Share based payments expense | 2,231 | - |
| Post-employment benefit expense | (1,350) | - |
| Fair value adjustment on shares in trust | 2,006 | 62 |
| Provision for losses | 409 | 123 |
| Share of profits of associates and joint ventures | 29 | - |
| Finance costs - net | (2,561) | 1,000 |
| Equity issued for nil consideration | - | 1,783 |
| Foreign exchange differences | (1,382) | (1,080) |
| (Increase) in restricted cash | (1,593) | - |
| (Increase) in trade and other receivables | (31,106) | (508) |
| (Increase) in inventory | (15,654) | - |
| (Increase) in prepaid expenses | (3,827) | - |
| (Increase) in other current and non-current assets | (5,638) | (394) |
| Increase in trade and other payables | 12,578 | 632 |
| Increase in deferred revenues | 38,851 | - |
| **Cash generated from operations** | **(29,009)** | **(7,148)** |
| Interest received | 686 | **-** |
| Interest and other costs of finance paid | (144) | **-** |
| **Net cash outflow from operating activities** | **(28,467)** | **(7,148)** |

## 9 Trade and Other Receivables

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| **Current receivables - Trade receivables** | | |
| Trade receivables | 21,808 | 223 |
| Provision for impairment - trade receivables | (1,927) | - |
| | **19,881** | **223** |
| **Current receivables - Other receivables** | | |
| Unbilled receivables | 1,809 | - |
| VAT receivables | 3,211 | 105 |
| Income tax receivable | 582 | - |
| Other taxes receivable | 984 | 80 |
| Government Grants to be received | 70 | 302 |
| Other receivables | 147 | 2 |
| | **6,803** | **489** |
| | **26,684** | **712** |
| **Non-current receivables** | | |
| Long-term receivables | 1,531 | 50 |
| Provision for impairment - long-term receivables | (1,271) | - |
| | **260** | **50** |

## 10 Inventories

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| Raw materials | 4,299 | 270 |
| Work in progress | 13,924 | 182 |
| Finished goods - at cost | 535 | - |
| Inventory reserve | (220) | - |
| | **18,538** | **452** |

## 11 Other assets

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| **Current assets** | | |
| Shares in trust for the acquire of non-controlling interests | 2,178 | - |
| Other | 695 | - |
| | **2,873** | **-** |

## 11 Other assets (continued)

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| **Non-current assets** | | |
| Construction bond | 2,400 | - |
| Other | 390 | - |
| | **2,790** | **-** |

## 12 Investments accounted for using the equity method

| | | | | | Quoted fair value / Carrying Amount | |
|---|---|---|---|---|---|---|
| **Name of entity** | **Place of business/ country of incorporation** | **% of ownership interest** | **Nature of relationship** | **Measurement method** | 31 December 2017 $'000 | 31 December 2016 $'000 |
| E.T.G.R Water Infrastructure Management | Israel | 50% | Associate | Equity method | 428 | - |
| RWL WATER MEXICO, S DE RL DE CV. | Mexico | 49% | Joint Venture | Equity method | 67 | - |
| | | | | | **495** | **-** |

As of 31 December 2017, the Group holds 50% interest in E.T.G.R Water Infrastructure Management partnership and a 49% interest in RWL WATER MEXICO, S DE RL DE CV. These investments contributed $29,000 to Fluence Corporation Limited net loss post acquisition, which is included in 'Other gains/(loss) - net' in the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

## 13 Property, plant and equipment

| **Consolidated entity** | **Land and buildings $'000** | **Leasehold improvements $'000** | **Production equipment $'000** | **Office furniture and equipment $'000** | **Computers and peripheral equipment $'000** | **Vehicles $'000** | **Total $'000** |
|---|---|---|---|---|---|---|---|
| **At 1 January 2017** | | | | | | | |
| Cost or fair value | - | 39 | 1,255 | 83 | 248 | - | 1,625 |
| Accumulated depreciation | - | (6) | (331) | (52) | (197) | - | (586) |
| **Net book amount** | **-** | **33** | **924** | **31** | **51** | **-** | **1,039** |
| **Year ended 31 December 2017** | | | | | | | |
| Opening net book amount | - | 33 | 924 | 31 | 51 | - | 1,039 |
| Business acquisition | 76 | 1,373 | 300 | 209 | 611 | 324 | 2,893 |
| Additions | - | 2,069 | 1,040 | 350 | 229 | 29 | 3,717 |
| Disposals | - | - | - | - | (3) | (15) | (18) |
| Depreciation charge | - | (60) | (144) | (56) | (207) | (67) | (534) |
| Exchange differences | 1 | 49 | (58) | 15 | 27 | (17) | 17 |
| **Closing net book amount** | **77** | **3,464** | **2,062** | **549** | **708** | **254** | **7,114** |
| **At 31 December 2017** | | | | | | | |
| Cost | 77 | 4,777 | 4,099 | 1,331 | 2,438 | 835 | 13,557 |
| Accumulation depreciation | - | (1,313) | (2,037) | (782) | (1,730) | (581) | (6,443) |
| **Net book amount** | **77** | **3,464** | **2,062** | **549** | **708** | **254** | **7,114** |

## 13 Property, plant and equipment (continued)

| Consolidated entity | Land and buildings $'000 | Leasehold improvements $'000 | Production equipment $'000 | Office furniture and equipment $'000 | Computers and peripheral equipment $'000 | Vehicles $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2016** | | | | | | | |
| Cost or fair value | - | 6 | 971 | 73 | 207 | - | 1,257 |
| Accumulated depreciation | - | (2) | (219) | (47) | (165) | - | (433) |
| **Net book amount** | **-** | **4** | **752** | **26** | **42** | **-** | **824** |
| **Year ended 31 December 2016** | | | | | | | |
| Opening net book amount | - | 4 | 752 | 26 | 42 | - | 824 |
| Additions | - | 33 | 284 | 10 | 41 | - | 368 |
| Depreciation charge | - | (3) | (108) | (5) | (30) | - | (146) |
| Exchange differences | - | (1) | (4) | - | (2) | - | (7) |
| **Closing net book amount** | **-** | **33** | **924** | **31** | **51** | **-** | **1,039** |
| **At 31 December 2016** | | | | | | | |
| Cost | - | 39 | 1,255 | 83 | 248 | - | 1,625 |
| Accumulation depreciation | - | (6) | (331) | (52) | (197) | - | (586) |
| **Net book amount** | **-** | **33** | **924** | **31** | **51** | **-** | **1,039** |

