Fluence Corporation Limited

ABN 52 127 734 196

Audited financial report for the year ended 31 December 2018

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Audited financial report - 31 December 2018

Contents

Fluence Corporation Limited
Corporate Directory

Directors	Mr Richard Irving *Non-Executive Chairman* Mr Henry Charrabe *Managing Director and Chief Executive Officer (CEO)* Mr Peter Marks *Non-Executive Director* Mr Ross Haghighat *Non-Executive Director* Mr Robert Wale *Non-Executive Director (Ceased to be a director on 24 May 2018)* Dr Ramesh Rengarajan *Non-Executive Director* Mr Arnon Goldfarb *Non-Executive Director* Mr Paul Donnelly (appointed 20 July 2018) *Non-Executive Director*
Company Secretary and Board Advisor	Mr Ross Kennedy
Registered Office	Level 3, 62 Lygon Street Carlton VIC 3053 Australia Phone: +61 (0)3 9824 5254 Fax: +61 (0)3 9822 7735
Principal Place of Business	10 Bank Street 8th Floor White Plains New York 10606 United States of America Phone: +1 212 572 5700
Share Registry	Boardroom Pty Ltd Level 12, 225 George Street, Sydney, New South Wales, 2000, Australia Phone: 1300 737 760 (local) Fax: +61 (0)2 9290 9600 (international)
Auditors	BDO East Coast Partnership Tower 4, Level 18, 727 Collins Street, Melbourne, Victoria, 3008, Australia
Solicitors	Lander & Rogers Lawyers Level 12, Bourke place, 600 Bourke Street Melbourne, Victoria, 3000, Australia
Bankers	HSBC Bank Australia Limited Melbourne, Victoria, Australia
Securities Quoted	*Australian Securities Exchange* - Ordinary Fully Paid Shares (Code: FLC)
Website	https://www.fluencecorp.com/investor-news/

The Directors present their report, together with the financial statements for the year ended 31 December 2018 of Fluence Corporation Limited ("Fluence", the "Company" or the "Group").

Directors

The following persons held office as Directors of Fluence Corporation Limited during the financial year:

Mr Richard Irving, Non-Executive Chairman
Mr Henry Charrabe, Managing Director and Chief Executive Officer (CEO)
Mr Peter Marks, Non-Executive Director
Mr Ross Haghighat, Non-Executive Director
Mr Robert Wale, Non-Executive Director (Ceased to be a director on 24 May 2018)
Dr Ramesh Rengarajan, Non-Executive Director
Mr Arnon Goldfarb, Non-Executive Director
Mr Paul Donnelly, Non-Executive Director (appointed 20 July 2018)

Review of operations

1 Multiple milestones achieved in 2018

Fluence's main goals for 2018 were to increase sales of Smart Products Solutions, expand its footprint in China, and secure recurring revenue contracts. The Company was successful in achieving these goals:

- Smart Products Solutions revenue in 2017 was US$10 million and in 2018 grew to US$22 million
- In China, Fluence presence expanded to 26 partnerships covering 15 provinces and 26 installations
- The Company has started to build a meaningful recurring revenue base, with secured average annual recurring revenue of US$14.7 million at 31 December 2018 following the current construction phase: US$1.7 million from Bahamas, US$3 million from Peru, and US$10 million from San Quintin

The Company also announced a 205% increase in revenue year-on-year to $101 million and significant improvement in gross margin from 18% in 2017 to 34% in 2018. Gross margin and gross profit for 2018 included the benefit of a reversal in onerous provision of US$11.1 million.

2 Notable successes include:

(i) Smart Products Solutions

- Aspiral™ sales accelerating in China:
  - Exclusive partnership agreement with ITEST in Hubei Province signed in October 2018 with anticipated Aspiral™ sales estimated at a minimum of US$45 million over three years
  - First bulk order of 35 Aspiral™ units received in December 2018 under the agreement with ITEST
  - Repeat orders through Jiangsu Jinzi Environment Company
  - First sales through other Chinese local partners: Zhongzi Huaze, Glory Land (Beijing) Science & Technology Co., Ltd and Hunan Aerospace Kaitian Environmental Technology Company Ltd

- First Aspiral™ Project in the Philippines consisting of two Aspiral™ Smart Packaged wastewater treatment units serving a residential development in Manila

- First commercial Aspiral™ sale in the USA signed in August 2018. The Aspiral™ L + Ultrafiltration (UF) plant designed for client WaterFleet, LLC ("WaterFleet") will treat the sewage of an LNG worksite, and was commissioned in January 2019

- Strategic MABR sale in October 2018 to Orenco who are a large systems integrator in the USA with the MABR modules to be incorporated into a wastewater treatment system for a mobile home park in Oregon

Review of operations (continued)

2 Notable successes include: (continued)

- An Aspiral™ demonstration unit at the Código Resource Recovery Center at Stanford University in California was successfully deployed in early 2018 and has performed to expectations. In February 2019, the Company announced that independent test results gathered from its Stanford, California demonstration plant have been published and validate compliance of Fluence's MABR technology with California's Title 22 water recycling legislation. This serves as a reference site to support further US sales

- NIROBOX™ successes:
  - NIROBOX™ reference grew to include sites in Egypt, South Africa, Philippines, Caribbean, Mexico and South America
  - Three NIROBOX™ Smart Packaged desalination plants which were delivered in Q4 2018 to a customer in Egypt for US$7.6 million. The contract also includes an operating & maintenance contract providing recurring revenues
  - US$4.9 million NIROBOX™ Seawater & installation for Peru Build-Own-Operate-Transfer (BOOT) project delivered in Q4 2018 with potential annual recurring revenues up to a total of US$5.0 million via Water Purchase Agreements (assuming full plant capacity)
  - NIROBOX™ inventory on hand at the start of the year was reduced
  - First BOOT project for a resort signed in Q2 2018 for the delivery of three NIROBOX™ to be deployed in North Bimini, Bahamas. The ability to supply financing made the project more appealing for the customer and added to Fluence's recurring revenues

(ii) Recurring Revenue and Aftermarket

- BOOT contract in Peru is expected to generate an estimated US$3.0 million in annual recurring revenue, with billings anticipated to commence in the second half of 2019

- Secured annual average recurring revenue of US$14.7 million at 31 December 2018 following the current construction phase, with a weighted average contract duration of 24 years, and revenue contributions commencing in FY2019

(iii) Custom-Engineered Solutions

- The Company continued to progress discussions with the Federal Government of Ivory Coast for the turnkey supply of a 150,000 m3/day surface-water treatment plan. As a result, a landmark €165 million commercial agreement was signed in February 2019 and is conditional upon the arrangement of export credit financing, and project commencement which Fluence is in the process of finalising

- In Q2 2018 Fluence began construction of the US$48 million San Quintin, Mexico project. This has progressed to plan, and revenues are being recognised over the 20-month term of the project. Following plant construction the project will contribute an estimated US$10 million of recurring billings for 30 years after which ownership and operation of the plant will be transferred to Comisión Estatal del Agua De Baja California

- PDVSA Portugesa project in Venezuela is approaching completion. In FY2018 this contract generated revenue of US$24.8 million, with a further US$1.2 million expected to be recognised in FY2019.

- Fluence was awarded its first waste-to-energy harvesting project in Argentina in October 2018. The €1.7 million solution to produce biogas, as well as electrical and thermal energy, was designed and built using anaerobic digestion technology developed by Fluence

3 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.

Review of operations (continued)

3 Operating in markets with attractive fundamentals (continued)

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.

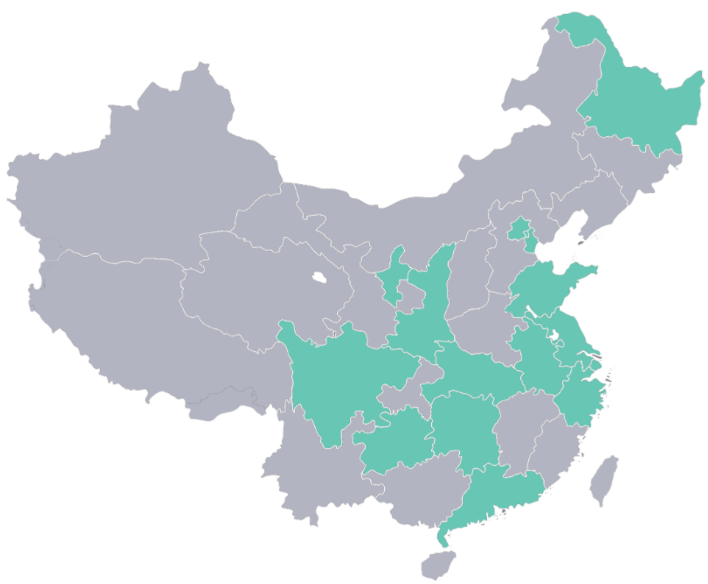
In response to these challenges, investment is being made in alternative decentralised solutions to address capacity needs quickly and economically, and importantly meet growing regulatory requirements.

(i) Smart Products Solutions

Smart Products Solutions revenues grew from US$10 million in 2017 to US$22 million in 2018.

MABR - Aspiral™ / SUBRE

The expansion of Fluence into China, both through sales and manufacturing facilities, strongly positions the Company to participate in the planned improvement in China's rural wastewater treatment quality. The Chinese Government's current five-year plan is targeting, and provides finance for, an increase in wastewater treatment for remote rural villages and at the same time to achieve Class 1A effluent discharge. With approximately 10% of rural wastewater currently treated and the five-year plan's target to reach 70% treatment of wastewater in China, Fluence's Smart Packaged Aspiral™ system featuring MABR technology is the lowest cost treatment alternative available in the decentralised market, and simultaneously guarantees to consistently reach Class 1A effluent discharge standards.



The 15 provinces and districts in China highlighted are covered by current strategic partnerships

The successful demonstration plant with Chinese partner Hubei ITEST, enabled the execution of an exclusivity agreement in October 2018 with anticipated Aspiral™ sales estimated at a minimum of US$45 million over the next three years. The first two contracts under this partnership were booked in December with a total of 35 Aspiral™ units to be deployed.

Review of operations (continued)

3 Operating in markets with attractive fundamentals (continued)

In November 2018, Fluence announced a new partnership with environmental EPC firm Zhongzi Huaze and executed a multi-unit Aspiral™ order. Six Aspiral™ units were delivered in December 2018 and commissioned in January 2019 - the first for Fluence in Jilin Province, a region subject to extreme cold climate with the temperature often dropping to -30C.

Following the successful operation of the 3 pilot sites commissioned earlier in 2018, Fluence was endorsed by the Yiyang City Government to help meet its future requirements under the Chinese Government 13th five-year plan. The Company executed a contract with Hunan Aerospace Kaitian Environmental Technology Company Ltd. to deliver four Smart Packaged Aspiral™ units, all of which were deployed in Hunan Province.

Fluence relationship with Jiangsu Jinzi Environment Company continued to strengthen through 2018 with the awarding of further contracts. Fluence developed other partner agreements in China and in 2018 also secured first sales through Zhongzi Huaze and Glory Land (Beijing) Science & Technology Co.

Outside of China, Fluence secured a contract for the first deployment of Aspiral™ Smart Packaged wastewater treatment units in the Philippines in August 2018. The two units were for a residential development located in Manila. Two Aspiral™ units were also manufactured for a customer in Ethiopia proving another new geography is well suited for the validated wastewater treatment solution.

In August, Fluence achieved its first commercial sale of an Aspiral™ Smart Packaged Wastewater Treatment Plant in the USA. The Aspiral™ L + Ultrafiltration (UF) plant was designed for WaterFleet and will treat up to 33,000 gallons per day of sewage from an LNG worksite. The decentralised wastewater treatment plant, which can serve as a mobile or permanent installation, will be relocated by WaterFleet as required to meet its treatment needs. Fluence is confident that the project can lead to additional opportunities in the municipal and industrial decentralised wastewater treatment market in the USA.

Fluence continued its efforts in the US, and in October 2018 its first MABR module sale was made to Orenco, a large systems integrator in the State of Oregon. The integration of Fluence's MABR modules into Orenco's wastewater treatment system will increase existing system capacity and efficiency, while achieving high effluent quality that meets regulatory requirements. Orenco evaluated several alternative solutions and concluded that Fluence's MABR is a more cost-effective solution as a result of higher water quality and lower operating costs.

The Aspiral™ S1 model demonstration unit at the Códiga Resource Recovery Center at Stanford University in California, was successfully deployed in early 2018. The unit operated to expectations and on 11 February 2019 Fluence advised that independent test results had been published which validated compliance of Fluence's MABR technology with California's Title 22 water recycling legislation.

Fluence's first SUBRE contract for the retrofitting of the Ma'ayan Zvi large-scale centralised wastewater treatment plant was completed and operational in Q4 2018. By incorporating MABR technology, the treatment plant's capacity is expected to increase by 15-20% while ensuring compliance with tighter nitrogen discharge rules, without the use of any hazardous chemicals.

Fluence is actively quoting SUBRE (submerged MABR) projects for potential clients in China and in other key markets and continues to focus on the full commercialisation of the product in the first half of 2019. The SUBRE product is designed to be utilised both for retrofitting or upgrading existing, centralized wastewater treatment plants, as well as in the construction of new wastewater treatment plants.

Review of operations (continued)

3 Operating in markets with attractive fundamentals (continued)

NIROBOX™

In Q4 2018 Fluence secured a US$7.6 million NIROBOX™ SW Smart Packaged desalination plant order in Egypt. These plants consist of 12 units which were already manufactured and in inventory, thus enabling very rapid deployment. The plants are expected to be fully operational by Q2 2019 and supply 12,000 m3/day of potable water to a large residential area along the Mediterranean coast. In addition, Fluence will sign a service contract to operate and maintain the units.

In July 2018 Fluence secured a contract for the deployment of three NIROBOX™ units to resorts operated by Rav Bahamas Limited. This is Fluence's first BOOT contract in the Bahamas and will generate approximately US$1.7 million annually recurring billings for up to 15 years (subject to an earlier customer cash buyout option).

In Q4 2018 Fluence secured the rights to design, build and operate a US$8.4 million seawater desalination plant in central Peru, including a 10-year Water Purchase Agreement (WPA) with an industrial client. The Plant will utilise 5 NIROBOX™ SW Smart Packaged desalination units that are already manufactured and in inventory. This plant is expected to be operational in Q3 2019 and will generate an average of US$3.0 million of recurring annual billings once operational. Negotiations for WPAs with additional industrial customers are ongoing. The plant is expected to ultimately expand to 10 NIROBOX™ SW units and supplemental WPAs have the potential to increase annual recurring billings from US$3 million to up to US$5 million at full plant capacity.

Other NIROBOX™ sales in 2018 include: two NIROBOX™ units sold to Jpark Island Resort & Waterpark, Cebu in Mactan, Philippines producing potable water from seawater for consumption; two NIROBOX™ BW (brackish water) units sold to the Municipality of Berazategui, in the province of Buenos Aires, to produce potable drinking water for residents, who previously only had access to highly polluted well water.

(ii) Recurring Revenue and Aftermarket

In November 2018, Fluence secured a US$50 million non-recourse stand-by debt facility for project financing of Build, Own, Operate and Transfer ("BOOT") projects, enhancing the Company's ability to grow the recurring revenues based on its Smart Products Solutions. The facility is provided by Generate Capital, a leading US-based infrastructure investment firm. Fluence is expected to have access to this facility on a project-by-project basis for 3 years without any geographical limitation.

Recurring revenue opportunities are a key strategic focus for Fluence. The Company has started to build a meaningful recurring revenue base, with secured average annual recurring revenue of US$14.7 million at 31 December 2018 - US$1.7 million from Bahamas, US$3 million from Peru, and US$10 million from San Quintin. Of this, US$3 million is expected to flow into revenue in 2019 as certain project construction is completed and Fluence commences management of the facilities.

