Fluence Corporation Limited

ABN 52 127 734 196

Audited financial report for the year ended 31 December 2019

Fluence Corporation Limited ABN 52 127 734 196
Audited financial report - 31 December 2019

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*
	Dr Ramesh Rengarajan *Non-Executive Director*
	Mr Arnon Goldfarb *Non-Executive Director*
	Mr Paul Donnelly *Non-Executive Director*
Company Secretary	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 2019 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
Dr Ramesh Rengarajan, Non-Executive Director
Mr Arnon Goldfarb, Non-Executive Director
Mr Paul Donnelly, Non-Executive Director

Review of operations

1 Multiple milestones achieved in 2019

The main goals for Fluence for 2019 were to continue sales of Smart Products Solutions (SPS), specifically in China and to grow the Recurring Revenue (RR) segment. Whilst revenues were lower than anticipated, the Company managed to achieve several significant milestones during the year:

- Smart Product Solutions revenue grew to US$26.4m in 2019, up 21.1% on 2018, contributing 43% of total revenue
- Ivory Coast water treatment plant contract signed for €165 million
- Successful capital raising of AU$36m to increase assembly capacity in China working with local partners and provide general working capital
- Received additional orders from ITEST for Aspiral™ Membrane Aerated Biofilm Reactor (MABR) Smart Products Solutions (SPS), and established new partnerships with Aerospace Kaitian Environmental Technology and Liaoning Huahong New Energy with agreements to purchase MABR systems and to establish Aspiral™ assembly lines in their respective provinces
- Expanded presence in China, with 38 partnerships, up from 26 in 2018
- Recurring revenue of more than US$7.0m, up 6.4% on 2018
- Continued to reduce overheads, which reduced by more than 10% year on year.

The total Company revenue for 2019 was US$61.3 million following a strong 2018 of more than US$101.1 million. The reduction was due mainly to delays in revenue recognition for the Ivory Coast water treatment project, which subsequently occurred on January 7, 2020, and delays in the commencement of construction for the San Quintin project in Mexico.

Revenues for 2020 - 2022 are underpinned by the Ivory Coast water treatment project. The focus in the medium term is on establishing higher margin, more reliable longer-term revenue streams with lower capital intensity, from Smart Products Solutions and Recurring Revenue projects, underpinned by Fluence's proprietary MABR technology.

2 Notable successes include

(i) Smart Products Solutions (SPS)

China

- Exclusive partnership with ITEST signed in 2018 and delivering orders in 2019, with further orders confirmed for 2020 for Fluence Aspiral™ MABR products
  - ITEST ordered an additional 40 Aspiral™ units in Q1 2019, Fluence's single largest Aspiral™ order to date

Review of operations (continued)

2 Notable successes include (continued)

- Signed new partnerships with Aerospace Kaitian Environmental Technology (Aerospace) and Liaoning Huahong New Energy (Liaoning)
- Signed the first contract in China to deliver a SUBRE project, and later a second SUBRE project designed to achieve the China Class IV Surface Discharge standards.

Other markets

- In Latin America, the Company
  - received its first Aspiral™ order
  - executed an agreement for a US$5 million containerised SPS for a greenfield lithium mining project in Argentina
  - executed an agreement for a US$3 million + lithium brine treatment solution in Argentina;
- Demand for NIROBOX™ increased, specifically in the Middle East where water scarcity and security have seen increased risks for municipal, industrial and commercial entities, with the Company securing the sale of five NIROBOX™ during the year
- Another MABR order in the USA was received from a customer in New Mexico, where Fluence was able to meet the high levels of water recycling standards in the United States.
- Subsequent to year end, on 2 March 2020, the Company announced it had secured an MABR sale for more than US$7 million in the Kingdom of Cambodia’s Sihanoukville Port for the Ministry of Land Management, Urban Planning and Construction through its local partner Xwater Technology Co. Ltd.