## 14 Intangible assets

| **Consolidated entity Non-Current assets** | **Goodwill $'000** | **Capitalised development costs $'000** | **Capitalised concession asset $'000** | **Total $'000** |
|---|---|---|---|---|
| **Year ended 31 December 2016** | | | | |
| Opening net book amount | - | 2,287 | - | 2,287 |
| Amortisation charge | - | (153) | - | (153) |
| **Closing net book amount** | **-** | **2,134** | **-** | **2,134** |
| **Year ended 31 December 2017** | | | | |
| Opening net book amount | - | 2,134 | - | 2,134 |
| Business acquisition | 56,293 | - | 1,225 | 57,518 |
| Additions | - | - | 598 | 598 |
| Amortisation charge | - | (167) | - | (167) |
| Currency translation differences | - | 241 | (157) | 84 |
| **Closing net book amount** | **56,293** | **2,208** | **1,666** | **60,167** |

*(i)* **Impairment tests for goodwill**

Goodwill is allocated to cash-generating units (CGU) as follows:

| | **Goodwill $'000** |
|---|---|
| Israel CGU | 30,898 |
| Italy CGU | 6,103 |
| Other CGU | 19,292 |
| | **56,293** |

The allocation of goodwill between the three CGUs was performed by considering and equally weighted the following:

1) The pro-rata contribution to profitability by each CGU;

2) The pro-rata contribution to revenue by each CGU;

3) The relative contribution to the total Group value by each CGU.

The relative contribution of each CGU to the total Group value was estimated using discounted cash flow analysis. Each CGU's discount rate was computed via a market-based weighted average cost of capital (WACC).

The Group have undertaken an impairment analysis during the year in accordance with AASB 136 by relying on the following:

• Fair Value Less of Cost of Disposal (FVLCD) approach undertaken by reference to the arms' length acquisition paid at the date of acquisition and the valuation undertaken by an external expert for the transaction.

The FVLCD represents the recent arms-length transaction that reflects direct market evidence of the fair value and an independent expert report which concluded the transaction price to be fair and reasonable.

Impairment testing adopted by the company for the RWL acquisition was undertaken subsequent to acquisition and prior to balance date. At balance date the Group has also assessed goodwill for indicators of impairment including the future prospects of the CGUs by reference to five year forecasts and the market capitalisation of Fluence.

## 14 Intangible assets (continued)

### *(i)* Impairment tests for goodwill (continued)

The fair value less costs to sell for the entire business at balance date attributed by external sources is indicated by market capitalisation (level 1 in fair value hierarchy) - Number of shares on issue as at 31 December 2017: 411,279,194; Closing share price as at 31 December 2017: $0.535; Market capitalisation at 31 December 2017: $220.0m; Net assets of the Company as at 31 December 2017: $103.6m.

**Goodwill**

Goodwill derives from the acquisition of RWL Water LLC. Please refer to note 3 - business combination for further details.

Any excess of the fair value of the purchase consideration of an acquired business over the fair value of the identifiable net assets (minus incidental expenses) is recorded as goodwill.

Goodwill is allocated to each cash generating units expected to benefit from the combination.

Goodwill is not amortised, but is measured at cost less any accumulated impairment losses. Impairment occurs when a cash generating unit's recoverable amount falls below the carrying value of its net assets.

**Capitalised development costs**

Capitalised development costs relates to the development of wastewater treatment technology - Membrane Aerated Bio Reactor (MABR). The nature of costs capitalised includes salaries and wages for research and development staff, technical equipment, materials, patent costs and any other costs associated with developing the wastewater treatment technologies. These assets are now currently being sold.

Capitalised development expenditure is stated at cost less accumulated amortisation less any impairment losses are amortised over the period of expected future sales from the related projects which is estimated to be 15 years.

**Concession contracts**

This represents an intangible asset arising from a concession arrangement. The intangible asset gives the Group the right for future charge of the customer for the use of the intangible assets. The concession asset is stated at cost. The Concession asset starts to be amortised once the asset is ready for use and is amortised over the use period of the asset.

## 15 Trade and other payables

| | **Consolidated entity** | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| **Current** | | |
| Trade payables | 16,580 | 936 |
| Accrued payroll liabilities | 1,216 | 339 |
| Accrued project expenses | 4,186 | |
| Payable to non-controlling interests (i) | 4,318 | - |
| Other accruals | 1,511 | 97 |
| | **27,811** | **1,372** |

## 15 Trade and other payables (continued)

| | Consolidated entity 31 December 2017 $'000 | Consolidated entity 31 December 2016 $'000 |
|---|---|---|
| **Non-current** | | |
| Government grants (ii) | 2,402 | 1,039 |
| Other liabilities | 193 | - |
| | **2,595** | **1,039** |

| | Consolidated entity 31 December 2017 $'000 | Consolidated entity 31 December 2016 $'000 |
|---|---|---|
| **Other financial liabilities** | | |
| Acquisition milestone 2 payable (iii) | 1,000 | 1,000 |
| | **1,000** | **1,000** |

### *(i)* Payable to non-controlling interests

In May 2017, the agreement was reached between RWL Water LLC Group (RWL) and the non-controlling interests owners of its subsidiary in Argentina that RWL would buy out the remaining 30% ownership share and become the sole owner of its subsidiary in Argentina. The deal was contingent upon the Emefcy Group acquisition of RWL, which took place on 14 July 2017. The consideration paid to non-controlling interests was determined as $4,618,000 and included three components: $300,000 payable in cash; $4,018,000 payable when the shares issued by Fluence corporation in relation to this transaction are sold; and $300,000 as contingent consideration, payable when the certain performance conditions are met. The cash portion of the consideration was paid in July 2017, leaving $4,318,000 unpaid as of 31 December 2017.