(iii) Engineered Solutions and Other Products

Through 2018 Fluence continuing to progress discussions with the Federal Government of Ivory Coast for the turnkey supply of a 150,000 m3/day surface-water treatment plant, to provide high-quality drinking water for more than one million people following the signing of an exclusive Memorandum Of Understanding (MOU) in Q3 2017. Ultimately this was signed in February 2019. However, it is conditional upon the arrangement of export credit financing, and project commencement which Fluence is in the process of finalizing.

Review of operations (continued)

3 Operating in markets with attractive fundamentals (continued)

In Q1 2018 Fluence achieved financial close on the US$48 million San Quintin, Mexico project and construction commenced in Q3 2018. US$13.5 million revenue was recognised in FY2018, with the remainder to be recognised over the 15-month construction period of the project. Fluence is building and will operate the seawater desalination plant through a Special Purpose Vehicle (SPV) owned together with its local partners. The SPV will produce water for the San Quintin area for the next 30 years, after which ownership and operation of the plant will be transferred to the customer. As owner and operator of the plant, Fluence is also expected to receive an estimated average of US$10 million annually in recurring billings for 30 years after the plant begins operation.

Work is also ongoing for the Portugesa project in Venezuela under the umbrella of the PDVSA contract. The Portugesa project involves a wastewater treatment solution for ethanol plants. In FY2018 this contract generated revenue of US$24.8 million, with a further US$2.6 million expected to be recognised in 2019.

Fluence was awarded its first waste-to-energy harvesting project in Argentina in October 2018. The €1.7 million solution to produce biogas, as well as electrical and thermal energy, was designed and built using anaerobic digestion technology developed by Fluence. The project was delivered in November 2018 and serves as a valuable reference site to secure further projects in this industry and throughout South America.

In August, Fluence announced a US$3.5 million contract to design and build a water treatment plant for a prominent power plant in Buenos Aires, Argentina. Fluence and its local EPC partner were selected by the customer for this project due to their expertise in treating complicated water sources to reuse quality, the system's small footprint, and the combination of lower capital investment required and operational efficiencies to be generated.

In June, Fluence received a €3.9M contract for a wastewater treatment and waste-to-energy system for its customer ArcelorMittal, the world's largest crude steel producer. Fluence will design and build these systems for ArcelorMittal's steel mill in Ghent, Belgium, using innovative anaerobic digestion technology to produce biogas from off-gas fermentation by-products. By adding waste-to-energy treatment to the system, the biogas produced will be used to power the steel mill's operations, which will in turn lower the overall operating costs.

In April, Fluence was awarded a contract to deliver a water treatment reuse system to Rosenblad Design Group, as part of a larger project being installed in California. Fluence's zero liquid discharge solution utilises ultrafiltration and reverse osmosis equipment to treat brine for reuse. This system was delivered, installed and is expected to be operational shortly.

In May 2018, Fluence unveiled its Aspiral™ Family of wastewater treatment solutions, based on its innovative Membrane Aerated Biofilm Reactor (MABR) technology. Aspiral™ is a modular solution that reduces aeration energy consumption by up to 90% as compared to conventional wastewater treatment methods, making it ideal for small to medium-sized installations.

In 2018 Fluence presented its products and technologies at WEFTEC18 in New Orleans, The Water Expo in Miami, FENASAN in São Paulo, CWWA in Jamaica, Singapore International Water Week, the Sea Food Sustainability Summit in Barcelona, IDA International Water Reuse and Recycling Conference in Valencia, CaribDA 2018 Biennial Conference & Exposition in Curaçao, IFAT 2018 in Munich, the 2018 Arizona Water Conference. This investment of time and resources provides visibility of the Fluence solutions amongst key decision makers and potential industry partners.

Additionally, through Company presentations at these forums, Fluence's team continues to be acknowledged as thought leaders who are at the forefront in the provision and development of advanced water, wastewater and reuse solutions. There is growing recognition by the industry in general of the need to look at decentralised solutions to help solve the world's water problems and there is strong interest amongst event organizers and participants to learn more about Fluence's innovative solutions.

Review of operations (continued)

4 Strengthened management team

During the year, Fluence made a number of key appointments to its management team.

In March, Francesco Fragasso joined the Company as Chief Financial Officer (CFO). Most recently, Francesco served as the CFO at Desalitech, a reverse osmosis technology company based in Boston, Massachusetts (USA). Prior to his role at Desalitech, Francesco was the CFO for Nuvera Fuel Cells, Inc. part of Hess Corporation Group, and spent more than 10 years in public accounting with Deloitte.

To strengthen global sales efforts and build on existing partner relationships, Fluence appointed Erik Arfalk to the newly created role of Chief Marketing Officer (CMO). Erik has significant experience leading marketing teams for global industrial companies, most recently as Vice President, Marketing & Communications in the US for Swedish headquartered Atlas Copco. Prior to joining Atlas Copco, Erik worked for General Electric's Life Sciences division. Erik is responsible for strategic marketing and communications across Fluence's global portfolio of water and wastewater treatment solutions.

Anthony (Tony) Hargrave, B.Sc., MBA, was promoted from VP Global Operations to Chief Operating Officer in July 2018. Tony has an engineering background, as well as an MBA and almost 30 years of experience in the water and wastewater industry internationally, particularly across Asia. Tony has lived and worked in China, India, Europe and the USA. Having joined Fluence in May, Tony replaces Philippe Laval, who joined RWL Water in 2014 as VP of Global Sales, and later Chief Operating Officer (COO) before becoming Fluence’s COO at the time of the merger in 2017.

In July 2018 Paul Donnelly, joined Fluence’s Board of Directors as a Non-Executive Director. Paul brings extensive global capital markets experience gained over 23 years with Macquarie Group, with skills in capital markets and infrastructure, that will support the Company’s future growth.

5 Review of financial results

Following the merger with RWL Water LLC on 14 July 2017, revenues for the 2017 financial year only include revenue contributions from RWL Water LLC for the period from 14 July 2017 to 31 December 2017. Revenues for 2018 include a full year contribution from RWL Water LLC. Consequently, comparisons with financial results for 2018 are not particularly meaningful.

The Group has used United States Dollars (US$), as its presentation currency in the attached financial report, which conform to IFRS accounting standards.

The revenue from ordinary activities for the twelve months ended 31 December 2018 was US$101.1 million (2017: 33.2 million) and the loss from ordinary activities after tax was US$62.8 million (2017: US$23.6 million). The loss for the year includes a US$56.3 million non-cash goodwill write off. Excluding the goodwill write off the loss from ordinary activities after tax was US$6.5 million.

Cost of sales for the twelve months ended 31 December 2018 increased to US$66.5 million (2017: US$27.2 million).

The Group’s net assets decreased by US$52.5 million to US$51.1 million during the twelve months to 31 December 2018.

The financial results for the year reflect a number of significant non-cash, accounting items including:

- Impairment of Goodwill on acquisition of US$56.3 million - reducing net assets and increasing the loss for the period;
- Reversal of provision for onerous contract during 2018 amounting to US$11.1 million - increasing Gross Profit;

Review of operations (continued)

5 Review of financial results (continued)

- Impact of hyperinflation accounting adjustments for the Argentina Business Unit of US$17.2 million reduction in revenue and US$3.5 million reduction in expenses.

6 Significant changes in the state of affairs

During the twelve-month period, there was no significant change in the state of affairs of the company.

7 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 product solutions for water and wastewater treatment, based on the core product portfolio which has been established:

- Aspiral™ (MABR) for wastewater treatment;
- NIROBOX™ for water desalination and treatment of brackish water;
- Subre™ (MABR) for existing or new wastewater treatment;

Revenues from Smart Product Solutions are forecast to at least double in 2019 to more than US$44 million, compared to US$22 million in 2018 and US$10 million in 2017.

Fluence is also targeting sustainable EBITDA profitability by no later than Q4 2019. This will be achieved through sales of Engineered Solutions and other products plus increasing sales of smart product solutions plus higher recurring revenues from BOOT projects, water service agreements and aftermarket support.

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.

Significant events after balance date

On 27 February 2019 the Company signed a landmark €165 million commercial agreement with the Federal Government of Ivory Coast for the turnkey supply of a 150,000 m3/day surface-water treatment plant (the “ IC Plant”).

The commercial agreement still needs to reach financial close, which is conditional upon a number of events including the arrangement of export credit financing, which Fluence is in the process of finalising and procurement of land for IC Plant. Fluence is in advanced discussions to arrange third party financing for the Government of Ivory Coast via a loan from Israel Discount Bank. The project has the support of the state of Israel through its Export Credit Agency (ASHRA). Following Financial Close, which is expected to occur during Q3 2019, construction of the IC Plant will then commence, with completion occurring within 24 months thereafter.

Subject to Finance Close and Project Commencement, Fluence expects that this contract will contribute revenues of up to US$20 million in 2019, US$80 million in 2020, with the balance of the contract value to be recognised in 2021. This will significantly increase Fluence’s contracted backlog for each of these years. Progress payments are expected to be made on a quarterly basis, and project financing will be further supported by a specific working capital facility.

Information on directors

Richard Irving *Non-Executive Chairman*	
Qualifications	B. Sc. (First class honours) in Electrical Engineering, Manchester University, UK M. Sc. Electrical Engineering, Manchester University, UK
Experience and expertise	Richard Irving is the Non-Executive Chairman of Fluence Corporation Limited. In January 2019 following the release of the Company's results for 2018, Mr. Irving stepped down from Executive Chairman to Non-Executive Chairman. Prior to Fluence Corporation Limited, Mr. Irving served as Executive Chairman & Chairman of Emefcy Group Limited from 2010. 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. Richard has helped create over $3 billion in shareholder value through IPOs, acquisitions, and private financings. Past exits include LiveRail (Facebook), Gigle Networks (Broadcom), 4Home (Motorola Mobility), Transitive (IBM), and Microcosm Communications (Conexant). 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	Non-Executive Chairman 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 and a direct interest in 1,000,000 shares, for a total of 37,264,579 shares in the Group.
Interest in options	Direct interest in: 950,000 Director options with an exercise price of A$1.20; 950,000 Director options with an exercise price of A$1.50
Contractual rights to shares	Nil

Information on directors (continued)

Henry Charrabé *Managing Director & CEO*	
Qualifications	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 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 Group. Prior to the establishment of Fluence, Mr. Charrabé served as President and Chief Executive Officer of RWL Water from its inception in 2010 up to the time of the acquisition by Emefcy Group Limited on 14 July 2017. 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 Corporation in the United States and Europe. From 2003 to 2005, Mr. Charrabé served as Chief Operating Officer of W2W, an electrocoagulation wastewater technology company.
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 exercise price of A$0.93
Contractual rights to shares	None

Information on directors (continued)

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. 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 of Emefcy Group Limited from 2015. 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) and 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., Angel Medical Systems, Inc.
Former directorships in last 3 years	None
Special responsibilities	Chair of the Remuneration and Nomination Committee Member of the Audit and Risk Committee until 28 August 2018
Interest in shares	Direct interest in 500,000 shares
Interest in options	Direct interest in: 500,000 Director options with an exercise price of A$0.40; 700,000 Director options with an exercise price of A$1.20; 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 MBA degree from the University of Edinburgh, Scotland (Scottish Business School)
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. 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), Noxopharm Ltd, Nyrada Inc. and Terragenic International Ltd
Former directorships in last 3 years	Nil
Special responsibilities	Member of the Remuneration and Nomination Committee Chair of the Audit and Risk Committee.
Interest in shares	Indirect interest in 2,754,403 shares through Lampam Pty Ltd.
Interest in options	Direct interest in: 500,000 Director options with an exercise price of A$0.40; 700,000 Director options with an exercise price of A$1.20; 700,000 Director options with an exercise price of A$1.50.
Contractual rights to shares	None

Robert Wale *Non-Executive Director (Ceased to be a director on 24 May 2018)*

Information on directors (continued)

Dr Ramesh Rengarajan *Non-Executive Director*	
Qualifications	Bachelor in Chemical Engineering from Annamalai University in India Masters in Chemical Engineering from University of Akron in Ohio, USA Doctorate in Chemical Engineering from University of Akron in Ohio, USA
Experience and expertise	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. 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. 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. 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.
Other current directorships	Nil
Former directorships in last 3 years	Liqtech - (NYSE:LIQT)
Special responsibilities	Nil
Interest in shares	Nil
Interest in options	Direct interest in 1,500,000 Director options with an exercise price of A$0.835
Contractual rights to shares	None

Information on directors (continued)

Arnon Goldfarb *Non-Executive Director*	
Qualifications	Arnon Goldfarb holds a B.Sc. in Chemistry from the Hebrew University, Jerusalem, Israel and a M.Sc. in Ocean Engineering from University of Rhode Island, USA.
Experience and expertise	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. 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. 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. Arnon serves as Chairman of Atlantium Technologies, as well as on the boards of TGA, a waste treatment facility, and TSP, a chemical company.
Other current directorships	Atlantium, TGA and TSP (see above)
Former directorships in last 3 years	Nil
Special responsibilities	Nil
Interest in shares	Nil
Interest in options	Direct interest in: 750,000 Director options with an exercise price of A$1.20; 750,000 Director options with an exercise price of A$1.50.
Contractual rights to shares	None

Information on directors (continued)

Paul Donnelly *Non-Executive Director (appointed 20 July 2018)*	
Qualifications	BSc (Hons) Chemistry, University of Southampton Advanced Management Programme, Harvard Business School Member of Institute of Chartered Accountants in England & Wales Graduate Australian Institute of Company Directors
Experience and expertise	Paul Donnelly serves as Non-Executive Director for Fluence Corporation. Mr. Donnelly is an accomplished financial services executive with international experience across all aspects of capital markets. Mr. Donnelly is an Executive Director at Macquarie Capital, where he has served since 1995 in various roles, including President & CEO of Macquarie's Canadian Operations, and Global Head of Equity and Debt Capital Markets, among others. Mr. Donnelly has a broad range of sector experience, both in Australia and internationally, with particular skills in financial services, infrastructure and utilities. Over his twenty five-year career, he has gathered deep transactional experience advising on significant and complex transactions for leading Australian and international companies.
Other current directorships	Melbourne Recital Centre
Former directorships in last 3 years	Nil
Special responsibilities	Member, Audit and Risk Committee (from 28 August 2018)
Interest in shares	Indirect interest in 500,000 shares held by Tres Petitbijou Pty Ltd ATF <Tres Petitbijou Superannuation Fund>
Interest in options	Nil
Contractual rights to shares	None

Company secretary

The Company Secretary is Ross Kennedy. Mr. Kennedy was appointed to the position of Company Secretary on 23 December 2015. Ross was previously 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 (the "Board") and of each Board Committee held during the year ended 31 December 2018, and the number of meetings attended by each Director were:

Fluence - for the year ended 31 December 2018	Full Board		Meetings of committees: Audit		Meetings of committees: Remuneration and Nomination	
	A	B	A	B	A	B
Mr Richard Irving	16	16	-	-	-	1
Mr Henry Charrabé **	16	16	-	-	-	-
Mr Ross Haghighat	16	16	2	3	1	1
Mr Peter Marks	16	16	3	3	1	1
Mr Robert Wale (Ceased to be a director on 24 May 2018)**	8	8	-	-	-	-
Dr Ramesh Rengarajan **	12	16	-	-	-	-
Mr Arnon Goldfarb **	16	16	-	-	-	-
Mr Paul Donnelly (appointed 20 July 2018)	6	7	2	2	-	-
Mr Ross Kennedy (Company Secretary and Audit Committee member)	16	16	3	3	-	-

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

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 MABR has demonstrated compliance to China Class 1A effluent standards as well as to Title 22 Certification in California, USA. 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 2018 remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year.

Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive in attracting and retaining talent and appropriate for the business results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms to generally accepted industry standards for remuneration. The Board ensures that executive reward satisfies the following key criteria in accordance with good reward governance practices:

- Competitiveness to attract and retain talent;
- Reasonableness in terms of industry benchmarks;
- Acceptability to shareholders;
- Alignment of compensation incentives to business performance goals; and
- Transparency.