(ii) Recurring Revenue and Aftermarket

- Commencement of the Bimini, Bahamas project achieved, delivering at leaset 450,000 gallons per day with a capacity of up to 792,000 gallons per day, with the project creating recurring revenues of US$1.7m per annum for the next 15 years
- Secured and started development of a BOOT project in Peru, expected to be completed in the second half of 2020 and generate US$3.0m per annum revenue for 10 years, after completion
- Secured a service contract for a NIROBOX™ installation on Barbuda
- Operation & Maintenance contracts for NIROBOX™ installations in Egypt

(iii) Custom-Engineered Solutions (CES)

- During 2019, the Company signed a commercial agreement with the Federal Government of Ivory Coast for the turnkey supply of 150,000m^3/day surface-water treatment plan. Financial close for the project was achieved on 7 January 2020, with the execution of the financing agreement by the Ministry of Finance of Ivory Coast (the "Customer") and the Israeli Discount Bank ("IDB"), with credit insurance from Export Credit Agency of Israel, ASHRA. Fluence expects all outstanding Conditions Precedent to be met and to receive Notice to Proceed in order to begin construction work by Q2 2020. The landmark €165m deal is expected to help Fluence achieve sustainable positive EBITDA growth in Q1 2020 and going forward

Review of operations (continued)

2 Notable successes include (continued)

- During the year, Fluence continued to work with local authorities regarding the San Quintin project in Mexico. Fluence continues to have a strong working relationship with the State Water Commission of Baja California (CEA) and the local municipality. Following the elections in Mexico, the new administration undertook a review of all local projects and informed the Company of their intent to proceed with the project. Since such time, the customer and the Company have been engaged in discussions to address any remaining open items under the contract.

- On 13 May 2019, the Company signed a deal to design, engineer and construct a 12,000m^3/day seawater desalination plant in Brazil for one of the world's largest steel producers with expected construction completion in Q4 2020. The contract is worth US$10.0m and will be the largest desalination plant in Brazil.

3 Detailed review of key market segments

Current centralised water treatment plants present major challenges to address the growing global water 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 easily expanded, 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. Fluence and its businesses are focused on key environmental and sustainability pillars in alignment to the Sustainable Development Goals of the United Nations. The installed base of Fluence's innovative solutions such as Aspiral™, SUBRE and NIROBOX™, save approximately 19 GWh [gigawatt hours] (equivalent to 13,500 tons of CO2) annually compared to conventional technologies. In addition, Fluence's waste-to-energy installations around the world produce biogas from biomass and generate 121 GWh, which is equivalent to saving more than 85,700 tons of CO2 emission annually compared to fossil-fuelled power generation.

(i) Smart Products Solutions (SPS)

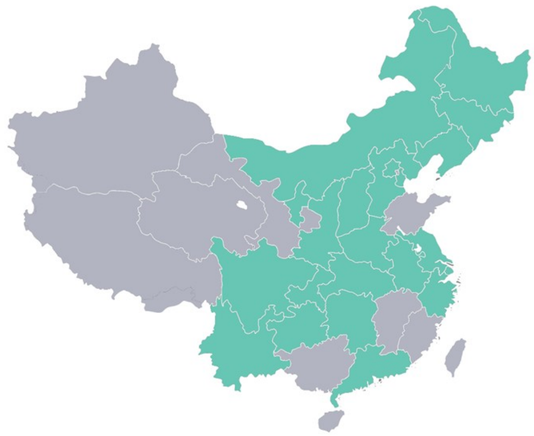
Smart Products Solutions revenue grew from US$22 million in 2018 to US$26.4 million in 2019, representing an increase of 21.1%.

MABR - Aspiral™ / SUBRE

Fluence continued its expansion into China, both through sales and manufacturing facilities, through its strong position, the Company has been able to leverage its market position to participate in the planned improvement in China's rural wastewater treatment quality. The current five-year plan outlined by the Chinese Government is targeting, and provides finance for, an increase in wastewater treatment for remote rural villages, to the Class 1A effluent discharge standard. With the five-year plan's target to reach 70% treatment of rural wastewater in China, Fluence's Smart Packaged Aspiral™ system featuring MABR technology is the lowest cost treatment alternative available in the decentralised market, and has the proven capability to consistently reach Class 1A effluent discharge standards.