### *(ii)* Government Grant Liability

The Group participates in programs sponsored by the Office of the Chief Scientist (“OCS”) of Israel, for the support of research and development projects. In exchange for the Chief Scientist's participation in the programs, the Group is required to pay royalties to the Chief Scientist at a rate between 3% and 4% of sales to end customers of products developed with funds provided by the Chief Scientist, if and when such sales are recognised. As of 31 December 2017, the Group has received grants amounted to US$2,603,000. As of December 31, 2017 and 2016, the Group recognised a liability to the OCS in the amount of $2,010,000 and $957,828, respectively for the obligation for future royalty payments. The recognition of a liability for the Group to repay the grants from future royalty payments is based on its estimation at the end of each year. The discounted rate used by the Group for the liability is 13.9%. As of 31 December 2017, royalties of US$15,600 have been paid.

The Group has also participated in programs sponsored by the Ministry of National Infrastructures (“MNI”) of Israel, for the support of research and development projects. In exchange for the MNI's participation in the programs, the Group is required to pay royalties to the MNI at a rate of 5% of the sales to end customers of products developed with funds provided by the MNI, if and when such sales are recognized. As of 31 December 2017, the Group received grants in the total amount of US$297,000. As of 31 December 2017 and 2016, the Group recognized a liability to the MNI in the amount of $221,000 and $266,616, respectively. The exceptions of the Group to pay the grants are based on its estimation at the end of each year. The discounted rate used by the Group for the liability is 13.9%. As of 31 December 2017, royalties of US$43,000 have been paid.

## 15 Trade and other payables (continued)

*(iii)* **Acquisition milestone 2 payable**

As a part of the transaction between Emefcy Group Limited and Emefcy Limited (Israel) in December 2015, a maximum liability of $2million is payable to a shareholder of Emefcy Limited (Israel) on completion of the acquisition in lieu of receiving shares in Emefcy Group Limited subsequent to the satisfaction of the two commercial milestones. The First Milestone was achieved and paid in 2016. The Second Milestone was achieved at the end of the year 2017 and remained unpaid as of 31 December, 2017. The payment is expected to be processed in the first half of the year 2018.

## 16 Provisions

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| **Current** | | |
| Employee benefits | 2,362 | - |
| Provision - Onerous contracts (i) | 23,656 | 123 |
| Other | 1,693 | - |
| | **27,711** | **123** |

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| **Non-current** | | |
| Employee benefits | 878 | - |
| | **878** | **-** |

*(i)* **Onerous contracts**

Provision for onerous contracts arise from a specific project the Group had entered into in 2015. The Group took all necessary precautions in order to ensure the profitability of the project including placing prepayments in interest bearing short term bonds in the currency which most of its expenses were expected to occur.

## 17 Deferred revenue

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| Deferred revenue | 38,173 | - |

Deferred revenue represents remaining pre-payments made primarily by one large customer upon entering into a multi -year contract with the Group in 2015. The remaining work on the contract is on-going and expected to be largely completed in FY2018, with some residual work completed in early 2019.

## 18 Contributed equity

| | 31 December 2017 No. | 31 December 2016 No. | 31 December 2017 $'000 | 31 December 2016 $'000 |
|---|---|---|---|---|
| Ordinary shares | 435,368,167 | 279,551,054 | 152,810 | 51,271 |
| Options | 52,778,282 | 18,742,946 | 4,088 | 1,858 |
| **Share capital** | **488,146,449** | **298,294,000** | **156,898** | **53,129** |

## 18 Contributed equity (continued)

| ***(a)*** **Ordinary Shares - Fully Paid** | **Notes** | **Number of shares** | **$'000** |
|---|---|---|---|
| **Opening balance 1 January 2016** | | 177,437,410 | 28,325 |
| Private placement issued at AU$0.64 per share | | 49,400,000 | 22,596 |
| Shares issued to consultants during the year | | 150,000 | 81 |
| Exercise of options | | 7,563,644 | 355 |
| Issue of deferred consideration shares | (i) | 22,500,000 | - |
| | | 257,051,054 | 51,357 |
| Transaction costs arising on share issue | (iii) | - | (86) |
| Deferred consideration shares to be issued - Milestone 2 | (ii) | 22,500,000 | - |
| **Balance 31 December 2016** | | 279,551,054 | 51,271 |

| | | **Number of shares** | **$'000** |
|---|---|---|---|
| Opening balance 1 January 2017 | | 257,051,054 | 51,271 |
| Shares issued to acquire RWL Water LLC | | 80,400,000 | 65,828 |
| Private Placement at AU$0.84 per share | | 30,537,848 | 20,000 |
| Shares issued for non-controlling interests buyout | | 6,245,264 | 4,018 |
| Private Placement at AU$0.84 per share | | 16,309,001 | 10,900 |
| Exercise of options | | 2,225,000 | 802 |
| Issue of deferred consideration shares | | 18,511,027 | - |
| | | 411,279,194 | 152,819 |
| Transaction costs arising on share issue | (iii) | - | (9) |
| Deferred consideration shares to be issued - Milestone 2 | (ii) | 3,988,973 | - |
| Shares to be issued - RWL Water LLC group acquisition (subject to holdback) | | 20,100,000 | - |
| **Balance 31 December 2017** | | 435,368,167 | 152,810 |

*(i)* **Deferred consideration - Milestone 1**

The deferred consideration shares relate to the obligation for the Group to issue a further 22,500,000 shares to Emefcy Limited (Israel) vendors upon the satisfaction of the first milestone that a module of the SABRE (Spiral Aerobic Biofilm Reactor) has been delivered to the first customer's site on, or before 18 June 2016. This milestone was satisfied on 29th March 2016.

*(ii)* **Deferred Consideration - Milestone 2**

The deferred consideration shares relate to the obligation for the Group to issue a further 22,500,000 shares to Emefcy Limited (Israel) vendors upon the satisfaction of the second milestone which is "Emefcy has entered into firm contractual engagements representing an aggregate US$2 million (including all associated grants and incentives) within 24 months of the date of completion of the transaction between Emefcy Group Limited and Emefcy Limited (18 December 2015). This milestone was satisfied on 5 December 2017 and 22,500,000 shares of the Group have been released to Emefcy Limited vendors. During the reporting period, 18,511,027 deferred consideration shares were issued with the remaining 3,988,973 deferred consideration shares to be issued upon completion of certain conditions based on timing as at 31 December 2017.