Remuneration report (Audited) (continued)

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

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

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

(a) Alignment to shareholders' interests:
- Achievement of strategic goals as a core component of plan design;
- Include a focus for the CEO on growth in shareholder wealth, as measured by growth in the 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 successful execution of the business strategy and business performance; 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.

In early 2019, the Executive Chairman role transitioned to Non-Executive Chair.

The Board has determined that there will be no increase in Non-Executive Director fees for 2019.

This follows the same decision in 2018, such that Non-Executive Director fees are unchanged from the Mercer Consulting recommendations in 2017.

The Executive Chair's fees for 2018 were determined in parallel to the fees of other Non-Executive Directors, and also based on comparative roles in the external market. The Executive Chairman did 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.

Other than the Director Fee, Directors may receive share options but do not receive other incentives or compensation.

Remuneration report (Audited) (continued)

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

Directors remuneration (continued)

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 US$ 767,000 (equivalent of AU$ 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 in mid-2017.

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.

During 2018 Fluence experienced a year of organisation re-structuring and re-design of strategic goals for each part of the business. In view of these changes, and new appointments for most of the executive roles, the Board determined that upon achievement of key corporate performance metrics for 2018, discretionary short-term incentives will be payable to Executives, adjusted pro-rata for the number of quarters worked by each executive during the year.

In the latter part of 2018, ClearBridge Compensation Group, was engaged to design an Executive remuneration system. The resulting recommendation adopted by the Board comprised a fixed base, a short-term incentive ("STI") program incorporating Company and individual targets and the continuing long-term incentive (“LTI”) program incorporating equity-based compensation.

The STI program for 2019 is comprised of specific Company-wide targets and tailored individual targets to aligned to specific areas of responsibility. Key Performance Indicators ("KPI's") include meeting or exceeding budget goals for the year.

The LTI program is comprised of equity-based remuneration in the form of unlisted options. An employee option plan was originally approved by shareholders on 17 November 2015. Options are awarded to executives as long-term incentives aligned to shareholder wealth through the exercise price being calculated at a premium to volume weighted average market price prior the date of grant. Appropriately structured LTI's also provide incentives to retain talent.

Certain executive options are comprised of a 50% time vesting element and a 50% performance based vesting element.

Remuneration report (Audited) (continued)

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

Business performance in 2018 and executive remuneration

Fluence undertakes its activities on a global basis and employs staff across multiple geographies. As part of its practice of recruiting and retaining staff of the highest calibre on a long-term basis, the Company is constantly monitoring and developing compensation practices. As noted above, international benchmarking is used as an important tool in setting remuneration practices. In view of the significant business development achievements during 2018 including revenue in excess of US$100 million, a significant reduction in EBITDA losses, strong business growth in China and increasing sales of Smart Packaged Products, discretionary executive bonuses have been awarded for 2018.

Consolidated entity performance and link to remuneration

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

As previously noted, key management personnel bonuses for the year 2019 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 2018 consisted of:
• Richard Irving - Non-Executive Chairman
• Henry Charrabe - Managing Director and Chief Executive Officer (CEO)
• Peter Marks - Non-Executive Director
• Ross Haghighat - Non-Executive Director
• Robert Wale - Non-Executive Director (ceased to be a director on 24 May 2018)
• Ramesh Rengarajan - Non-Executive Director
• Arnon Goldfarb - Non-Executive Director
• Paul Donnelly - Non-Executive Director (appointed 20 July 2018)
• Francesco Fragasso - Chief Financial Officer (appointed 2 April 2018)
• Anthony Hargrave - Chief Operating Officer (appointed 16 May 2018)
• Erik Arfalk - Chief Marketing Officer (appointed 15 March 2018)
• Spencer Smith - Chief Legal Officer (determined as a key management personnel 1 January 2018)
• Philippe Laval - Chief Operating Officer (resigned on 31 August 2018)
• Robert Wowk - Chief Financial Officer (resigned on 31 May 2018)

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 Chief Executive Officer (CEO)
• Peter Marks - Non-Executive Director
• Ross Haghighat - Non-Executive Director
• Robert Wale - Non-Executive Director
• Ross Kennedy - Company Secretary and Advisor to the Board
• Ronen Shechther - Chief Technology Officer
• Yaron Bar-Tal - Vice President of Engineering
• Lior Zitershpiler - Vice President of Finance
• Ilan 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 - Managing Director and Chief Executive Officer (CEO)
• Eytan Levy - Executive Director (resigned 31 August 2017)
• Peter Marks - Non-Executive Director
• Ross Haghighat - Non-Executive Director
• Robert Wale - Non-Executive Director
• Ramesh Rangarajan - 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	
2018	Cash salary and fees					Superannuation	Long service leave	Equity settled shares	Equity settled options	Total
	Standard	Special projects	Total salary and fees	Bonus (Note 1)	Allowance					
	$	$	$	$	$	$	$	$	$	$
Executive directors:										
Henry Charrabé*	900,000	-	900,000	144,122	255,232	-	-	-	694,793	1,994,147
Total	**900,000**	**-**	**900,000**	**144,122**	**255,232**	**-**	**-**	**-**	**694,793**	**1,994,147**
Non-executive directors:										
Richard Irving	186,846	-	186,846	-	-	-	-	-	70,743	257,589
Peter Marks	110,613	-	110,613	-	-	-	-	-	52,126	162,739
Ross Haghighat	107,533	-	107,533	-	-	-	-	-	52,126	159,659
Ramesh Rengajan	89,686	-	89,686	-	-	-	-	-	89,811	179,497
Arnon Goldfarb	89,686	-	89,686	-	-	-	-	-	9,096	98,782
Paul Donnelly (appointed 20 July 2018	52,358	-	52,358	-	-	-	-	-	-	52,358
Robert Wale Ceased to be a director on 24 May 2018)	38,801	-	38,801	-	-	-	-	-	64,864	103,665
Total	**675,523**	**-**	**675,523**	**-**	**-**	**-**	**-**	**-**	**338,766**	**1,014,289**

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	
2018	Cash salary and fees					Superannuation	Long service leave	Equity settled shares	Equity settled options	Total
	Standard	Special projects	Total salary and fees	Bonus	Allowance					
	$	$	$	$	$	$	$	$	$	$
Other key management personnel:										
Francesco Fragasso*	204,271	-	204,271	74,229	-	-	-	-	50,575	329,075
Anthony Hargrave*	181,250	-	181,250	51,051	-	-	-	-	17,540	249,841
Erik Arfalk*	174,167	-	174,167	39,600	-	-	-	-	31,610	245,377
Spencer Smith*	295,000	-	295,000	66,375	-	-	-	-	36,959	398,334
Philippe Laval	233,328	-	233,328	100,000	-	-	-	-	113,209	446,537
Robert Wowk	205,002	-	205,002	-	-	-	-	-	-	205,002
Total	**1,293,018**	**-**	**1,293,018**	**331,255**	**-**	**-**	**-**	**-**	**249,893**	**1,874,166**
Grand total	**2,868,541**	**-**	**2,868,541**	**475,377**	**255,232**	**-**	**-**	**-**	**1,283,452**	**4,882,602**

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Amounts of remuneration (shown in USD) (continued)

*Percentage of remuneration subject to performance in 2018 is as follows:

Name	Percentage
Henry Charrabé	19.5%
Francesco Fragasso	30.2%
Anthony Hargrave	23.9%
Erik Arfalk	22.6%
Spencer Smith	16.7%

Note 1 Some cash bonuses are dependent on meeting defined performance measures. The amount of bonus is determined having regard to the satisfaction of performance measures. The amounts payable are determined at the end of each fiscal year by the Nomination and Remuneration Committee.

Name	Cash bonus paid/payable		Cash bonus forfeited	
	2018	2017	2018	2017
Henry Charrabé	11.5%	50%	88.5%	50%

Bonuses paid in the 2018 financial year were discretionary bonuses approved by the Board relating to corporate and operating performance.

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*	Total salary and fees	Bonus	Allowance					
	$	$	$	$	$	$	$	$	$	$
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**

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*	Total salary and fees	Bonus	Allowance					
	$	$	$	$	$	$	$	$	$	$
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
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**

* 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.

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*	Total salary and fees	Bonus	Allowance					
	$	$	$	$	$	$	$	$	$	$
Executive directors:										
Richard Irving	88,253	-	88,253	-	-	-	-	-	36,142	124,395
Henry Charrabé**	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**

Fluence Corporation Limited
Directors' Report
31 December 2018
(continued)

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*	Total salary and fees	Bonus	Allowance					
	$	$	$	$	$	$	$	$	$	$
Other key management personnel:										
Ross Kennedy	42,944	76,686	119,630	-	-	-	-	-	16,415	136,045
Phillippe Laval**	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**

*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.

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

Bonuses paid in the 2017 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.

2018	Balance at the start of the year	Received as compensation	Options exercised	Net change other	Total
Executive Directors					
Henry Charrabé	-	-	-	-	-
Non-Executive Directors					
Richard Irving*	36,264,579	-	1,000,000	-	37,264,579
Peter Marks *	2,254,403	-	500,000	-	2,754,403
Ross Haghighat*	-	-	500,000	-	500,000
Ramesh Rengarajan	-	-	-	-	-
Arnon Goldfarb	-	-	-	-	-
Robert Wale (ceased to be a director on 24 May 2018)	-	-	-	-	-
Paul Donnelly (appointed 20 July 2018)	-	-	-	-	-
	38,518,982	**-**	**2,000,000**	**-**	**40,518,982**
Key Management Personnel					
Francesco Fragasso (appointed 2 April 2018)	-	-	-	-	-
Anthony Hargrave (appointed 16 May 2018)	-	-	-	-	-
Erik Arfalk (appointed 15 March 2018)	-	-	-	-	-
Spencer Smith (determined as KMP 1 January 2018)	-	-	-	-	-
Philippe Laval (resigned 31 August 2018)	-	-	-	-	-
Robert Wowk (resigned 31 May 2018)	-	-	-	-	-
	-	**-**	**-**	**-**	**-**
Total	**38,518,982**	**-**	**2,000,000**	**-**	**40,518,982**

*An amount of US$473,744 was paid for options exercised during the year by the following Directors:

Name	Amount paid
Richard Irving	257,092
Ross Haghighat	108,326
Peter Marks	108,326

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Issue of shares (continued)

2017	Balance at the start of the year	Received as compensation	Options exercised	Net change other	Total
Executive directors					
Richard Irving - *see Note 2 below*	28,944,080	-	-	7,320,499	36,264,579
Henry Charrabé (appointed 14 July 2017)	-	-	-	-	-
Eytan Levy (resigned 31 August 2017) - *see Note 1 below*	9,267,810	-	-	(9,267,810)	-
	38,211,890	**-**	**-**	**(1,947,311)**	**36,264,579**
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 Schechter (1 January 2017 through 14 July 2017) - *see Note 1 below*	9,267,810	-	-	(9,267,810)	-
Yaron Bar-Tal (1 January 2017 through 14 July 2017) - *see Note 1 below*	782,149	-	-	(782,149)	-
Lior Zitershpiler (1 January 2017 through 14 July 2017) - *see Note 1 below*	325,896	-	-	(325,896)	-
Ilan Wilf (1 January 2017 through 14 January 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 A negative adjustment is shown where the person ceased to be a director or KMP during the year.

*An amount of US$44,320 was paid for options exercised during the year by Peter Marks.

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.

2018	**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							
Henry Charrabé	11,191,336	-	-	-	11,191,336	2,941,557	8,249,779
	11,191,336	**-**	**-**	**-**	**11,191,336**	**2,941,557**	**8,249,779**
Directors							
Richard Irving	2,900,000	-	(1,000,000)	-	1,900,000	-	1,900,000
Peter Marks	2,400,000	-	(500,000)	-	1,900,000	500,000	1,400,000
Ross Haghighat	2,400,000	-	(500,000)	-	1,900,000	500,000	1,400,000
Ramesh Rangarajan	1,500,000	-	-	-	1,500,000	-	1,500,000
Arnon Goldfarb	-	1,500,000	-	-	1,500,000	-	1,500,000
Robert Wale (Ceased to be a director on 24 May 2018)	2,000,000	-	-	(2,000,000)	-	-	-
Paul Donnelly (appointed 20 July 2018)	-	-	-	-	-	-	-
	11,200,000	**1,500,000**	**(2,000,000)**	**(2,000,000)**	**8,700,000**	**1,000,000**	**7,700,000**

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Issue of options (continued)

2018	Balance at start of year	Granted as compensation	Option expired / exercised	Net change other	Balance at end of year	Vested & Exercisable	Escrowed / Unvested
Key Management Personnel							
Francesco Fragasso (appointed 2 April 2018)	-	800,000	-	-	800,000	75,000	725,000
Anthony Hargrave (appointed 16 May 2018)	-	500,000	-	-	500,000	31,250	468,750
Erik Arfalk (appointed 15 March 2018)	-	500,000	-	-	500,000	46,875	453,125
Spencer Smith (determined as a KMP 1 January 2018)	350,000	75,000	-	-	425,000	206,250	218,750
Philippe Laval (resigned 31 August 2018)	1,500,000	100,000	-	(1,600,000)	-	-	-
Robert Wowk (resigned 31 May 2018)	-	100,000	-	(100,000)	-	-	-
	1,850,000	**2,075,000**	**-**	**(1,700,000)**	**2,225,000**	**359,375**	**1,865,625**
Total	**24,241,336**	**3,575,000**	**(2,000,000)**	**(3,700,000)**	**22,116,336**	**4,300,932**	**17,815,404**

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Issue of options (continued)

2017	**Balance at start of year**	**Granted as compensation**	**Option Expired**	**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
Arnon Goldfarb (Since 19 September 2017)	-	-	-	-	-	-	-
	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	-	-	-	-	-	-	-
Yaron Bar-Tal	265,768	-	-	(265,768)	-	-	-
Lior Zitershpiler	177,178	-	-	(177,178)	-	-	-
Ilan Wilf	1,500,000	-	-	(1,500,000)	-	-	-
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)

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 2018. Commencing in 2018, options issued to Key Management Personnel vest 50% on a time basis in 16 equal quarterly increments subject to the employee continuing to be employed by the Group at the vesting date and 50% subject to meeting annual performance criteria.

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

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

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

2018	**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							
Henry Charrabé	-	-	-	-	-	-	-
Non-Executive Directors							
Richard Irving	-	-	-	-	-	-	-
Peter Marks	-	-	-	-	-	-	-
Ross Haghighat	-	-	-	-	-	-	-
Ramesh Rengarajan	-	-	-	-	-	-	-
Arnon Goldfarb	31 July 2018	750,000	-	0.0339	1.20	31 July 2022	25,425
	31 July 2018	750,000	-	0.0240	1.50	31 July 2022	18,000
Paul Donnelly	-	-	-	-	-	-	-
Key Management Personnel							
Francesco Fragasso	26 March 2018	800,000	75,000	0.1436	0.48	25 May 2022	114,880
Anthony Hargrave	28 June 2018	500,000	31,250	0.1100	0.46	27 August 2022	55,000
Erik Arfalk	26 March 2018	500,000	46,875	0.1436	0.48	25 May 2022	71,800
Spencer Smith	26 March 2018	75,000	75,000	0.1426	0.48	25 May 2022	10,695
Philippe Laval	10 January 2018	100,000	100,000	0.1369	0.58	11 March 2022	13,690
Robert Wowk	2 March 2018	100,000	100,000	0.1055	0.53	1 May 2022	10,550

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)	-	-	-	-	-	-	-

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$
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
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

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: Non-Executive Chairman
Agreement commenced: 18 December 2015. Mr Irving was previously Executive Chairman of Emefcy Limited
Term of agreement: Open
Details: Executive Chairman Director fees of US$186,846 (AU$250,000) fees per annum. Remuneration is reviewed annually by the Remuneration and Nomination Committee

Name: Ross Haghighat
Title: Non-Executive Director
Agreement commenced: 18 December 2015
Term of agreement: Open
Details: Non-executive Director fees of US$89,686 (AU$120,000) per annum plus Chair of Remuneration and Nomination Committee fees of US$11,958 (AU$16,000) per annum and Member of Audit and Risk Committee fees of US$8,969 (AU$12,000) per annum paid pro-rata to August 28 2018.