Review of operations (continued)

3 Detailed review of key market segments (continued)



The 21 provinces and districts in China highlighted are covered by 38 strategic partnerships

Fluence Chinese partner ITEST, which entered into a framework agreement in 2018, has been taking delivery of orders throughout 2019. The relationship with ITEST continues to evolve, with Fluence receiving additional orders for its Aspiral™ during the year.

Fluence received its first order of Aspiral™ in Latin America in February 2019, with this first sale driving a market response in other regions. The interest in MABR-based products outside of China is evidence of the growing recognition of the product's unique operating cost advantages.

In February 2019, Phase I testing of Fluence's Aspiral™ unit at the Codiga Resource Recovery Centre (CR2C) at Stanford University (California, USA) was completed. CR2C released its interim report confirming MABR's compliance with California's strict Title 22 reuse standard. These criteria are among the strictest water treatment standards for water recycling and reuse in the United States. This validation bolsters Fluence's view that MABR technology is ideally suited to address the toughest wastewater challenges in the United States and around the world.

In April 2019, Fluence entered into an exclusive distribution agreement with Aquatec Maxcon (AQM) to promote and sell Smart Packaged Aspiral™ MABR-based solutions in Australia. Partnering with AQM allows Fluence to leverage AQM's extensive local water industry contacts and 50 years' worth of operating expertise. Australia is a new market for Fluence's Aspiral™ technology and partnering with AQM will increase the global footprint of Fluence's Smart Products Solutions without a significant investment by the company.

On 27 August 2019, Fluence signed a Letter of Intent with the Yiyang High-Tech Industrial District Management Committee for the establishment of a final assembly facility for its MABR products. The increase in capacity was underpinned by the Memorandum of Understanding Fluence signed with local partner Aerospace Kaitian Environmental Technology Co, Ltd. to serve as the preferred supplier to Kaitian for wastewater treatment equipment. Subject to execution of the binding purchase orders, Kaitian has indicated it is targeting orders of Aspiral™ L4 to satisfy capacity of up to 40,000m3/day or more by the end of 2021.

Review of operations (continued)

3 Detailed review of key market segments (continued)

In September 2019, Fluence signed an Investment Cooperation Agreement with The People's Government of Xinglontai District and Liaoning Huahong New Energy CO., Ltd for the establishment of a final assembly facility for its proprietary MABR products and a volume commitment by Liaoning Huahong to purchase Aspiral™ and SUBRE products with a capacity of 52,500m3/day through the end of 2021. This agreement secured Fluence as the preferred supplier of wastewater treatment equipment for Liaoning Huahong.

NIROBOX™

As water scarcity and water security become greater risks for municipal, industrial and commercial entities, we see growing interest in our suite of offerings, particularly in the Middle East. Fluence is exploring partnership opportunities for NIROBOX™ in key geographies around the world.

Finally, Fluence executed on a contract in October 2019 to deliver a Smart Products Solutions greenfield project for a lithium mining project in Argentina, worth US$5.0m. The project will utilise Fluence's ION exchange technology to remove naturally occurring contaminants from lithium brine, resulting in the highest product quality for the customer. The project is expected to be completed before the end of 2020.

(ii) Recurring Revenue and Aftermarket

In April 2019, Fluence made its first drawdown of approximately US$2 million on the US$50 million Generate Capital non-recourse debt facility. The funds were used to finance and complete Fluence's first seawater desalination plant in the Bahamas, at a resort in North Bimini. The construction was completed during Q2 2019 and commercial operation commenced in Q4, the delay in final commercial operation was due to the tragedy of Hurricane Dorian which battered northern Bahamas in early September 2019, the project was a major milestone in the development of Fluence's business model. The customer is pleased with the water quality from testing and is eager to commence the long-term supply agreement. Upon commercial operations, we expect to receive US$1.7 million annually for the next 15 years of operation.