*(iii)* **Transaction costs relating to share issues**

Under AASB 132, incremental costs that are directly attributable to issuing new shares should be deducted from equity. The share issue expense relates to costs directly attributable to the issuing of new shares, costs associated with the listing have been deducted from equity.

**Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of shares held. At shareholder meetings, each ordinary share is entitled to one vote when a poll is called; otherwise each shareholder has one vote on a show of hands.

## 18 Contributed equity (continued)

### *(b)* Options

| **2016** | **Number of options** | **$'000** |
|---|---|---|
| **Opening balance** | 15,856,590 | 157 |
| Reversal of unlisted options issued to employees | (2,642,946) | - |
| Unlisted options issued to Directors pursuant to the prospectus | - | 289 |
| Unlisted options issued to employees | 5,587,946 | 282 |
| Unlisted options issued to consultants | 6,555,000 | 921 |
| Unlisted options issued to directors | 2,500,000 | 264 |
| Exercised options | (7,563,644) | - |
| Cancelled options | (1,550,000) | (55) |
| **Balance at 31 December 2016** | 18,742,946 | 1,858 |

| **2017** | **Number of options** | **$'000** |
|---|---|---|
| **Opening balance (i)** | **18,742,946** | **1,858** |
| Unlisted options issued to employees | 19,978,336 | 1,221 |
| Unlisted options issued to consultants | 10,250,000 | 588 |
| Unlisted options issued to directors | 6,032,000 | 1,223 |
| Exercised options | (2,225,000) | (802) |
| Cancelled options | - | |
| **Balance at 31 December 2017** | 52,778,282 | 4,088 |

### *(c)* Summary of all unlisted options in existence

| **Grant date** | **Expiry date** | **Exercise price** | **Number under option** |
|---|---|---|---|
| 18 December 2015 | 18 December 2018 | AU 30 cents | 2,500,000 |
| 18 December 2015 | 18 December 2019 | AU 40 cents | 2,500,000 |
| 28 January 2016 | 31 July 2018 | AU 30 cents | 1,940,000 |
| 28 January 2016 | 31 January 2019 | AU 40 cents | 1,940,000 |
| 11 April 2016 | 13 April 2020 | AU 35 cents | 500,000 |
| 29 February 2016 | 23 December 2019 | AU 30 cents | 431,473 |
| 29 February 2016 | 23 December 2019 | AU 40 cents | 431,473 |
| 29 February 2016 | 28 February 2020 | AU 30 cents | 100,000 |
| 29 February 2016 | 28 February 2020 | AU 40 cents | 100,000 |
| 23 March 2016 | 23 March 2020 | AU 30 cents | 75,000 |
| 23 March 2016 | 23 March 2020 | AU 40 cents | 75,000 |
| 23 March 2016 | 12 April 2020 | AU 30 cents | 50,000 |
| 23 March 2016 | 12 April 2020 | AU 40 cents | 50,000 |
| 17 May 2016 | 16 May 2020 | AU 59 cents | 400,000 |
| 17 May 2016 | 28 May 2020 | AU 59 cents | 100,000 |
| 18 May 2016 | 18 May 2020 | AU 40 cents | 1,000,000 |
| 18 May 2016 | 18 May 2021 | AU 40 cents | 1,000,000 |
| 15 June 2016 | 31 May 2020 | AU 93 cents | 1,000,000 |
| 25 July 2016 | 31 July 2018 | AU 64 cents | 500,000 |
| 25 July 2016 | 25 July 2020 | AU 79 cents | 250,000 |
| 25 August 2016 | 25 July 2020 | AU 87 cents | 325,000 |
| 23 September 2016 | 25 September 2020 | AU 1.00 dollars | 200,000 |
| 27 October 2016 | 26 October 2020 | AU 1.07 dollars | 350,000 |
| 1 November 2016 | 31 October 2020 | AU 74 cents | 500,000 |
| 23 September 2016 | 9 November 2020 | AU 1.00 dollars | 200,000 |
| 9 February 2017 | 9 February 2021 | AU 1.00 dollars | 350,000 |
| 20 December 2016 | 20 December 2020 | AU 87 cents | 75,000 |

## 18 Contributed equity (continued)

*(v)* **Summary of all unlisted options in existence (continued)**

| | | | |
|---|---|---|---|
| 9 February 2017 | 10 January 2021 | AU 84 cents | 25,000 |
| 28 March 2017 | 4 March 2021 | AU 82 cents | 1,000,000 |
| 28 March 2017 | 31 March 2019 | AU 72 cents | 2,000,000 |
| 8 March 2017 | 31 March 2019 | AU 72 cents | 1,000,000 |
| 4 May 2017 | 3 May 2021 | AU 86 cents | 175,000 |
| 31 May 2017 | 25 May 2025 | AU 93 cents | 11,191,336 |
| 31 May 2017 | 25 May 2025 | AU 85 cents | 1,500,000 |
| 14 July 2017 | 13 July 2021 | AU 1.2 dollars | 3,850,000 |
| 14 July 2017 | 13 July 2021 | AU 1.5 dollars | 3,850,000 |
| 14 July 2017 | 13 July 2021 | AU 84 cents | 1,500,000 |
| 14 July 2017 | 25 May 2025 | AU 84 cents | 350,000 |
| 19 July 2017 | 14 July 2019 | AU 72 cents | 300,000 |
| 1 July 2017 | 6 July 2021 | AU 97 cents | 100,000 |
| 7 September 2017 | 30 September 2019 | AU 75 cents | 750,000 |
| 14 September 2017 | 13 November 2021 | AU 86 cents | 1,140,000 |
| 19 September 2017 | 31 December 2020 | AU 95 cents | 1,500,000 |
| 19 September 2017 | 31 December 2020 | AU 1.10 dollars | 1,000,000 |
| 14 July 2017 | 10 September 2021 | AU 81 cents | 4,604,000 |
| | | | 52,778,282 |

The general terms and conditions of the options are detailed in the Directors' Report.