Name: Peter Marks
Title: Non-Executive Director
Agreement commenced: 12 May 2015
Term of agreement: Open
Details: Non-Executive Director fees of US$89,686 (AU$120,000) per annum plus Member of Remuneration and Nomination Committee fees of US$8,969 (AU$12,000) per annum and Chair of Audit and Risk Committee fees of US$11,958 (AU$16,000) per annum. Remuneration is reviews annually by the Remuneration and Nomination Committee.

Name: Robert Wale
Title: Non-Executive Director (Ceased to be a director on 24 May 2018)
Agreement commenced: 5 April 2016
Term of agreement: Closed
Details: Non-Executive Director fees of US$89,686 (AU$120,000) per annum paid pro-rata to 24 May 2018.

Name: Dr. Rengarajan Ramesh
Title: Non-executive Director
Agreement commenced: 14 July 2017
Term of agreement: Open
Details: Non-executive director fees of US$89,686 (AU$120,000) per annum. Remuneration is to be reviewed annually by the Remuneration and Nomination Committee.

Name: Arnon Goldfarb
Title: Non-executive Director
Agreement commenced: 19 September 2017
Term of agreement: Open
Details: Non-executive director fees of US$89,686 (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: Paul Donnelly
Title: Non-executive Director
Agreement commenced: 20 July 2018
Term of agreement: Open
Details: Non-executive director fees of US$89,686 (AU$120,000) per annum paid pro-rata from July 2018 plus Member of Audit and Risk Committee fees of US$8,969 (AU$12,000) per annum paid pro-rata from August 2018. Remuneration is to be reviewed annually by the Remuneration and Nomination Committee.

Name: Henry Charrabé
Title: Managing Director and Chief Executive Officer
Agreement commenced: 26 May 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$300,000 (year-end deferred remuneration annually)	Health insurance and other health and welfare benefits for Mr. Charrabé and his family (capped at 30% of base salary)
		Discretionary bonus of up to US$75,000, payable annually	Housing allowance of US$255,232 per annum
		A cash bonus of up to 100% of base salary for outperformance on one or more of his performance metrics for 2018	

Employment Based Option Remuneration:

Number of options granted	**Grant date**	**Exercise Price**	**Vesting Period**
5,595,668	31 May 2017	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 26 May 2017 (Share Purchase Agreement signing date).

Remuneration report (Audited) (continued)

Service agreements (continued)

Performance Based Option Remuneration:

Number of options granted	**Grant date**	**Exercise Price**	**Vesting Period**
5,595,668	31 May 2017	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. 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)

Name: Francesco Fragasso
Title: Chief Financial Officer
Agreement commenced: Mr Fragasso joined Fluence Corporation Limited on 2 April 2018
Term of agreement: Notice period by either party of 60 days
Details of remuneration:

	Cash salary and fees	Bonuses and deferred remuneration	Other Benefits
Francesco Fragasso	US$265,000 (base salary)	Discretionary bonus of up to 40% of base salary	Health insurance for Mr. Fragasso and his family

Employment Based Option Remuneration:

Number of options granted	Grant date	Exercise price	Vesting period
400,000	26 March 2018	AU$0.48	Options will vest and become exercisable in equal instalments at the end of each consecutive three (3) months period over four (4) years, commencing on 26 March 2018

Performance Based Option Remuneration:

Number of options granted	Grant date	Exercise price	Vesting period
400,000	26 March 2018	AU$0.48	Options are exercisable in equal annual instalments at the end of each consecutive twelve (12) months period over four (4) years period, commencing on 26 March 2018. Vesting of these options will be subject to meeting performance criteria established by the Board.

Remuneration report (Audited) (continued)

Service agreements (continued)

Name: Anthony Hargrave
Title: Chief Operating Officer
Agreement commenced: Mr Hargrave joined Fluence Corporation Limited on 16 May 2018
Term of agreement: Notice period by either party of 90 days
Details of remuneration:

	Cash salary and fees	Bonuses and deferred remuneration	Other Benefits
Anthony Hargrave	US$300,000 (base salary)	Discretionary bonus	Health insurance for Mr. Hargrave and his family

Employment Based Option Remuneration:

Number of options granted	Grant date	Exercise price	Vesting period
250,000	28 June 2018	AU$0.46	Options will vest and become exercisable in equal instalments at the end of each consecutive three (3) months period over four (4) years, commencing on 28 June 2018

Performance Based Option Remuneration:

Number of options granted	Grant date	Exercise price	Vesting period
250,000	28 June 2018	AU$0.46	Options are exercisable as follows: 12.5% on 31 January 2019, 75% in 3 equal instalments on 31 January 2020, 31 January 2021 and 31 January 2022 with the remaining 12.5% on 31 July 2022. Vesting of these options will be subject to meeting performance criteria established by the Board.

Remuneration report (Audited) (continued)

Service agreements (continued)

Name: Erik Arfalk
Title: Chief Marketing Officer
Agreement commenced: Mr Arfalk joined Fluence Corporation Limited on 15 March 2018
Term of agreement: Notice period by either party of 30 days
Details of remuneration:

	Cash salary and fees	Bonuses and deferred remuneration	Other Benefits
Erik Arfalk	US$220,000 (base salary)	Discretionary bonus of up to 25% of base salary	Health insurance for Mr. Arfalk and his family

Employment Based Option Remuneration:

Number of options granted	Grant date	Exercise price	Vesting period
250,000	26 March 2018	AU$0.48	Options will vest and become exercisable in equal instalments at the end of each consecutive three (3) months period over four (4) years, commencing on 26 March 2018

Performance Based Option Remuneration:

Number of options granted	Grant date	Exercise price	Vesting period
250,000	26 March 2018	AU$0.48	Options are exercisable in equal annual instalments at the end of each consecutive twelve (12) months period over four (4) years period, commencing on 26 March 2018. Vesting of these options will be subject to meeting performance criteria established by the Board.

Remuneration report (Audited) (continued)

Service agreements (continued)

Name: Spencer Smith
Title: Chief Legal Officer
Agreement commenced: Mr Smith joined Fluence Corporation Limited on 31 May 2016
Term of agreement: Notice period by either party of 30 days
Details of remuneration:

	Cash salary and fees	**Bonuses and deferred remuneration**	**Other Benefits**
Spencer Smith	US$260,000 (base salary)	US$35,000 (year-end deferred remuneration annually)	Health insurance Mr. Smith and his family
		Discretionary bonus	

Employment Based Option Remuneration:

Number of options granted	**Grant date**	**Exercise price**	**Vesting period**
350,000	14 July 2017	AU$0.84	Options will vest and become exercisable in equal instalments at the end of each consecutive three (3) months period over four (4) years, commencing on 14 July 2017
75,000	26 March 2018	AU$0.48	Options are fully vested

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

Shares under option

Unissued ordinary shares

Unissued ordinary shares of Fluence Corporation 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 2019	AU 40 cents	2,000,000
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	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	347,389
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
14 July 2017	10 September 2021	AU 81 cents	3,800,000
10 January 2018	11 March 2022	AU 58 cents	180,000
26 March 2018	25 May 2022	AU 48 cents	1,375,000
28 June 2018	27 August 2022	AU 46 cents	500,000

Shares under option (continued)

Unissued ordinary shares (continued)

Date options granted	Expiry date	Issue price of shares	Number under option
31 July 2018	31 July 2022	AU 1.20 dollars	750,000
31 July 2018	31 July 2022	AU 1.50 dollars	750,000
			46,436,671

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 48.

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 2019
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 2018, 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 2019

Fluence Corporation Limited ABN 52 127 734 196
Annual report - 31 December 2018

Contents

Fluence Corporation Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2018

	Notes	Consolidated entity 31 December 2018 $'000	Consolidated entity 31 December 2017 $'000
Revenues			
Operating revenue	3	100,873	33,083
Other income		250	105
		101,123	**33,188**
Expenses			
Cost of sales		(66,502)	(27,230)
Research and development expenses	3	(7,214)	(5,970)
Sales and marketing expenses	3	(10,689)	(6,299)
General and administration expenses	3	(27,742)	(17,940)
Goodwill impairment	14	(56,293)	-
Other gains/(loss) - net	3	4,436	283
Finance income/(costs) - net	3	521	1,087
Loss before income tax		**(62,360)**	**(22,881)**
Income tax expense	5	(442)	(687)
Loss for the year		**(62,802)**	**(23,568)**
Loss for the year is attributable to:			
Owners of Fluence Corporation Limited		(63,757)	(23,664)
Non-controlling interests	19	955	96
		(62,802)	**(23,568)**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations, net of tax		(14,376)	(721)
Total comprehensive income for the year		**(77,178)**	**(24,289)**
Total comprehensive income for the year is attributable to:			
Owners of Fluence Corporation Limited		(78,133)	(24,385)
Non-controlling interests	19	955	96
		(77,178)	**(24,289)**
Losses per share from continuing operations attributable to the ordinary equity holders of the Group:			
Basic loss per share	6	(0.14)	(0.07)
Diluted loss per share	6	(0.14)	(0.07)

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.

Fluence Corporation Limited
Consolidated Statement of Financial Position
As at 31 December 2018

	Notes	Consolidated entity 31 December 2018 $'000	Consolidated entity 31 December 2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents	7	38,741	75,153
Other financial assets	7	2,417	4,786
Trade and other receivables	8	33,514	26,684
Inventories	9	18,866	18,538
Prepayments		4,049	3,876
Other assets	11	67	2,873
Total current assets		**97,654**	**131,910**
Non-current assets			
Other receivables	8	10	260
Investments accounted for using the equity method	12	484	495
Deferred tax assets	5	1,208	1,921
Property, plant and equipment	13	14,846	7,114
Intangible assets	14	5,603	60,167
Concession arrangements asset	10	18,830	-
Other assets	11	3,159	2,790
Total non-current assets		**44,140**	**72,747**
Total assets		**141,794**	**204,657**
LIABILITIES			
Current liabilities			
Trade and other payables	15	48,845	27,811
Borrowings		368	1,145
Current tax liabilities		853	72
Provisions	16	4,092	27,711
Deferred revenue	17	25,898	38,173
Other financial liabilities	15	-	1,000
Total current liabilities		**80,056**	**95,912**
Non-current liabilities			
Other liability	15	9,301	2,595
Deferred tax liabilities	5	532	1,671
Provisions	16	838	878
Total non-current liabilities		**10,671**	**5,144**
Total liabilities		**90,727**	**101,056**
Net assets		**51,067**	**103,601**
EQUITY			
Contributed equity	18	185,126	156,898
Other reserves	20	(15,752)	(1,376)
Accumulated losses		(119,521)	(52,075)
		49,853	103,447
Non-controlling interests	19	1,214	154
Total equity		**51,067**	**103,601**

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

Fluence Corporation Limited
Consolidated Statement of Changes in Equity
For the year ended 31 December 2018

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 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 income 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	4	2,231	-	-	2,231	-	2,231
Non-controlling interests on acquisition of subsidiary	19	-	-	-	-	58	58
Balance at 31 December 2017		**156,898**	**(1,376)**	**(52,075)**	**103,447**	**154**	**103,601**
Adjustment on adoption of AASB 15		-	-	(407)	(407)	-	(407)
Adjustment on adoption of AASB 16		-	-	(328)	(328)	-	(328)
Adjustment on adoption of AASB 129		-	-	(2,954)	(2,954)	-	(2,954)
Restated balance at 1 January 2018		**156,898**	**(1,376)**	**(55,764)**	**99,758**	**154**	**99,912**
Loss for the period		-	-	(63,757)	(63,757)	955	(62,802)
Other comprehensive income		-	(14,376)	-	(14,376)	-	(14,376)
Total comprehensive income for the year		**-**	**(14,376)**	**(63,757)**	**(78,133)**	**955**	**(77,178)**
Transactions with owners in their capacity as owners:							
Issue of ordinary shares, net of transaction costs	18	26,237	-	-	26,237	-	26,237
Issue of options	4	1,991	-	-	1,991	-	1,991
Transactions with non-controlling interests	19	-	-	-	-	105	105
Balance at 31 December 2018		**185,126**	**(15,752)**	**(119,521)**	**49,853**	**1,214**	**51,067**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes. All amounts are presented in US dollars.

Fluence Corporation Limited
Consolidated Statement of Cash Flows
For the year ended 31 December 2018

	Notes	Consolidated entity 31 December 2018 $'000	Consolidated entity 31 December 2017 $'000
Cash flows from operating activities			
Receipt from customers		50,168	28,062
Payments to suppliers and employees		(102,695)	(56,395)
Royalties paid to Chief Scientist Office (Israel)		(23)	(67)
Receipt from restricted cash		108	261
Interest received		3,066	686
Interest and other costs of finance paid		(353)	(144)
Income taxes paid		(154)	(870)
Net cash (outflow) from operating activities	7	**(49,883)**	**(28,467)**
Cash flows from investing activities			
Payment for purchases of plant and equipment		(2,848)	(3,717)
Funds transferred to term deposit		(780)	-
Proceeds from sale of property, plant and equipment		24	5
Proceeds from disposal of short-term deposits		-	1,064
Cash acquired as part of acquisition of RWL Water LLC		-	50,583
Acquisition of non-controlling interest in a subsidiary		(1,803)	-
Net cash (outflow) inflow from investing activities		**(5,407)**	**47,935**
Cash flows from financing activities			
Proceeds from issues of ordinary shares		26,415	31,001
Proceeds from exercise of share options		799	808
Final payment to redeem a note from original vendor of Emefcy Ltd (Israel)		(1,000)	-
Contributions from non-controlling interests		105	-
Transactions costs related to issue of ordinary shares		(977)	(476)
Repayment of borrowings		(519)	(634)
Finance lease payments		(1,631)	-
Net cash inflow from financing activities		**23,192**	**30,699**
Net (decrease) increase in cash and cash equivalents		(32,098)	50,167
Cash and cash equivalents at the beginning of the financial year		75,153	22,871
Effects of exchange rate changes on cash and cash equivalents		(4,314)	2,115
Cash and cash equivalents at end of year	**7**	**38,741**	**75,153**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes. All amounts are presented in US dollars.

1 Summary of significant accounting policies

(a) Corporate information

The Financial Report of Fluence Corporation Limited and its controlled entities (the "Group") for the year ended 31 December 2018 was authorised for issue in accordance with a resolution of the Directors on the 29th day of March 2019.

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, decentralised 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.

1 Summary of significant accounting policies (continued)

(b) Basis of preparation (continued)

(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 (refer to note 1(ac) for more information about first implementation of new standards). The Group have early adopted AASB 16 which is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if AASB 15 Revenue from Contracts with Customers has also been applied.

All other accounting standards adopted by the Group are consistent with the most recent Annual Report for the year ended 31 December 2017.

(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 2018

AASB 16 Leases elimination of lease expenses previously included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the Appendix 4E Preliminary Final Report for the year ended 31 December 2018 within ‘General and administration expenses' have been reclassified to 'Research and development expenses' and 'Sales and marketing expenses' for a more accurate presentation.

As a result of this reclassification, for the year ending 31 December 2018, 'Research and development expenses' have decreased $433,000 to $7,214,000, 'Sales and marketing expenses' have decreased $260,000 to $10,689,000 and "General and administration expenses" have increased $693,000 to $27,742,000.

Items related to the exchange differences from the management fees charged by the head office to the Group's subsidiaries, previously included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the Appendix 4E Preliminary Final Report for the year ended 31 December 2018 within 'Other gains/(losses) - net' have been reclassified as 'Other reserves' in the Consolidated Statement of Financial Position for a more accurate presentation of the Group's financial results for the year.

As a result of this reclassification, for the year ending 31 December 2018, 'Other gains/(loss) - net' have increased $825,000 to $4,436,000.

The hyperinflation effect on equity previously included in the Consolidated Statement of Financial Position in the Appendix 4E Preliminary Final Report within 'Other reserves' in the amount of $2,954,000 have been reclassified to 'Accumulated losses' for an accurate presentation of AASB 129 effect on equity.

This reclassification has affected the presentation of the Consolidated Statement of Changes in Equity. A new line was added, 'Adjustment on adoption of AASB 129', $2,954,000. The Other comprehensive income has increased to $(14,376,000).

Items previously included in the Consolidated Statement of Financial Position in the Appendix 4E Preliminary Final Report for the year ended 31 December 2018 within 'Other non-current assets' have been separated into a newly created category 'Concession arrangement assets' 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 2018, 'Other non-current assets' have decreased $18,830,000 to $3,159,000. The 'Concession arrangement assets' balance has been presented as $18,830,000.

The Deferred tax asset and Deferred tax liability balances in the Consolidated Statement of Financial Position have been updated after the tax presentation for the Group has been finalised.

1 Summary of significant accounting policies (continued)

(c) Comparatives (continued)

(i) Revision to Appendix 4E Preliminary Final Report for the year ended 31 December 2018 (continued)

As a result of this reclassification, for the year ending 31 December 2018, 'Deferred tax assets' have increased $291,000 to $1,208,000 and 'Deferred tax liabilities' have increased $291,000 to $532,000.

The current portion of the AASB 16 lease liability previously included in the Consolidated Statement of Financial Position in 'Other liabilities' under Non-current liabilities was reclassified to 'Trade and other payables' under Current liabilities for the purpose of a more accurate presentation of the Group's Financial position.

As a result of this reclassification, for the year ending 31 December 2018, 'Trade and other payables' have increased $1,319,000 to $48,845,000 and 'Other liabilities' decreased $1,319,000 to $9,301,000.

Items included in the Consolidated Statement of Cash Flows in the Appendix 4E Preliminary Final Report for the year ended 31 December 2018 within 'Repayment of borrowings' and 'Proceeds from issues of ordinary shares' have been reclassified to 'Contributions from non-controlling interests' to provide a more accurate presentation of the Group's Cash flows from financing activities.

As a result of this reclassification, for the year ending 31 December 2018, 'Repayment of borrowings' has decreased $51,000 to $(519,000), 'Proceeds from issues of ordinary shares' have decreased $1,000 to $26,415,000 and 'Contributions from non-controlling interests' have increased $52,000 to $105,000.

(d) Principles of consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent company, Fluence Corporation 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.

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.

1 Summary of significant accounting policies (continued)

(f) Revenue recognition

Following the adoption of AASB 15 Revenue from Contracts with Customers, Revenue is recognised when goods or services are transferred to a customer, in an amount that reflects the consideration to which the entity excepts to be entitled in exchange to those goods or services. Before recognising revenue, the Group needs to identify the contract, identify separate performance obligations, determine the transaction price, allocate the transaction price to the performance obligations and recognise revenue as or when each performance obligation is satisfied. Performance obligation can be satisfied at a point in time or over time (for more information regarding first implementation of AASB 15, refer to note 1(ac)).

Revenue related to construction or upgrade services under service concession arrangement is recognised over time, consistent with the Group's accounting policy on recognising revenue on construction contracts. Operating or service revenue is recognised in the period in which the services are provided by the Group. If the service concession arrangement contains more than one performance obligation, then the consideration received is allocated with reference to the relative stand-alone selling price of the services delivered.

(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

Following the adoption of AASB 16 Leases, the Group recognises assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The Group recognises a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Right-in-use assets and lease liabilities are measured initially on a present value basis. The Group recognises depreciation of the right-of-use asset and interest on the lease liability. Depreciation is on a straight-line basis (for more information regarding first implementation of AASB 16, refer to note 1(ac)).

(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.

1 Summary of significant accounting policies (continued)

(i) Employee benefits (continued)

(i) Wages and salaries (continued)

- 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 4.

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.

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.

1 Summary of significant accounting policies (continued)

(j) Business combinations (continued)

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.

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 reassesses 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.

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.

1 Summary of significant accounting policies (continued)

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

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 Other Comprehensive Income (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.

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.

(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) Other financial assets

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 more than three months.

1 Summary of significant accounting policies (continued)

(n) Other financial assets (continued)

Restricted cash that 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 amortised cost, less any appropriate provision for estimated irrecoverable amounts.

A 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:

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.

1 Summary of significant accounting policies (continued)

(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 (AU$) which is that entity's functional currency.

(ii) Presentation Currency

The consolidated financial statements are presented in US Dollars (US$), 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.

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.

1 Summary of significant accounting policies (continued)

(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.

(i) 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.

(ii) 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.

1 Summary of significant accounting policies (continued)

(u) Intangible assets (continued)

(ii) Research and development (continued)

Amortisation commences when the assets are ready for use.

(iii) 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 is 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.

(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.

<u>Onerous contracts</u>
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.

1 Summary of significant accounting policies (continued)

(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) Concession asset

A financial asset arising from a concession arrangement. The Group recognises a financial asset to the extent that it receives an unconditional contractual right to receive a specified or determinable amount of cash or another financial asset in return for constructing or upgrading a public sector asset, and then operating and maintaining the asset for a specified period of time. The financial asset is measured at fair value. The financial asset is reduced when amounts are received.

(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

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 and other liabilities.

(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").

1 Summary of significant accounting policies (continued)

(ab) Significant Accounting Estimates and Assumptions (continued)

(iii) Share-based payment transactions (continued)

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 4 - People costs.

(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 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 investments that will enhance the performance of the assets of the Cash Generating Units (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) Revenue recognition over time

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

(vii) PDVSA

In December 2014, Fluence Argentina entered into significant work agreements with PDVSA Agricola (PDVSA), a wholly owned company by the Venezuelan government. These work agreements consisted of a series of purchase orders (POs) from PDVSA (the 'PDVSA contract'), for detailed engineering and supply of water and wastewater treatment systems and composting systems for five ethanol production plants in Venezuela. In relation to those work agreements, Fluence Argentina received an advance collection of approximately US$95 million in June 2015.

1 Summary of significant accounting policies (continued)

(ab) Significant Accounting Estimates and Assumptions (continued)

(vii) **PDVSA (continued)**

During March 2016, PDVSA rescinded the original work agreements. During that period, Fluence Argentina had invested significant amounts in the engineering design of the projects. In January 2017, PDVSA expressed its intention to continue with the plant named "Portuguesa", at a project value of US$45 million. As of 31 December 2018, that project was still being performed by Fluence Argentina at 95% of completion. The remainder of the Portuguesa project is expected to be completed in early 2019 with residual revenue recognition of US$1.2 million.

During 2018, the Company recognised revenues in the amount of US$24.8 million related to Portuguesa, and it had recognised approximately US$33 million in prior years (US$15.2 million related Portuguesa and US$17.8 million related the rescinded POs). The Company also recognised variable consideration in relation to the PDVSA contract during the year resulting from rescinded purchase orders. Further, an onerous contract provision originally recognised in 2016, was reassessed in light of the progress of the project. It was determined that it was no longer probable that an outflow of resources will be required post 31 December 2018 and that remaining the provision of US$11.3m was released to cost of sales in 2018.

Consistent with prior years, the revenues were recognised at the historic exchange rate determined at the date of inception of the project in accordance with IFRIC 22, Foreign Currency Transactions and Advance Consideration. However, Argentina was declared a hyperinflationary economy from 1 July 2018, which therefore required the application of AASB 129 Financial Reporting in Hyperinflationary Economies for 2018. This resulted in hyperinflationary adjustments to all items in the profit and loss and all non-monetary assets and liabilities in the accounts of Fluence Argentina. This resulted in a downward adjustment of US$5.5 million to revenue generated from the Portuguesa project. Post hyperinflationary adjustments, total revenue recognised in relation to the Portuguesa project and variable consideration from rescinded purchase orders in 2018 was US$24.8 million.

In Note 17 'Deferred Revenue', the Company has included a residual liability relating to the unspent advanced payment at 31 December 2018. In accordance with IFRIC 22 Foreign Currency Transactions and Advance Consideration the residual liability is translated into Argentine Pesos at the historical exchange rate as of June 2015, and after adjusting for the impact of hyperinflation, the residual deferred revenue liability is a non-monetary liability of approximately US$25.9 million.

The residual liability for unspent funds has been recognised as at 31 December 2018 as a current liability (refer to note 17 Deferred revenue). Management are currently unable to determine when future project work will be requested from this customer and the scope of this work. This means this liability may change depending on the final negotiation that PDVSA and the Company will hold, and where the outcome may differ from the amounts booked by the Company. In any case the residual liability will not exceed the unspent advanced payment.

(ac) New and amended standards adopted by the group

AASB 9: *Financial Instruments*

AASB 9 addresses the classification, measurement and derecognition of financial instruments, to introduce new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. The standard also introduces a new expected-loss impairment model that requires more timely recognition of expected credit losses.

During the year the Group has assessed the impact of AASB 9 on the financial statements. The assessment concluded that the current accounting treatment of financial instruments of the Group is in line with the requirements of AASB 9. Consequently, there is no material impact on 2018 results.

AASB 15: *Revenue from Contracts with Customers*

1 Summary of significant accounting policies (continued)

(ac) New and amended standards adopted by the group (continued)

AASB 15 establishes a comprehensive framework for determining the timing and quantum of revenue recognised. It replaces AASB 118 Revenue, AASB 111 Construction Contracts and related interpretations. The core principle is that revenue must be recognised when goods or services are transferred to a customer, in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This could be at a point in time or over time.

During the year the Group has assessed their revenues and identified the impact of AASB 15 on the financial statements. This included identifying the material contracts entered into by the Group, identifying the performance obligations, determining the transaction price, allocating the transaction price to the performance obligations and recognising revenue as, or when, each performance obligation is satisfied.

The assessment identified an impact on revenue:

(1) Revenue recognition at a point in time or over time -

The majority of the Group’s revenue is from projects that require significant engineering design, procurement of equipment and construction to deliver a functioning facility or asset. These contracts are usually known as Engineering, Procurement and Construction (EPC) contracts or equipment sales. Revenue on EPC contracts was previously recognised over time in accordance with previous accounting standards.

AASB 15 states that an entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

a. the customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs;

b. the entity’s performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

c. the entity’s performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

As work is performed on the assets being constructed are controlled by the customer, and have no alternative use for Fluence, with the Group having a right to payment for performance to date, the performance obligation is fulfilled over time and as such revenue is recognised over time.

The Group has identified a small number of contracts that do not meet the above criteria. Revenue in relation to these projects is recognised at a point in time under AASB15. Under the previous accounting standard this revenue would have been recognised over time. The total impact on 2017 and 2018 revenue is a reduction of $(232,000) and gain of $706,000, respectively.

(2) Separate performance obligation -

Some of the Group’s contracts includes separate performance obligations that were not identified as such according to the previous accounting treatment. These performance obligations are mainly warranties provided to the client as part of the contract. AASB 15 distinguishes between two types of warranty:

a. Assurance Warranty - warranty that simply provides assurance the product complies with agreed-upon specifications.

b. Service Warranty - warranty that provides a service that can be purchased by the customer in addition to the assurance warranty.

1 Summary of significant accounting policies (continued)

(ac) New and amended standards adopted by the group (continued)

The impact of service warranty included in the contracts in 2017 and 2018 on revenue is a reduction of $(94,000) and a gain of $37,000, respectively.

(3) Incremental costs to obtain a contract -

AASB 15 states that a company shall recognise as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs. The incremental costs of obtaining a contract are those costs that a company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained, such as sales commissions and finder fees. The impact of these incremental costs to obtain a contract on 2017 and 2018 revenues was a reduction of $(320,000) and $(102,000), respectively.

	Revenue recognised over time and should be recognised at a point in time		**Revenue includes a separate performance obligation**		**Revenue includes incremental costs to obtain a contract**	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Revenue	706	(232)	37	(94)	(102)	(320)

The Group has adopted AASB 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. January 1, 2018). Accordingly, the information presented for 2017 has not been restated - i.e. it is presented, as previously reported, under AASB 118, AASB 111 and related interpretations.

AASB 16: *Leases*

AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Depreciation on the asset and interest on the liability will be recognised.

The Group have assessed the impact of the implementation of AASB 16 on 2018 results as follows:

	December 31, 2018 $'000
Asset	8,750
Accumulated depreciation	(1,640)
Asset, net	7,110
Current liability	1,319
Non-current liability	6,026
Equity	328

The adoption of AASB 16 resulted in adjustment to the opening balance of accumulated losses at 1 January 2018 by $328,000.

	2018 $'000
Depreciation expenses	1,674
Interest expenses	264

1 Summary of significant accounting policies (continued)

(ac) New and amended standards adopted by the group (continued)

AASB 129: *Financial Reporting in Hyperinflationary*

During the first half of 2018, the Argentine Peso devalued significantly which led the Argentinian government to declare a hyperinflation economy in the country. As a result, from 1 January 2018, the Group applied *"AASB 129 - Financial Reporting in Hyperinflationary Economies"* with regard to the Argentinian entity. AASB 129 applies to the financial statements of companies whose functional currency is the currency of a hyperinflation economy. The Coefficient for December 2018 was 184.2552.

Based on the hyperinflation economy declared, the Group reassessed the functional currency of its Argentinian entity which concluded it to be the Argentinian Peso (no change since last assessment).

AASB 129 requires remeasurement of non-monetary items, equity and contracts and all Profit and Loss items, denominated in foreign currencies by applying an inflation index that reflects general price developments in the hyperinflation period. This index was published by the Argentinian government during January 2019.

The treatment in accordance with AASB 129 had the following impact on the Group's Statement of Profit or Loss and Other Comprehensive Income and the Statement of Financial Position:

Statement of Profit and Loss or Other Comprehensive Income -

	2018 $'000
Revenues	(17,226)
Cost of sales	(2,523)
Sales and marketing expenses	(185)
General and administration expenses	(279)
Other gains/(loss) - net	(6)
Finance income/(costs) - net	(486)

Statement of Financial Position -

	31 December 2018 $'000
Property, plant and equipment	843
Deferred revenue	(9,534)
Equity	(2,954)

2 Segment information

Segment disclosure replicates the manner in which the Managing Director and Chief Operating Decision Maker (CODM) monitors the business performance.

The Group's operating segments are:

• Operating Units (OUs) - These are defined as the operating entities of the Group that earn revenues and incur expenses that are reviewed by the CODM and their discrete financial information is available. OUs' include the Group's entities in 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:

2 Segment information (continued)

- 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 of the Group.