## 19 Non-controlling interests

| | Consolidated entity 31 December 2017 $'000 |
|---|---|
| **Opening Balance at 1 January 2017** | - |
| Contributed equity | 58 |
| Profit for the year attributable to non-controlling interests | 96 |
| **Closing Balance at 31 December 2017** | **154** |

The group has three subsidiaries with non-controlling interests, none of which are material to the group.

(i) Desaladora Kenton SA de CV, Mexico was founded in December, 2015 by RWL Water LLC group ('RWL') and Mexican partners in order to invest in the project to build, finance, operate and transfer (BOT) a seawater desalination plant in San Quintin, Baja California, Mexico. RWL holds the 51% ownership share in Desaladora Kenton SA de CV. Since the acquisition of RWL on 14 July 2017, Desaladora Kenton SA de CV received approximately $58,000 capital contributions from its non-controlling interests partners.

(ii) Constructora Kenton SA de CV, Mexico was founded in May, 2016 by RWL and Mexican partners in order to act as the EPC contractor for the project to build, finance, operate and transfer (BOT) a seawater desalination plant in San Quintin, Baja California, Mexico. RWL holds the 51% ownership share in Constructora Kenton SA de CV. Constructora Kenton SA de CV did not receive any capital contributions from its non-controlling interests partners in 2017.

(iii) RWL acquired the 70% share in Acquavit Ltda., Brazil in March 2017. Acquavit Ltda. delivers water and wastewater treatment projects to industrial and municipal clients. The company has expertise in advanced oxidation, disinfection processes, membrane systems, ion exchange systems, water and wastewater treatment units, and water reuse systems.

## 20 Other reserves

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| Foreign currency translation reserve | (1,376) | (655) |

**Foreign currency translation reserve**

The foreign currency translation reserve is used to record exchange differences on translation of foreign controlled subsidiaries. Amounts are reclassified to profit or loss when the investment is disposed of.

## 21 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed.

The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

### (a) Market risk

#### *(i)* Foreign exchange risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange rate risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the Group's functional currency.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

| **Consolidated entity** | | | **31 December 2017** | | |
|---|---|---|---|---|---|
| | **ILS $'000** | **EUR $'000** | **AUD $'000** | **ARS $'000** | **RMB $'000** |
| Assets | 2,466 | 5,798 | 869 | 4,645 | 117 |
| Liabilities | (7,738) | (11,534) | (628) | (479) | (90) |
| | **(5,272)** | **(5,736)** | **241** | **4,166** | **27** |

A strengthening or weakening of 10% of the United States Dollar against the following currencies would have an equal and opposite effect on loss after tax and equity as outlined below. The analysis assumes that all other variables, in particular interest rates, remain constant.

The use of 10% was determined based on the analysis of ILS, EUR, AUD, ARS and RMB change, on an absolute value basis, between 31 December 2016 and 31 December 2017. The average change of these currencies within this period was approximately 10%.

## 21 Financial risk management (continued)

### (a) Market risk (continued)

#### *(i)* Foreign exchange risk (continued)

| | 2017 +10%/-10% $'000 | 2016 +10%/-10% $'000 |
|---|---|---|
| Israeli New Shekel (ISL) | (527)/527 | 655/(655) |
| Euro (EUR) | (574)/574 | 1/(1) |
| Australian Dollar (AUD) | 24/(24) | 175/(175) |
| Argentina Peso (ARS) | 417/(417) | - |
| Renminbi (RMB) | 3/(3) | - |

#### *(ii)* Interest rate risk

The Group is exposed to interest rate risks via the cash and cash equivalents that it holds. Interest rate risk is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities.

| | Consolidated entity | |
|---|---|---|
| | 31 December 2017 $'000 | 31 December 2016 $'000 |
| **Instruments with cash flow risk** | | |
| Cash and cash equivalents | 75,153 | 22,871 |

An increase or decrease of 1% in interest rates at the reporting date would have the following increase/(decrease) effect on after tax loss and equity. The analysis assumes that all other variables remain constant.

The use of 1% was determine based on analysis of the US Federal Funds rates change, on an absolute value basis, between December 2015, December 2016 and December 2017. The average change of rate was 0.7%.

| | 2017 +1%/-1% $'000 | 2016 +1%/-1% $'000 |
|---|---|---|
| Cash and cash equivalents | 799/(799) | 230/(230) |

### (b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group closely monitors the activities of its counterparties and controls the access to its intellectual property which enables it to ensure the prompt collection of customers' balances. The Group's main financial assets are cash and cash equivalents as well as trade and other receivables and represent the Group's maximum exposure to credit risk in connection with its financial assets. Trade and other receivables are carried on the balance sheet net of bad and doubtful debt provisions estimated by management based on prior year experience and an evaluation of prevailing economic circumstances. Wherever possible and commercially practical the Group holds cash with major financial institutions in various regions.

#### Maturity profile

The table below analyses the consolidated entity's financial assets into relevant maturity groupings based on the aging profile at the reporting date. The amounts disclosed in the table are the aging profiles of trade and other receivables for the Group.

## 21 Financial risk management (continued)

### (b) Credit risk (continued)

| **Contractual maturities of financial assets** | **Less than 6 months** | **Greater than 6 months** | **Total contractual cash flows** |
|---|---|---|---|
| **At 31 December 2017** | $'000 | $'000 | $'000 |
| Trade receivables | 17,525 | 2,356 | 19,881 |
| Other receivables | 217 | 260 | 477 |
| | **17,742** | **2,616** | **20,358** |

| **Contractual maturities of financial assets** | **Less than 6 months** | **Greater than 6 months** | **Total contractual cash flows** |
|---|---|---|---|
| **At 31 December 2016** | $'000 | $'000 | $'000 |
| Trade receivables | 223 | - | 223 |
| Other receivables | 304 | 50 | 354 |
| | **527** | **50** | **577** |

### (c) Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash balances and access to equity funding when needed.

**Maturity profile**

The table below analyses the consolidated entity's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contracted undisclosed cash flows.