2018	Operating Units $'000	Production and Innovation $'000	Intersegment Elimination $'000	Total $'000
Segment revenue				
Operating revenue and other income	100,722	1,588	(1,187)	101,123
	100,722	**1,588**	**(1,187)**	**101,123**
Segment expense				
Segment depreciation and amortisation expense	(1,886)	(860)	-	(2,746)
Goodwill impairment	(56,293)	-	-	(56,293)
Share of profits of associates	38	-	-	38
Write off of inventories	(172)	-	-	(172)
Segment expense	(103,556)	(11,995)	22,661	(92,890)
Unallocated expenses - corporate	-	-	-	(11,862)
	(161,869)	**(12,855)**	**22,661**	**(163,925)**
Segment results	**(61,147)**	**(11,267)**	**21,474**	**(62,802)**
Assets				
Investments in associates	484	-	-	484
Segment assets	115,184	9,006	(1,383)	122,807
Unallocated assets - corporate	-	-	-	18,212
	115,668	**9,006**	**(1,383)**	**141,503**
Liabilities				
Segment liabilities	(81,178)	(8,663)	3,004	(86,837)
Unallocated liabilities - corporate	-	-	-	(3,599)
	(81,178)	**(8,663)**	**3,004**	**(90,436)**
Acquisitions of non-current assets	4,087	733	-	4,820

2018	The Americas $'000	Rest of the World $'000	Total $'000
Other information			
External sales revenue by geographical segment	62,525	38,598	101,123
Property, plant and equipment by geographical segment	5,514	9,332	14,846

2 Segment information (continued)

2017	**Operating Units $'000**	**Production and Innovation $'000**	**Intersegment Elimination $'000**	**Total $'000**
Segment revenue				
Operating revenue and other income	33,850	1,097	(1,759)	33,188
	33,850	**1,097**	**(1,759)**	**33,188**
Segment expense				
Segment depreciation and amortisation expense	(327)	(343)	-	(670)
Share of profits of associates	(29)	-	-	(29)
Write off of inventories	24	-	-	24
Segment expense	(32,754)	(13,191)	3,621	(42,324)
Unallocated expenses - corporate	-	-	-	(13,757)
	(33,086)	**(13,534)**	**3,621**	**(56,756)**
Segment result	**764**	**(12,437)**	**1,862**	**(23,568)**
Assets				
Investments in associates	495	-	-	495
Segment assets	163,677	6,687	(40)	170,324
Unallocated assets - corporate	-	-	-	33,838
	164,172	**6,687**	**(40)**	**204,657**
Liabilities				
Segment liabilities	(90,635)	(3,930)	281	(94,284)
Unallocated liabilities - corporate	-	-	-	(6,772)
	(90,635)	**(3,930)**	**281**	**(101,056)**
Acquisitions of non-current assets	3,320	995	-	4,315

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

Unallocated expenses

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Other corporate expenses	(11,862)	(13,757)

2 Segment information (continued)

Unallocated assets

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Cash and cash equivalents	14,003	28,768
Other assets	4,209	5,070
	18,212	**33,838**

Unallocated liabilities

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Trade and other payables	(2,126)	(5,772)
Other liabilities	(1,473)	(1,000)
	(3,599)	**(6,772)**

Intersegment transactions

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

3 Operating revenue and expenses

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Operating revenue		
Contract revenue		
Revenues on equipment sales	45,866	17,795
Revenues on EPC contracts	27,749	11,113
Service concession arrangements revenue	20,847	578
	94,462	**29,486**
Service revenue		
Revenues on services	3,699	2,199
Other	2,712	1,398
	6,411	**3,597**
	100,873	**33,083**

3 Operating revenue and expenses (continued)

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Research and development		
Materials	4,093	3,238
Salaries and other employee related expenses	2,153	2,129
Professional fees	210	216
Travel and entertainment	227	4
Occupancy	-	179
Depreciation	205	193
Other	326	11
	7,214	**5,970**

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Sales and marketing		
Salaries and other employee related expenses	5,639	3,488
Marketing activities	2,639	1,293
Travel and entertainment	1,124	886
Professional fees	466	197
Occupancy	-	38
Other	821	397
	10,689	**6,299**

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
General and administration		
Salaries and other employee related expenses	9,961	5,018
Professional fees	5,987	7,991
Depreciation	2,554	329
Bad debt	2,229	185
Director expense	1,761	1,196
Travel and entertainment	1,396	918
Office expenses	1,076	568
Import and export expenses	852	34
Insurance	689	250
Bank charges	368	263
Maintenance	255	251
Occupancy	-	496
Other	614	441
	27,742	**17,940**

3 Operating revenue and expenses (continued)

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Other gains/(loss) - net		
Foreign exchange gain / (loss)	5,255	2,856
Fair value adjustment for shares in trust	-	(2,006)
Withholding taxes	(686)	(215)
Increase in provisions	(94)	(286)
Loss from investments accounted for using the equity method	38	(29)
Other	(77)	(37)
	4,436	**283**

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Finance income/(costs) - net		
Interest income	3,066	1,514
Fund valuation loss	(1,947)	-
Interest expense	(407)	(89)
Project financing and other	(191)	(338)
	521	**1,087**

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Aggregate expenses		
Aggregate depreciation and amortisation expenses	2,937	688
Aggregate employee benefits expense	29,120	14,858

4 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:

4 People costs (continued)

(a) Share-based payments (continued)

Employee Option Plan (continued)

2018

Grant/change date	Expiry Date	Exercise Price	Granted	Exercised	Vested	Cancelled / Reversed	Balance at the end of the year
Opening balance			**66,759,872**	**(9,788,644)**	**8,211,381**	**(4,192,946)**	**52,778,282**
Options vested during the year					12,730,250		
10/1/18	11/3/22	A$0.58	100,000		-	-	100,000
10/1/18	11/3/22	A$0.58	80,000	-	-	-	80,000
2/3/18	1/5/22	A$0.53	100,000	-	-	-	100,000
26/3/18	25/5/22	A$0.48	1,375,000	-	-	-	1,375,000
28/6/18	27/8/22	A$0.46	500,000	-	-	-	500,000
18/7/18	31/12/20	A$0.95	-	-	-	(1,500,000)	(1,500,000)
18/7/18	31/12/20	A$1.10	-	-	-	(1,000,000)	(1,000,000)
30/7/18	31/7/18	A$0.30	-	(499,999)	-	-	(499,999)
31/7/18	1/5/22	A$0.53	-	-	-	(100,000)	(100,000)
31/7/18	31/7/18	A$0.30	-	-	-	(1,440,001)	(1,440,001)
31/7/18	31/7/18	A$0.64	-	-	-	(500,000)	(500,000)
31/7/18	31/7/22	A$1.20	750,000	-	-	-	750,000
31/7/18	31/7/22	A$1.50	750,000	-	-	-	750,000
27/8/18	16/12/18	A$0.30	-	(500,000)	-	-	(500,000)
27/8/18	16/12/19	A$0.40	-	(500,000)	-	-	(500,000)
23/10/18	25/5/25	A$0.85	-	-	-	(1,152,611)	(1,152,611)
12/12/18	16/12/18	A$0.30	-	(1,000,000)	-	-	(1,000,000)
17/12/18	16/12/18	A$0.30	-	(1,000,000)	-	-	(1,000,000)
31/12/18	10/9/21	A$0.81	-	-	-	(992,000)	(992,000)
31/12/18	10/9/21	A$0.81	188,000	-	-	-	188,000
Closing balance			**70,602,872**	**(13,288,643)**	**20,941,631**	**(10,877,558)**	**46,436,671**

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.

4 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
10/1/18	11/3/22	A$0.520	A$0.58	Nil	2.30	0.1369
2/3/18	1/5/22	A$0.043	A$0.53	Nil	2.28	0.1055
26/3/18	25/5/22	A$0.470	A$0.48	Nil	2.31	0.1436
26/3/18	25/5/22	A$0.470	A$0.48	Nil	2.31	0.1426
28/6/18	27/8/22	A$0.400	A$0.46	Nil	2.25	0.1100
31/7/18	31/7/22	A$0.385	A$1.20	Nil	2.25	0.0339
31/7/18	31/7/22	A$0.385	A$1.50	Nil	2.25	0.0240

The weighted average remaining contractual life of options outstanding at year-end was 3.10 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 $0.1341. These values were calculated using the binomial lattice, based on the Cox, Ross Rubinstein (1979) method applying the following inputs:

Weighted average exercise price: $0.64
Expected share price volatility: 52%

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 two years of weekly historical stock returns.

(a) Expenses arising from share-based payment transactions

	Consolidated entity	
Share based payment expense	31 December 2018 $'000	31 December 2017 $'000
Consultant Share based payments	74	992
Employee Share based payments	823	588
Director Share based payments	1,094	651
	1,991	**2,231**

(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:

4 People costs (continued)

(b) Key Management Personnel Disclosures (continued)

Compensation (continued)

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Short-term employee benefits	3,599,150	2,468,628
Post-employment benefits	-	111,057
Share based payments	1,283,452	780,115
	4,882,602	**3,359,800**

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 2018 and 31 December 2017.

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

5 Income tax

(a) Income tax expense

The components of tax expense comprise:

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Current tax		
Current tax	(18)	(687)
Adjustments for current tax of prior periods		
(Increase)/decrease in deferred tax assets	715	-
Increase/(decrease) in deferred tax liabilities	(1,139)	-
	(442)	**(687)**

5 Income tax (continued)

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

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Loss from continuing operations before income tax	(62,360)	(22,881)
Prima facie tax on profit from ordinary activities	(18,708)	6,864
Tax losses carried forward	18,708	(6,864)
Tax expense - Fluence Italy S.R.L.	(111)	(338)
Tax expense - Fluence Israel Ltd	(152)	(68)
Tax expense - Fluence Argentina	(110)	(281)
Tax expense - other	(69)	-
Income tax expense	**(442)**	**(687)**

(c) Deferred tax balances

(i) Deferred tax assets

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
The balance comprises temporary differences attributable to:		
Tax losses	184	1,133
Unrealised foreign exchange gain/loss	1	114
Accrued WIP	19	142
Accrued licence fee	361	276
Other accruals	107	30
Doubtful debts provision	-	47
Annual leave provision	60	64
Other	476	115
	1,208	**1,921**

5 Income tax (continued)

(c) Deferred tax balances (continued)

(ii) Deferred tax liabilities

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
The balance comprises temporary differences attributable to:		
Unrealised foreign exchange gain/loss	4	55
WIP	238	949
Intangibles	-	667
Fixed assets	290	-
	532	**1,671**

(d) Unrecognised deferred tax assets

A few of the Group's subsidiaries have been accumulating losses in the past years. The consolidated balance of the tax losses carried forward as of 31 December 2018 was $29,568,000 (2017: $24,952,000).

6 Loss per share

(a) Basic loss per share

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Loss attributable to the ordinary equity holders of the Group	(0.14)	(0.07)

(b) Diluted loss per share

	Consolidated entity	
	31 December 2018 $	31 December 2017 $
Loss attributable to the ordinary equity holders of the Group	(0.14)	(0.07)

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

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Loss attributable to the ordinary equity holders of the Group used in calculating basic earnings per share:		
From continuing operations	(62,802)	(23,568)

6 Loss per share (continued)

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

	Consolidated entity	
	2018 Number	2017 Number
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	**439,535,108**	**319,728,992**

7 Cash and cash equivalents, Other financial assets, Cash Flows

(a) Cash and cash equivalents

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Cash and cash equivalents	38,741	75,153
	38,741	**75,153**

(b) Other financial assets

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Restricted cash	1,538	1,674
Short term deposits	879	3,112
	2,417	**4,786**

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

(c) Cash flow information

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Loss before income tax	(62,360)	(22,881)
Adjustment for:		
Depreciation and amortisation expenses	2,937	688
Share based payments expense	1,991	2,231
Impairment loss	56,293	-
Bad debt expense	2,229	185
Warranty provision	1,008	52
Inventory reserve	172	(24)
Loss on disposal of property, plant and equipment	21	(22)
Share of loss of associates and joint ventures	(38)	29
Provision for losses	(11,347)	409
Post-employment benefit expense	29	(1,350)
Fair value adjustment on shares in trust	-	2,006
Finance costs - net	2,192	(2,019)
Foreign exchange differences	(5,255)	(1,382)
(Increase)/decrease in restricted cash	108	(1,593)
(Increase) in trade and other receivables	(5,708)	(31,106)
(Increase) in inventory	(394)	(15,654)
(Increase) in prepaid expenses	(717)	(3,827)
(Increase) in concession arrangement assets	(20,947)	-
(Increase)/decrease in other current and non-current assets	2,061	(5,638)
Increase in trade and other payables	21,656	12,578
Increase/(decrease) in deferred revenues	(33,814)	38,851
Cash generated from operations	**(49,883)**	**(28,467)**

8 Trade and other receivables

	Consolidated entity 31 December 2018 $'000	Consolidated entity 31 December 2017 $'000
Current receivables - Trade receivables		
Contract receivables	15,176	15,456
Contract unbilled receivables	17,882	8,161
Provision for impairment - contract receivables	(3,211)	(1,927)
	29,847	**21,690**
Current receivables - Other receivables		
GST receivable	2,631	3,211
Income tax receivable	529	582
Other taxes receivable	406	984
Government grants to be received	-	70
Other receivables	101	147
	3,667	**4,994**
	33,514	**26,684**
Non-current receivables		
Long-term receivables	1,223	1,531
Provision for impairment - long-term receivables	(1,213)	(1,271)
	10	**260**

	Consolidated entity 31 December 2018 $'000	Consolidated entity 31 December 2017 $'000
Additional information on contract debtors		
Total contract debtors	29,847	21,690
Total contract liabilities	(29,040)	(4,186)
	807	**17,504**

Contract assets are balances due from customers under long-term contracts as work is performed and therefore a contract asset is recognised over the period in which the performance obligation is fulfilled. This represents the Group's right to consideration for the products and services transferred to date. Amounts are generally reclassified to contract receivables when this have been invoiced to the customer.

Contract assets were recognised as a result of the application of AASB15. Refer to Note 1(ac): new and amended standards adopted by the group, where the effects of the initial application of AASB15 have been detailed.

9 Inventories

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Raw materials - at cost	9,217	4,079
Work in progress - at cost	6,151	13,924
Finished goods - at net realisable value	3,498	535
	18,866	**18,538**

10 Concession asset

The Group have three concession service arrangements on hand as of 31 December 2018:

- In July 2018 the Group entered into a service concession arrangement in the Bahamas to build a seawater desalination potable treatment plant. The onsite execution and construction started in October 2018 and is expected to be completed in April 2019. Under the terms of the agreement, the Group will operate the desalination plant and provide water to the grantor for a period of 15 years. The Group will be responsible for any maintenance services required during the concession period. The Group does not expect major repairs to be necessary during the concession period.
  The grantor will provide the Group a guaranteed minimum annual payment for each year that the desalination plant will be in operation. At the end of the concession period, the desalination plant will become the property of the grantor and the Group will have no further involvement in its operation or maintenance requirements. For the year ended 31 December 2018, the Group has recognised revenue of $2.9 million on the construction of the desalination plant. The revenue recognized represents the fair value of the construction services provided in constructing the desalination plant and are recognised as a concession asset.
- In January 2016 the Group entered into a service concession arrangement in Mexico to build and operate a desalination plant. The construction started in October 2018 and is expected to be completed by September 2020. Under the terms of the agreement, the Group will operate and maintain the plant and will sell water to the grantor for a period of 30 years. The grantor will provide the Group a guaranteed minimum annual payment for each year that the Desalination plant will be in operation to cover the investment. Additionally, the Group has received the right to charge fees for water consumed from the desalination plant, which the Group will collect and retain. At the end of the concession period, the desalination plant will be transferred and will become the property of the grantor and the Group will have no further involvement in its operation or maintenance requirements. For the year ended 31 December 2018, the Group has recognised revenue of $13.1 million on the construction of the Desalination plant. The revenue recognised represents the fair value of the construction services provided in constructing the desalination plant. The Group recognised an intangible asset and a financial asset received as consideration for providing construction services of $2 million and $11.1 million, respectively. The intangible asset represents the right to charge users a fee for use of the desalination plant. The financial asset represents an unconditional contractual right to receive a specified amount of cash.
- In November 2018 the Group acquired a company holding a concession service arrangement to build a desalination plant in Peru for a period of 10 years. The Group started construction in March 2018. The construction is expected to be completed in November 2019. The Group will operate and maintain the desalination plant and will sell water to the client for a period of 10 years. At the end of the concession period, the desalination plant will remain in the Group's custody and the agreement might be extended or transferred to a new client. For the year ended 31 December 2018, the Group has recognised revenue of $4.8 million on the construction of the desalination plant. The revenue recognised represents the fair value of the construction services provided in constructing the desalination plant and were recognised as a concession asset.

10 Concession asset (continued)

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Current concession asset	-	-
Non-current concession asset	18,830	-
	18,830	**-**

11 Other assets

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Current assets		
Shares in trust to acquire non-controlling interests	-	2,178
Other	67	695
	67	**2,873**

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Non-current assets		
Construction bond	2,400	2,400
Incremental costs asset	300	-
Other	459	390
	3,159	**2,790**

12 Investments accounted for using the equity method

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of relationship	Measurement method	Quoted fair value / Carrying Amount 31 December 2018 $'000	31 December 2017 $'000
E.T.G.R Water Infrastructure Management	Israel	50%	Associate	Equity method	484	428
RWL WATER MEXICO, S DE RL DE CV.	Mexico	49%	Joint Venture	Equity method	-	67
					484	**495**

As of 31 December 2018, 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 $38,000 to Fluence Corporation Limited gain, which is included in 'Other gains/(loss) - net' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

13 Property, plant and equipment

Consolidated entity	**Land $'000**	**Buildings and Leasehold improvements $'000**	**Production equipment $'000**	**Office furniture and equipment $'000**	**Computers and peripheral equipment $'000**	**Vehicles $'000**	**Right of use assets $'000**	**Total $'000**
At 1 January 2018								
Cost or fair value	77	4,777	4,099	1,331	2,438	835	-	13,557
Accumulated depreciation	-	(1,313)	(2,037)	(782)	(1,730)	(581)	-	(6,443)
Net book amount	**77**	**3,464**	**2,062**	**549**	**708**	**254**	**-**	**7,114**
Year ended 31 December 2018								
Opening net book amount	77	3,464	2,062	549	708	254	-	7,114
Adoption of AASB 16	-	-	-	-	-	-	8,962	8,962
Adoption of AASB 129	7	759	12	14	15	36	-	843
Additions	114	1,015	1,018	76	476	104	-	2,803
Disposals	-	-	-	(19)	-	(26)	-	(45)
Depreciation charge	-	(382)	(288)	(149)	(344)	(68)	(1,674)	(2,905)
Exchange differences	(4)	(1,369)	(178)	(24)	(123)	(50)	(178)	(1,926)
Closing net book amount	**194**	**3,487**	**2,626**	**447**	**732**	**250**	**7,110**	**14,846**
At 31 December 2018								
Cost	194	4,830	5,019	1,303	2,789	760	8,750	23,645
Accumulation depreciation	-	(1,343)	(2,393)	(856)	(2,057)	(510)	(1,640)	(8,799)
Net book amount	**194**	**3,487**	**2,626**	**447**	**732**	**250**	**7,110**	**14,846**

13 Property, plant and equipment (continued)

Consolidated entity	Land $'000	Buildings and Leasehold improvements $'000	Production equipment $'000	Office furniture and equipment $'000	Computers and peripheral equipment $'000	Vehicles $'000	Right of use assets $'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 or fair value	77	4,777	4,099	1,331	2,438	835	-	13,557
Accumulated depreciation	-	(1,313)	(2,037)	(782)	(1,730)	(581)	-	(6,443)
Net book amount	**77**	**3,464**	**2,062**	**549**	**708**	**254**	**-**	**7,114**

14 Intangible assets

Consolidated entity	**Goodwill $'000**	**Capitalised development costs $'000**	**Capitalised concession asset $'000**	**Total $'000**
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**
Year ended 31 December 2018				
Opening net book amount	56,293	2,208	1,666	60,167
Additions	-	-	2,017	2,017
Impairment loss (i)	(56,293)	-	-	(56,293)
Amortisation charge	-	(138)	-	(138)
Currency translation differences	-	(158)	8	(150)
Closing net book amount	**-**	**1,912**	**3,691**	**5,603**

(i) Impairment tests for goodwill

Goodwill and intangible assets with an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired.

Other intangible assets are reviewed 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 carrying amount exceeds its recoverable amount.

Intangibles have been allocated to three Cash Generating Units (CGUs) for impairment testing as follows:
• Israel Business Unit
• Italy Business Unit
• All other Business Units that include the Group's operations mostly in Argentina, USA and UAE

The Directors have conducted an overall review of their Value in Use model at 30 June 2018 and have determined the Goodwill to be fully impaired for all three Cash Generating Units (CGU's) the Goodwill was attributed to. An impairment of $56,293,000 has been recognised in the Financial Statements for the year ended 31 December 2018.

Movement in Goodwill by CGU for the twelve months ended 31 December 2018:

CGU	**Balance of goodwill 31 December 2017 $'000**	**Goodwill impairment For the 12 months ended 31 December 2018 $'000**	**Balance of goodwill 31 December 2018 $'000**
Israel Business Unit	30,898	(30,898)	-
Italy Business Unit	6,103	(6,103)	-
Other Business Units	19,292	(19,292)	-
Total	**56,293**	**(56,293)**	**-**

14 Intangible assets (continued)

(ii) **Capitalised concession asset**

Please refer to the Note 1 'Summary of significant accounting policies', (aa) 'Investments and other financial assets'.

15 Trade and other payables and other liabilities

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Current		
Trade payables	10,558	16,580
Accrued payroll liabilities	2,919	1,216
Accrued project expenses	29,040	4,186
Payable to non-controlling interests (i)	300	4,318
Government grants (ii)	1,852	-
Lease liability (iii)	1,319	-
Other accruals	2,857	1,511
	48,845	**27,811**
Other financial liabilities		
Acquisition milestone 2 payable (iv)	-	1,000
	-	**1,000**
Non-current		
Government grants (ii)	2,982	2,402
Lease liability (iii)	6,026	-
Other liabilities	293	193
	9,301	**2,595**

(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. The shares issued by Fluence corporation in relation to this transaction were sold in January 2018 and $4,018,000 was paid to non-controlling interests as per agreement. The balance of $300,000 remained unpaid as of 31 December 2018.

15 Trade and other payables and other liabilities (continued)

(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 4.5% of sales to end customers of products developed with funds provided by the Chief Scientist, if and when such sales are recognised. As of December 31, 2018 and 2017, the Group recognised a liability to the OCS in the amount of $4,628,000 and $2,305,000 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 2018, royalties of $38,000 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 recognised. As of 31 December 2018 and 2017, the Group recognised a liability to the MNI in the amount of $206,000 and $97,000 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 2018, royalties of $99,000 have been paid.

(iii) **AASB 16 lease liability**

In 2018, the Group implemented AASB 16. The liability of $7,345,000 arising from the implementation of this new standard represents the Group obligation to make lease payments.

(iv) **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 in 2018.

16 Provisions

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Current		
Employee benefits	1,469	2,362
Provision - onerous contracts *(i)*	-	23,656
Warranty provision	1,299	300
Other provisions	1,324	1,393
	4,092	**27,711**
Non-current		
Employee benefits	838	878
	838	**878**

16 Provisions (continued)

Consolidated entity	Employee benefits $'000	Warranty $'000	Onerous contracts $'000	Other $'000	Total $'000
Current					
At 1 January 2018	2,362	300	23,656	1,393	27,711
Additions	-	1,008	-	345	1,353
Reversal	-	-	(11,126)	-	(11,126)
Utilised	(690)	-	(221)	(428)	(1,339)
Currency translation differences	(203)	(9)	(12,309)	14	(12,507)
Total	**1,469**	**1,299**	**-**	**1,324**	**4,092**
Non-current					
At 1 January 2018	878	-	-	-	878
Additions	58	-	-	-	58
Reversal	-	-	-	-	-
Utilized	(29)	-	-	-	(29)
Currency translation differences	(69)	-	-	-	(69)
	838	**-**	**-**	**-**	**838**

(i) Onerous contract

In 2016, prior to the acquisition of RWL Water by Fluence (previously Emefcy) on 14 July 2017, RWL Water recognised a provision for onerous contract from a specific project they entered into in 2015. At 31 December 2018, and upon this project being close to completion, the Group reviewed the amount of the provision. Based on the progress of this project it was assessed that it is no longer probable that an outflow of resources will be required post 31 December 2018, and that the provision should be reversed.

Onerous contract provision -

	31 December 2018 $'000	31 December 2017 $'000
Onerous contract provision	-	23,656

The onerous provision in the amount of $11,347,000 was released to cost of sales in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the 31 December 2018 financial year.

17 Deferred revenue

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Deferred revenue	25,898	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 balance decreased as the work was largely completed in FY2018, with some residual work to be completed in 2019 (refer to note (ab)(vii) for more information).

18 Contributed equity

	31 December 2018 No.	31 December 2017 No.	31 December 2018 $'000	31 December 2017 $'000
Ordinary shares	537,375,296	435,368,167	179,047	152,810
Options	46,436,671	52,778,282	6,079	4,088
Share capital	**583,811,967**	**488,146,449**	**185,126**	**156,898**

***(a)* Ordinary Shares - Fully Paid**	**Notes**	**Number of shares**	**$'000**
Opening balance 1 January 2017		257,051,054	51,271
Shares issued to acquire RWL Water LLC group		80,400,000	65,828
Private placement at AU$0.84 per share		30,537,848	20,000
Private placement at AU$0.84 per share		16,309,001	10,900
Shares issued for non-controlling interests buyout		6,245,264	4,018
Exercise of options		2,225,000	802
Issue of deferred consideration shares		18,511,027	-
		411,279,194	152,819
Transaction costs arising on share issue	(i)	-	(9)
Deferred consideration shares to be issued - Milestone 2		3,988,973	-
Shares to be issued - RWL Water LLC group acquisition (subject to holdback)		20,100,000	-
Balance 31 December 2017		435,368,167	152,810
		Number of shares	**$'000**
Opening balance 1 January 2018		411,279,194	152,810
Shares issued for Milestone 2		3,988,973	-
Shares issued for RWL Water LLC group acquisition, previously subject to holdback		20,100,000	-
Private placement at AU$0.37 per share		89,455,295	23,987
Shares issued pursuant to a Share Purchase plan announced on 26 October 2018 at AU$0.37 per share		9,051,835	2,428
Exercise of options		3,499,999	799
		537,375,296	180,024
Transaction costs arising on share issue	(i)	-	(977)
Balance 31 December 2018		537,375,296	179,047

(i) 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

2017	**Number of options**
Opening balance	18,742,946
Unlisted options issued to employees	19,978,336
Unlisted options issued to consultants	10,250,000
Unlisted options issued to directors	6,032,000
Exercised options	(2,225,000)
Cancelled options	-
Balance at 31 December 2017	52,778,282

2018	**Number of options**
Opening balance	52,778,282
Unlisted options issued to employees	2,243,000
Unlisted options issued to consultants	100,000
Unlisted options issued to directors	1,500,000
Reversal of unlisted options issued to employees	(992,000)
Reversal of unlisted options issued to consultants	(2,040,001)
Exercised options	(3,499,999)
Cancelled options	(3,652,611)
Balance at 31 December 2018	46,436,671

(c) Summary of all unlisted options in existence

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

Date options granted	Expiry date	Issue price of shares	Number under option
18 December 2015	18 December 2019	AU 40 cents	2,000,000
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	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

18 Contributed equity (continued)

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

Date options granted	Expiry date	Issue price of shares	Number under option
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	347,389
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 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
14 July 2017	10 September 2021	AU 81 cents	3,800,000
10 January 2018	11 March 2022	AU 58 cents	180,000
26 March 2018	25 May 2022	AU 48 cents	1,375,000
28 June 2018	27 August 2022	AU 46 cents	500,000
31 July 2018	31 July 2022	AU 1.20 dollars	750,000
31 July 2018	31 July 2022	AU 1.50 dollars	750,000
			46,436,671

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**

	Consolidated entity 31 December 2018 $'000
Opening Balance at 1 January 2018	154
Contributed equity	105
Profit for the year attributable to non-controlling interests	955
Closing Balance at 31 December 2018	**1,214**

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

19 Non-controlling interests (continued)

(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.

(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.

(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.

(iv) In October 2018 the Group formed a new entity The International Company for Water Services and Infrastructure S.A.E. in Egypt to supply the desalination plants to projects owned by the Egyptian Ministry of Housing. The Group holds 75% share in this entity.

20 Other reserves

	Consolidated entity	
	31 December 2018 $'000	31 December 2017 $'000
Foreign currency translation reserve	(15,752)	(1,376)

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:

21 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Consolidated entity			**31 December 2018**			
	ILS $'000	**EUR $'000**	**AUD $'000**	**ARS $'000**	**RMB $'000**	**BRL $'000**
Assets	1,759	5,700	10,894	4,809	3,410	2,342
Liabilities	(3,846)	(6,085)	(400)	(309)	(1,919)	(536)
	(2,087)	**(385)**	**10,494**	**4,500**	**1,491**	**1,806**

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, BRL and RMB change, on an absolute value basis, between 31 December 2018 and 31 December 2017. The average change of these currencies within this period was approximately 10%.

	2018 +10%/-10% $'000	**2017 +10%/-10% $'000**
Australian Dollar (AUD)	1,049/(1,049)	24/(24)
Argentina Peso (ARS)	450/(450)	417/(417)
Israeli New Shekel (ISL)	(209)/209	(527)/527
Euro (EUR)	(38)/38	(574)/574
Brazilian Real (BRL)	181/(181)	-
Renminbi (RMB)	149/(149)	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 2018 $'000	31 December 2017 $'000
Instruments with cash flow risk		
Cash and cash equivalents	38,741	75,153

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 2016, December 2017 and December 2018. The average change of rate was 0.7%.

21 Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

	2018 +1%/-1% $'000	2017 +1%/-1% $'000
Cash and cash equivalents	396/(396)	799/(799)

(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.

Contractual maturities of financial assets **At 31 December 2018**	**Less than 6 months** $'000	**Greater than 6 months** $'000	**Total contractual cash flows** $'000
Trade receivables	11,730	235	11,965
Other receivables	101	10	111
	11,831	**245**	**12,076**

Contractual maturities of financial assets **At 31 December 2017**	**Less than 6 months** $'000	**Greater than 6 months** $'000	**Total contractual cash flows** $'000
Trade receivables	11,173	2,356	13,529
Other receivables	217	260	477
	11,390	**2,616**	**14,006**

Impairment of financial assets

In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Group to account for expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

21 Financial risk management (continued)

(b) Credit risk (continued)

Impairment of financial assets (continued)

In particular, AASB 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk of that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. AASB 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost, amounts due from customers, as well as on loan commitments and financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Low credit risk financial instruments
Some financial instruments are considered low credit risk due to contracts held with certain counterparties, including government organisations with strong capacity to meet contractual cash flow obligations in the near term and not expected to be affected by changes in economic and business conditions.

Measuring movements in credit risk
The Group have developed a sophisticated approach to periodically reviewing each contract. The Group measures its credit risk through credit assessment criteria and use risk mitigation actions to manage credit risk.

The Group uses the following credit assessment criteria:

- Exposure - The magnitude of credit exposure indicates the extent to which the Group is exposed to the risk of loss in the event of the counterparty default. Credit exposure can be minimized through avoiding engagement with only several counterparties in the same geographical area, background checks on new customers, establish credit limits, use credit and political risk insurance, etc.
- Probability of default (PD) - the likelihood of a default over a particular time horizon. It provides an estimate of the likelihood that a counterparty will be unable to meet its contractual obligations. PD can be minimized by developing a credit score for each counterparty by using historical information such as financial statements or use external rating agencies and developing a standard process to handling overdue accounts.

The Company considers the probability of default upon initial recognition of the asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations. In particular, the following information is taken into account when assessing significant movements in credit risk:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations;

21 Financial risk management (continued)

(b) Credit risk (continued)

Impairment of financial assets (continued)

- actual or expected significant changes in the operating results of the counterparty;
- significant increases in credit risk on other financial instruments of the same counterparty;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements;
- significant changes in the expected performance and behaviour of the counterparty, including changes in the payment status of counterparties in the Group and changes in the operating results of the counterparty;
- macroeconomic information such as market interest rates and growth rates; and,
- political condition of the region where the counterparty is located.