| **Contractual maturities of financial liabilities** | **Less than 6 months** | **Greater than 6 months** | **Total contractual cash flows** |
|---|---|---|---|
| **At 31 December 2017** | $'000 | $'000 | $'000 |
| Trade and other payables | 27,499 | 2,907 | 30,406 |
| Borrowings | 1,043 | 102 | 1,145 |
| Other financial liabilities | 1,000 | - | 1,000 |
| | **29,542** | **3,009** | **32,551** |
| **At 31 December 2016** | | | |
| Trade and other payables | 1,372 | 1,039 | 2,411 |
| Borrowings | - | - | - |
| Other financial liabilities | - | 1,000 | 1,000 |
| | **1,372** | **2,039** | **3,411** |

## 21 Financial risk management (continued)

### (c) Liquidity risk (continued)

**Maturity profile (continued)**

### (d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may issue new shares or reduce its capital, subject to the provisions of the Group's constitution. The capital structure of the Group consists of equity attributed to equity holders of the Group, comprising contributed equity, reserves and accumulated losses. By monitoring undiscounted cash flow forecasts and actual cash flows provided to the Board by the Group's Management the Board monitors the need to raise additional equity from the equity markets.

*(i)* **Loan covenants**

Under the terms of the borrowing facilities in one of Group's subsidiaries, the Group is required to comply with the following covenants:

- Minimum tangible equity of 15 million NIS ( Israel Shekels) and
- Tangible equity of least 10% of total assets.

The Group has complied with this covenant throughout the reporting period.

## 22 Recognised fair value measurements

**Fair value hierarchy**

All assets and liabilities for which fair value is measured or disclosed are categorised according to the fair value hierarchy as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - Inputs for the assets or liability that are not based on observable market data (unobservable inputs).

| **2017** | **Level 1 $'000** | **Level 2 $'000** | **Level 3 $'000** | **Total $'000** |
|---|---|---|---|---|
| **Recurring fair value measurements** | | | | |
| *Assets* | | | | |
| Cash equivalents | 33,262 | | | 33,262 |
| Short-term deposits | 3,112 | - | - | 3,112 |
| | **36,374** | - | - | **36,374** |
| *Financial liabilities* | | | | |
| Acquisition milestone 2 payable | | - | 1,000 | 1,000 |
| Government grant liability | - | - | 2,402 | 2,402 |
| | - | - | **3,402** | **3,402** |

| **2016** | **Level 1 $'000** | **Level 2 $'000** | **Level 3 $'000** | **Total $'000** |
|---|---|---|---|---|
| **Recurring fair value measurements** | | | | |
| *Financial liabilities* | | | | |
| Acquisition milestone 2 payable | - | - | 1,000 | 1,000 |
| Government grant liability | - | - | 1,224 | 1,224 |
| | - | - | **2,224** | **2,224** |

## 22 Recognised fair value measurements (continued)

**Fair value hierarchy (continued)**

**Disclosed fair values**

The group also has assets and liabilities which are not measured at fair value, but for which fair values are disclosed in the notes to the financial statements.

Due to their short-term nature, the carrying amount of trade and other receivables, trade and other payables and provisions are assumed to approximate their fair values because the impact of discounting is not significant.

**Valuation techniques and assumptions used to derive Level 3 fair values recognised in the financial statements**

The fair value of the government grant liability is determined by the expected time period that the grant liability is to be repaid from the royalty stream from future revenue discounted over time at a rate of 13.9% (2016: 13.7%)

**Reconciliation of Level 3 fair value movements**

The following table sets out the movements in Level 3 fair values for recurring measurements.

| | **Government grant $'000** |
|---|---|
| **Opening Balance at 1 January 2016** | **1,175** |
| Adjustment to fair value of liability | 49 |
| **Closing Balance at 31 December 2016** | **1,224** |
| Payment | 67 |
| Adjustment to fair value of liability | 1,111 |
| **Closing Balance at 31 December 2017** | **2,402** |

## 23 Remuneration of auditors

| | **Consolidated entity** | |
|---|---|---|
| | 2017 $ | 2016 $ |
| **Audit and other assurance services** | | |
| Audit and review of financial statements - BDO East Coast Partnership | 159,092 | 53,214 |
| Audit and review of financial statements - BDO related practices | 159,800 | 23,600 |
| Audit and review of financial statements - Mazars | 302,118 | - |
| | **621,010** | **76,814** |
| **Other services** | | |
| BDO - Non-assurance services (i) | 159,571 | 13,973 |
| Mazars - Non-assurance services (ii) | 40,689 | |
| | **200,260** | **13,973** |

(i) BDO non-assurance services relate to the provision of services in connection with the acquisition and tax related services.

(ii) Mazars non-assurance services relate to the provision of tax related services.

## 24 Commitments and Contingent Liabilities

### (a) Commitments

(i) The Group leases premises for the year ended 31 December 2017. The aggregate minimum rental commitments under the non-cancellable rent agreements as at 31 December 2017 are $2,549 thousands (2016: $1,160 thousands).

(ii) The Group leases its motor vehicles under lease agreements. As at 31 December 2017, the minimum payment under these operating leases is $803 thousands (2016: $49 thousands).

## 24 Commitments and Contingent Liabilities (continued)

### (a) Commitments (continued)

(iii) As at 31 December 2017 the group provided bank guarantees for fulfilment of a lease commitment, for bid bonds and for performance guarantees for its projects in the amount of $4,226 thousands.

(iv) The Group has a government grant liability of $2,402 thousands for more details refer to Note 15- Trade and other payables.

### (b) Contingent liabilities

The Group was subject to a claim during the year. The Directors will vigorously defend this claim and are confident that it will be successfully defended.

## 25 Related party transactions

***Parent entity***

Fluence Corporation Limited is the legal parent entity in the consolidated entity.

***Subsidiaries***

Interests in subsidiaries are set out in note 27.

***Key management personnel***

Disclosures relating to key management personnel are set out in note 5 and the remuneration report in the directors' report.