Definition of default
The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- if there is a material breach of financial covenants by the counterparty and this is not expected to be remedied in the foreseeable future; or
- information developed internally or obtained from external sources indicates that the counterparty is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group). Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is significantly past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

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

- a breach of contract, such as a default or past due event;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy
The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(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.

21 Financial risk management (continued)

(c) Liquidity risk (continued)

Maturity profile (continued)

Contractual maturities of financial liabilities	**Less than 6 months**	**Greater than 6 months**	**Total contractual cash flows**
At 31 December 2018	$'000	$'000	$'000
Trade and other payables and other liabilities	40,896	17,250	58,146
Borrowings	108	260	368
	41,004	**17,510**	**58,514**
At 31 December 2017			
Trade and other payables and other liabilities	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**

Non-recourse debt facility

Fluence holds a US$50 million non-recourse stand-by debt facility for project financing of Build, Own, Operate and Transfer ("BOOT") projects, enhancing the Company's ability to grow the recurring revenues based on its Smart Products Solutions. The facility is provided by Generate Capital, a leading US-based infrastructure investment firm. Fluence is expected to have access to this facility on a project-by-project basis for 3 years without any geographical limitation.

(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

The Group doesn't have any loan facilities as of 31 December 2018 that require to comply with the covenants.

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).

22 Recognised fair value measurements (continued)

Fair value hierarchy (continued)

2018	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Recurring fair value measurements				
Financial liabilities				
Government grant liability	-	-	4,834	4,834
	-	-	**4,834**	**4,834**

2017	**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	-	-	2,402	2,402
	-	-	**3,402**	**3,402**

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% (2017: 13.9%)

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 2017	**1,224**
Payment	67
Adjustment to fair value of liability	1,111
Closing Balance at 31 December 2017	**2,402**
Payment	23
Adjustment to fair value of liability	2,448
Currency translation differences	(39)
Closing Balance at 31 December 2018	**4,834**

23 Remuneration of auditors

	Consolidated entity	
	2018	2017
	$	$
Audit and other assurance services		
Audit and review of financial statements - BDO East Coast Partnership	232,000	159,092
Audit and review of financial statements - BDO related practices	246,857	159,800
Overruns from prior years audits	23,000	-
Audit and review of financial statements - Mazars	-	302,118
	501,857	**621,010**
Other services		
BDO - Non-assurance services (i)	32,410	159,571
Mazars - Non-assurance services (ii)	-	40,689
	32,410	**200,260**

(i) BDO non-assurance 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) As at 31 December 2018 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 $2,864 thousands (2017: $4,226 thousands).

(ii) The Group has a government grant liability of $4,834 thousands for more details refer to Note 15 - Trade and other payables and other liabilities.

(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 4 and the remuneration report in the directors' report.

25 Related party transactions (continued)

Loans to/from related parties

Fluence Israel Limited has a long-term receivable from its associate, ETGR Water Infrastructure Management in the amount of $65,000, on which the interest receivable is accrued at $5,000. Fluence Israel Limited also has a balance payable to its non-controlling interests, Libra Ingenieros Civiles SA de CV and RJ Ingenieria of $64,000 and $154,000, on which the interest payable was accrued at $10,000 and $31,000 for the year 2018.

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 2018 and 2017.

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, which ended in December 2017. There is no remaining liability in 2018. Fluence Corporation LLC also paid approximately $223,000 for consulting services provided by the former CFO for the year 2018, of which approximately $37,000 was accrued as of 31 December 2018.

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 was paid in January 2018. The remailing liability of $300,000 accrued as of 31 December 2018 was paid in January 2019.

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 instalments plus all management expenses of the property and the cost of utilities. Rent paid on this lease was approximately $122,000 for the year 2018. The balance future commitment is approximately $58,000 for the year 2019.

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 2012 for 12 months, requires Fluence USA to pay a monthly base rent. Rent paid on this lease was approximately $24,000 for the year 2018. The balance future commitment is $16,000 for the year 2019.

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 $92,000 for the year 2018. The balance payable is $41,000 as of 31 December 2018.

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 2018 $'000 AUD	31 December 2017 $'000 AUD
Current assets	15,633	31,125
Total assets	73,260	130,759
Current liabilities	896	2,107
Total liabilities	918	7,270
Issued capital	215,611	178,054
Reserves	13,410	(2,812)
Accumulated losses	(156,679)	(51,753)
Total Equity	**72,342**	**123,489**
Loss for the period	(104,926)	(41,197)
Total comprehensive loss	**(104,926)**	**(41,197)**

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 2018 Fluence Corporation Limited had no contractual commitment and contingent liabilities.

27 Subsidiaries

Name	Place of incorporation	Ownership interest 2018	Ownership interest 2017
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%	100%
Subsidiaries of Emefcy Hong Kong Limited			
Emefcy China Limited	China	100%	100%
Subsidiaries of Fluence Corporation Limited			
Fluence Corporation LLC	USA	100%	100%
Subsidiaries of Fluence Corporation LLC			
Nirosoft Trading (1987) Limited	Israel	100%	100%
Fluence Investments Limited	United Kingdom	100%	100%
Subsidiaries of Investments Limited			
RWL Desal Holding	Mexico	100%	100%
Desaladora Kenton	Mexico	51%	51%
Fluence Israel Limited	Israel	100%	100%
Subsidiaries of Israel Limited			
VIC Water Systems	Australia	100%	100%
Nirosoft Industries Limited	Cyprus	N/A	100%
Nirosoft Australia Limited	Australia	N/A	100%
Nirosoft Cyprus Limited	Cyprus	100%	100%
Nirosoft Industries Limited - Chile Branch	Chile	N/A	100%
Nirosoft Industries Limited - Sucursal Colombia	Colombia	100%	100%
Central America SA de CV	Central America	100%	100%
S.D.L Technologies Limited	Israel	100%	100%
Constructora Kenton SA de CV	Mexico	51%	51%
ETGR Water Infrastructure Management	Israel	50%	50%
RWL Water Mexico	Mexico	49%	49%
Fluence Argentina	South America	100%	100%
Subsidiaries of Fluence Argentina			
Acquavit Ltd	Brazil	70%	70%
Fluence Middle East	UAE	100%	100%
Fluence Italy S.R.L	Italy	100%	100%
Subsidiaries of Fluence Italy S.R.L			
RWL Water France	France	100%	100%

27 Subsidiaries (continued)

Name	Place of incorporation	Ownership interest 2018	Ownership interest 2017
Fluence USA Inc.	USA	100%	100%
Fluence Investments LLC	USA	100%	N/A
Subsidiaries of Fluence Investments LLC			
International Company for Water Services and Infrastructure S.A.E.	Egypt	75%	N/A
Fluence BOOT Finance LLC	USA	100%	N/A

28 Events occurring after the reporting period

On 27 February 2019 the Company signed a landmark €165 million commercial agreement with the Federal Government of Ivory Coast for the turnkey supply of a 150,000 m3/day surface-water treatment plant (the “ IC Plant”).

The commercial agreement still needs to reach financial close, which is conditional upon a number of events including the arrangement of export credit financing, which Fluence is in the process of finalising and procurement of land for IC Plant. Fluence is in advanced discussions to arrange third party financing for the Government of Ivory Coast via a loan from Israel Discount Bank. The project has the support of the state of Israel through its Export Credit Agency (ASHRA). Following Financial Close, which is expected to occur during Q3 2019, construction of the IC Plant will then commence, with completion occurring within 24 months thereafter.

Subject to Finance Close and Project Commencement, Fluence expects that this contract will contribute revenues of up to US$20 million in 2019, US$80 million in 2020, with the balance of the contract value to be recognised in 2021. This will significantly increase Fluence’s contracted backlog for each of these years. Progress payments are expected to be made on a quarterly basis, and project financing will be further supported by a specific working capital facility.

Fluence Corporation Limited
Directors' Declaration
31 December 2018

In the Directors' opinion:

(a) the Financial Statements and notes set out on pages 49 to 107 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 2018 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 2019
New York

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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 2018, 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 2018 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.

Argentinian economic environment and impact of hyperinflation	***How the matter was addressed in our audit***
The Fluence Group operates a subsidiary in Argentina, Fluence Argentina S.A. The functional currency of Fluence Argentina is the Argentinian Peso (ARS). On 1 July 2018, Argentina was declared a hyperinflationary economy by the International Monetary Fund requiring the Company to mandatorily adopt AASB 129 *Financial Reporting in Hyperinflationary Economies*. The Accounting Standard requires a restatement approach whereby financial information within the Argentinian subsidiary is adjusted by applying a general price index to reflect a more meaningful measure of value at year end. This has been determined as a key audit matter due to the complex calculations and disclosures involved in the financial statements in accordance with the requirements of AASB 129 *Financial Reporting in Hyperinflationary Economies*. *Note 1(ac) to the financial statements contains the accounting policy for hyperinflation and the financial reporting impact of the restatement.*	Our audit procedures included but were not limited to: • Assessing Management's determination of the functional currency of Fluence Argentina as the Peso (ARS) in accordance with AASB 121 *The Effects of Changes in Foreign Exchange Rates*. • Evaluating the hyperinflation adjustment calculations prepared by Management. • Reviewing the judgements and assumptions made by Management during the application of the requirements of AASB 129. • Engaging our component auditors in Argentina to also audit Management's hyperinflation calculations. • Assessing the relevance and adequacy of disclosures within the financial statements.

Carrying value of goodwill	*How the matter was addressed in our audit*
Australian Accounting Standards require an annual assessment of impairment of goodwill. The Directors reassessed the carrying value of goodwill at half year 30 June 2018 and made the decision that the entire balance was impaired. An impairment of $56.3m was recognised. This is considered a key audit matter due to the quantum of the impairment and the degree of estimation and significant judgement involved. *Note 1(u) to the financial statements contains the accounting policy for the intangible assets; Note 1(ab) contains a summary of key accounting estimates relating to goodwill; and Note 14 Intangible assets details the impairment of goodwill.*	Our audit procedures included but were not limited to: • Reviewing the methodology and assumptions contained in management's goodwill impairment model. • Engaging our internal valuation experts to assess whether Management's impairment model was appropriately determined. • Challenging key underlying assumptions, including cash flow forecasts, forecast growth rates, discount rate and terminal value. • Reviewing the disclosures on the impairment assessment in the financial report to ensure compliance with AASB 136 *Impairment of Assets*.

Audit strategy for overseas operations	*How the matter was addressed in our audit*
The Group's structure comprises significant overseas operations which necessitates the requirement for engagement of component auditors to mitigate the risk associated with delivering an audit in a location and regulatory environment other than Australia. *The accounting policy for consolidation as described in Note 1(d), 'Principles of consolidation', and details on the controlled entities as disclosed in Note 27 of the accompanying financial report are the basis of this key audit matter.*	Our audit procedures included but were not limited to: • Gaining an understanding of the Group, its components and the environment they operate in, in order to identify the risks of material misstatement to the Group financial report. • 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. • Engaging component auditors from BDO-member firms. As part of this we: – Evaluated their understanding of the ethical requirements and ensured they were competent and independent.

	– Issued audit instructions and timetables to our component teams and subsequently reviewed their reporting deliverables. – Undertook a quality control review of component auditor's working papers. • Discussing with the component auditors: – The business and audit activities that were significant to the group audit through regular teleconferences throughout the audit. – The susceptibility of the component auditor's financial information to material misstatement from fraud and error.

Recognition of revenue - Adoption of AASB 15 Revenue from Contracts with Customers and AASB 1059 Service Concession Arrangements	***How the matter was addressed in our audit***
Fluence has adopted AASB 15 *Revenue from Contracts with Customers* at 1 January 2018. AASB 1059 *Service Concession Arrangements* is also applicable to Fluence's B.O.T ('Build, Operate, Transfer') contracts. The adoption of AASB 15 includes a transitional adjustment to opening retained earnings. Revenue recognition was identified as a key audit matter due to the significance of revenue to the financial report and the degree of judgement and estimation required by Management including the identification of the discrete performance obligations within each contract and the timing and quantum of revenues to be recognised where the project related performance obligation is satisfied over time. Revenue is also a default fraud risk in accordance with Australia Auditing Standards.	Our audit strategy to address the risks included but were not limited to: • Assessing the Group's accounting policy for revenue to ensure it has been correctly formulated in accordance with the Australian Accounting Standards. • Obtained and tested a sample of contracts across all material locations and evaluated and verified the significant judgements and estimates made by Management in applying AASB 15 and AASB 1059 to specific contracts and separable performance obligations of contracts. Procedures included reading relevant terms and conditions, testing percentage of completion calculations and inputs, including actual costs incurred and forecast costs to complete. • Performed revenue cut-off procedures and analytical review of revenues.

The accounting policy for revenue recognition is described in Note 1(f), 'Revenue recognition', and details of revenue are disclosed in Note 3 of the accompanying financial report are the basis of this key audit matter.	• Reviewing the disclosures regarding revenue recognition to ensure compliance with AASB 15 *Revenue from Contracts with Customers* and AASB 1059 *Service Concession Arrangements*.

PDVSA Contract Revenue and Costs	***How the matter was addressed in our audit***
In February 2015, RWL Water Argentina accepted a series of purchase orders (P.O.s) from PDVSA (the 'PDVSA contract'), the agricultural arm of Venezuela's state-owned oil and natural gas company, for detailed engineering and supply of water and wastewater treatment systems and composting systems for five ethanol production plants in Venezuela. Although 4 of the 5 Purchase Orders were subsequently rescinded in 2017, the Portuguesa portion of the project was continued. The status of the Portuguesa portion of the PDVSA contract, being 95% complete as at 31 December 2018, has been a significant focus of the audit and materially impacts: • Revenue and costs recognised during the year relating to the Portuguesa portion of the contract • The Company's residual liability relating to the unspent advanced payment from PDVSA • Release of an onerous contract provision liability • Disclosure of the above items A significant focus of our audit has also included an assessment of the cancellation of certain P.O.s within the PDVSA contract in prior years, including ensuring that related project costs and revenue had been correctly accounted for, and recognition of revenue related to variable consideration in relation to rescinded purchase orders. Overlaying the above is the impact of foreign exchange, hyperinflation and Management's assessment of Fluence Argentina's functional currency as the Argentinian Peso (ARS).	The following procedures were performed with the assistance of our BDO Argentina team: • Assessed the accuracy, classification and disclosure of the residual liability for unspent advanced funds for the PDVSA contract. • Obtained and assessed an independent engineering expert's report in order to validate the stage of completion of the project as at 31 December 2018. • Engaged our IFRS technical team to assess the financial reporting impact of the previously cancelled Purchase Orders as a contract modification. This in turn impacted the foreign exchange rate and hyperinflation coefficient applied to the revenue recognised in FY18 in relation to the PDVSA contract. • Reviewed independent legal advice (expert in Venezuelan law) obtained by the Company to validate the allocation of the transaction price between various performance objectives including variable consideration. • Verified the release of the onerous contract provision in FY18 including the related disclosure. • Performed detailed testing of the foreign exchange and hyperinflation determination of the revenue recognition and measurement of the residual liability relating to the unspent advance payment as at 31 December 2018 including an assessment of the related disclosure.

In light of the inherent uncertainty as to whether future project work will be requested due to the political situation in Venezuela this also necessitates detailed consideration of the accounting treatment of all the above items and the appropriate disclosure. *The accounting policy for revenue recognition is described in Note 1(f), 'Revenue recognition'; Note 1(ab) contains a summary of key accounting estimates relating to PDVSA and details of revenue are disclosed in Note 3 of the accompanying financial report are the basis of this key audit matter.*	• Assessing the relevance and adequacy of disclosures within the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2018, but does not include the financial report and the auditor's report thereon.

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 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, 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.

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 17 to 44 of the directors' report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of Fluence Corporation Limited, for the year ended 31 December 2018, 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

David Garvey
Partner

Melbourne, 29 March 2019