***Loans to/from related parties***

Fluence Israel Limited has a long-term receivable from its associate, ETGR Water Infrastructure Management in the amount of $260,000, on which the interest receivable is accrued at $9,000. Fluence Israel Limited also has a balance payable to its non-controlling interests, Libra Ingenieros Civiles SA de CV and RJ Ingenieria of $137,000 and $57,000, on which the interest payable was accrued at $10,000 and $2,000 for the year 2017 post acquisition.

Other than the issue of shares and options, no other related party transactions have been entered into between key management personnel and the Group during the financial year 2017 and 2016.

***Other transactions with related parties***

Fluence Corporation LLC engaged the former sole member's management company, RSL Management, to process the payroll for a number of Fluence Corporation LLC employees during the transition period. The services, including the payroll and benefits paid to those employees, amounted to approximately $617,000 for the year 2017 post acquisition, of which approximately $27,000 was accrued as of 31 December 2017. Fluence Corporation LLC also paid approximately $100,000 for consulting services provided by the former CFO for the year 2017 post acquisition, of which approximately $10,000 was accrued as of 31 December 2017.

Fluence Corporation LLC had the liability to pay to the non-controlling interest parties for the buyout of their ownership share in Fluence Argentina. The liability of $4,018,000 accrued as of 31 December 2017 was fully paid in January 2018.

Fluence Italy S.R.L leases its operating facilities from TMR Immobiliare S.r.l. (TMR), which is an Italian private limited liability company in which two employees (former minority shareholders' of the company) are members. The lease requires Fluence Italy to pay an annual rent in twelve monthly installments plus all management expenses of the property and the cost of utilities. The lease expires in December 2018. The lease is automatically renewed for another six years unless either party gives written notice. Rent expense on this lease was approximately $48,000 for the year 2017 post acquisition. The balance future commitment is approximately $116,000 for the year 2018.

## 25 Related party transactions (continued)

***Other transactions with related parties (continued)***

Fluence USA Inc. leases its Ohio sales office from Bear Cabin 14 LLC, ("Bear Cabin"), a limited liability company in which the majority stockholder is an RWL Water USA employee. The lease, renewed in September 2017 for 12 months, requires Fluence USA to pay a monthly base rent. Rent expense on this lease was approximately $10,000 for the year 2017 post acquisition. The balance future commitment is $18,000 for the year 2018.

Fluence USA Inc. purchases goods from Waste Water Depot, LLC, a limited liability company in which an employee of Fluence USA is the member. Goods and services purchased were approximately $90,000 for the year 2017 post acquisition.

## 26 Parent entity financial information

**Summary financial information**

The functional currency of the parent entity is Australian Dollars. The individual Financial Statements for the parent entity show the following aggregate amounts:

| | 31 December 2017 $'000 AUD | 31 December 2016 $'000 AUD |
|---|---|---|
| Current assets | 31,125 | 21,029 |
| **Total assets** | 130,759 | 33,900 |
| Current liabilities | 2,107 | 1,814 |
| **Total liabilities** | 7,270 | 1,814 |
| Issued capital | 178,054 | 44,812 |
| Reserves | (2,812) | (2,170) |
| Accumulated losses | (51,753) | (10,556) |
| **Total Equity** | **123,489** | **32,086** |
| Loss for the period | (41,197) | (7,871) |
| **Total comprehensive loss** | **(41,197)** | **(7,871)** |

## 26 Parent entity financial information (continued)

**Summary financial information (continued)**

**Guarantees entered into by the parent entity in relation to the debts of its subsidiaries**
The parent entity has not entered into any guarantees in the current or prior financial year in relation to debts of its subsidiaries.

**Significant accounting policies**
The accounting policies of the parent entity are consistent with those of the Group as disclosed in note 1.

**Contractual commitments and Contingent Liabilities**
At 31 December 2017 Fluence Corporation Limited had no contractual commitment and contingent liabilities.

## 27 Subsidiaries

| Name | Place of incorporation | Ownership interest | |
|---|---|---|---|
| | | 2017 | 2016 |
| *Parent Entity* | | | |
| Fluence Corporation Limited | Australia | N/A | N/A |
| *Subsidiaries of Fluence Corporation Limited* | | | |
| Emefcy Limited (Israel) | Israel | 100% | 100% |
| Emefcy Hong Kong Limited | Hong Kong | 100% | N/A |
| *Subsidiaries of Emefcy Hong Kong Limited* | | | |
| Emefcy China Limited | China | 100% | N/A |
| *Subsidiaries of Fluence Corporation Limited* | | | |
| Fluence Corporation LLC | USA | 100% | N/A |
| *Subsidiaries of Fluence Corporation LLC* | | | |
| Nirosoft Trading (1987) Limited | Israel | 100% | N/A |
| Fluence Investments Limited | United Kingdom | 100% | N/A |
| *Subsidiaries of Investments Limited* | | | |
| RWL Desal Holding | Mexico | 100% | N/A |
| Desaladora Kenton | Mexico | 51% | N/A |
| Fluence Israel Limited | Israel | 100% | N/A |
| *Subsidiaries of Israel Limited* | | | |
| VIC Water Systems | Australia | 100% | N/A |
| Nirosoft Industries Limited | Cyprus | 100% | N/A |
| Nirosoft Australia Limited | Australia | 100% | N/A |
| Nirosoft Cyprus Limited | Cyprus | 100% | N/A |
| Nirosoft Industries Limited - Chile Branch | Chile | 100% | N/A |
| Nirosoft Industries Limited - Sucursal Colombia | Colombia | 100% | N/A |
| Central America SA de CV | Central America | 100% | N/A |
| S.D.L Technologies Limited | Israel | 100% | N/A |
| Constructora Kenton SA de CV | Mexico | 51% | N/A |
| ETGR Water Infrastructure Management | Israel | 50% | N/A |
| RWL Water Mexico | Mexico | 49% | N/A |
| Fluence Argentina | South America | 100% | N/A |
| *Subsidiaries of Fluence Argentina* | | | |
| Acquavit Ltd | Brazil | 70% | N/A |
| Fluence Middle East | UAE | 100% | N/A |
| Fluence Italy S.R.L | Italy | 100% | N/A |
| *Subsidiaries of Fluence Italy S.R.L* | | | |
| RWL Water France | France | 100% | N/A |
| Fluence USA Inc. | USA | 100% | N/A |

## 28 Events occurring after the reporting period

No matters or circumstances have arisen since the end of the reporting period which significantly affected or may significantly affect the operations of the economic entity, the result of those operations or the state of affairs of the economic entity in subsequent financial years.

**Fluence Corporation Limited (formerly Emefcy Group Limited)**
**Directors' Declaration**
**31 December 2017**

In the directors' opinion:

(a) the Financial Statements and notes set out on pages 46 to 96 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the year ended on that date, and

(b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Note 1(b) confirms that the Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of directors.

Henry Charrabé
Managing Director and CEO
29 March 2018
New York

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Australia

**INDEPENDENT AUDITOR'S REPORT**

To the members of Fluence Corporation Limited

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Fluence Corporation Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| *Business combination and provisional acquisition accounting* | *How the matter was addressed in our audit* |
|---|---|
| On 14 July 2017, Fluence Corporation Limited (**Fluence**) (formerly Emefcy Group Limited) acquired RWL Water LLC (**RWL**).<br><br>Acquisition consideration consisted of 100.5 million fully paid ordinary shares in Fluence for all of the issued capital in RWL, with Fluence being identified as the acquirer.<br><br>The Group has provisionally recognised goodwill of $56.3m arising from the acquisition of RWL.<br><br>An independent expert was engaged by the Group to conduct a purchase price allocation across the three Cash Generating Units (**CGU**) identified by Fluence.<br><br>As outlined in Note 14, the directors' assessment of the purchase price allocation involves significant accounting estimation and requires judgement by management in relation to the future growth rates, discount rates and expected cash flows for each CGU to which goodwill has been allocated.<br><br>Due to the extent of judgement and complexity associated with acquisition accounting, including assessing the fair value of assets and liabilities acquired and estimating the value of any intangibles arising from the business combination, this was considered a key audit matter.<br><br>*Refer to Note 1(j) for the business combination accounting policy; Note 3 Business combination for the details of the acquisition of RWL Water LLC; and Note 14 Intangible assets for the details of the directors' assessment of the purchase price allocation.* | Our audit strategy to address the risks associated with business combination and provisional acquisition accounting included but were not limited to:<br><br>• Reviewing the sale and purchase agreement and related documentation to understand the terms and obligations under the agreement including the consideration.<br><br>• Evaluating management's assessment of the transaction including the identity of the acquirer in accordance with Accounting Standards.<br><br>• Involving BDO IFRS technical experts in relation to management's assessment identifying the acquirer.<br><br>• Agreeing the determination of goodwill at acquisition date prepared by the Group's valuation expert.<br><br>• Critically evaluating the Group's classification of CGU's and the purchase price allocation of goodwill to the CGU's based on our understanding of the business.<br><br>• Auditing the fair value of assets and liabilities acquired at acquisition date under the sale and purchase agreement.<br><br>• Evaluating the adequacy of the disclosures relating to the business combination within the financial report. |

| *Assessment of the carrying value of goodwill* | *How the matter was addressed in our audit* |
|---|---|
| As disclosed in Note 3 and 14 to the financial report, the Group has provisionally recognised goodwill of $56.3m arising from the acquisition of RWL.<br><br>Australian Accounting Standards require an annual assessment of impairment of the goodwill intangible asset. As disclosed in Note 14, goodwill has been tested for impairment subsequent to acquisition and prior to balance date. At balance date management has also assessed for indicators of impairment.<br><br>This is a key audit matter due to the extent of judgement and complexity associated with the assessment of the carrying value of goodwill.<br><br>*Refer to Note 1(u) for the intangible asset accounting policy; Note 1(ab) for a summary of key accounting estimates relating to goodwill; and Note 14 Intangible assets for the details of goodwill recognised and the directors' assessment of the recoverability of goodwill.* | Our audit procedures included but were not limited to:<br><br>• Challenging the methodology and assumptions contained in management's goodwill impairment assessment position paper.<br><br>• Engaging our internal valuation experts to assist in our audit of management's chosen impairment assessment approach (i.e. fair-value less cost to sell (**FVLCS**)).<br><br>• Engaging our internal valuation experts to review the goodwill allocations between CGU's.<br><br>• Reading and considering the disclosures in the financial report to ensure compliance with the relevant accounting standard. |

| *Audit strategy for overseas operations* | *How the matter was addressed in our audit* |
|---|---|
| The Group's structure comprises significant overseas operations. The existence of such operations heightens the importance of engaging with the component auditor to mitigate the risk associated with delivering an audit in a location and regulatory environment other than Australia.<br><br>*Refer to Note 1(d) for the consolidation accounting policy and Note 27 for details of controlled entities.* | Our audit strategy to address the risks associated with there being significant overseas operations included but were not limited to:<br><br>• Gaining an understanding of the Group, its components and the environment they operate in to identify the risks of material misstatement to the Group financial report.<br><br>• Designing, implementing, monitoring and executing a global audit strategy with appropriate protocols and quality control review mechanisms to ensure that it was performed in accordance with the audit plan.<br><br>• Engaging component auditors, including non-BDO member firms. As part of this we evaluated their understanding of the ethical requirements and their professional competence, and ensured they were competent and independent.<br><br>• Discussing with the component auditors:<br><br>– The business and audit activities that were significant to the group audit through regular teleconferences throughout the audit.<br><br>– The susceptibility of the component auditor's financial information to material misstatement from fraud and error.<br><br>• In instances where the component auditor was a BDO member firm, an Australian team undertook a detailed review of the component auditor's working papers.<br><br>• Where the component auditors were non-BDO member firms we engaged a local BDO auditor to perform a quality control review of the auditor's working papers at each overseas location. |

**Other information**

The directors are responsible for the other information. The other information comprises the information contained in the Directors' Report for the year ended 31 December 2017, but does not include the financial report and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the Shareholder Information, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Shareholder Information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.

**Responsibilities of the directors for the Financial Report**

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the Financial Report**

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 41 of the directors' report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of Fluence Corporation Limited, for the year ended 31 December 2017, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**BDO East Coast Partnership**

BDO

David Garvey
Partner

Melbourne, 29 March 2018