In December 2018 Fluence secured the rights to design, build and operate a seawater desalination plant in central Peru, including a 10-year Water Purchase Agreement with an industrial client. Development work on Peru BOOT project begun during 2019 following the receival of all permits and should allow Fluence to begin site construction in the first half of 2020 and commence commercial operations in second half of 2020. Once completed, the project is expected to generate annual recurring revenue of at least US $3 million for 10 years.

(iii) Engineered Solutions and Other Products (CES)

In February 2019, Fluence signed a landmark €165 million commercial agreement with the Federal Government of Ivory Coast for the supply of a 150,000 m3/day surface-water treatment plant. Financial close was achieved on 7 January 2020 with the focus now on moving towards construction commencement of this important turnkey water treatment plant.

The plant will treat water from Lagune Aghien, Ivory Coast's largest freshwater reserve near Abidjan. This reserve is dense with algae and other contaminants, with this project targeted to help meet the fresh water needs of the country's largest city. With 4.7 million people, Abidjan is in urgent need of reliable, clean water due to its growing population and housing development.

In March 2019 Fluence's Egyptian joint venture partnership, The International Co. for Water Services & Infrastructure (IWSI), together with Hassan Allam EPC, was awarded a US$74 million contract to design and construct a 40,000 m3/day seawater desalination plant in New Mansoura. The infrastructure will be designed and built for a capacity expansion to 80,000 m3/day. Fluence will act as the technology provider, and the general contractor designing the process and supplying the pre-treatment, reverse osmosis skids, post-treatment equipment, and the start-up and commissioning of the plant.

Review of operations (continued)

4 Review of financial results

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

The operating revenue from ordinary activities for the twelve months ended 31 December 2019 was US$61.0 million (2018: 100.9 million) and the loss from ordinary activities after tax was US$31.6 million (2018: US$62.8 million). 2018 loss included a US$56.3 million non-cash goodwill write off.

Cost of sales for the twelve months ended 31 December 2019 decreased to US$51.5 million (2018: US$67.4 million).

The Group’s net assets decreased by US$4 million to US$47.1 million during the twelve months to 31 December 2019.

5 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.

6 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™ and NIROFLEX for water desalination and treatment of brackish water;
- SUBRE (MABR) for existing or new wastewater treatment; and,
- Products that are more than 50% pre-engineered, standardised and have more than 25% gross margin

Revenues from Smart Products Solutions are forecast to reach at least US$32 million in 2020, compared to US$26 million in 2019 and US$22 million in 2018.

Fluence is also targeting sustainable EBITDA profitability for the full year 2020. This will be achieved through sales of Custom-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.

7 Notes regarding the operational impact of the COVID-19

With reference to the spread of the COVID-19 pandemic (the "Coronavirus") as of the date of this report no Fluence team members are infected around the globe.

Fluence China is now operating effectively and efficiently and is continuously producing MABR products and shipping from China to customers within China and from around the world without any material supply chain or shipping delays. We are not currently anticipating any material deviation from our 2020 forecast sales in China. This includes the recent SUBRE US$7 million order in Cambodia which is expected to be delivered by the end of Q2.

Other regions of the world are starting to be confronted by similar economic effects from the Coronavirus as China experienced earlier this year. Particularly our team in northern Italy is affected by the repercussions of the spread of the virus and the impact on business in that region.

Review of operations (continued)

7 Notes regarding the operational impact of the COVID-19 (continued)

We continue to focus on delivering products in a timely and efficient manner by utilising a largely reliable and uninterrupted supply chain for manufacturing. We are also witnessing the benefits of being geographically diversified with several supply sources available in different countries.

As we are going through these challenging times, we will continue to focus on the well-being of our staff, the timely delivery of our solutions to our customers and partners, while also monitoring the constantly changing environment so that we are ready to adjust as may be deemed necessary in the future.

Significant events after balance date

On 7 January 2020 the Company announced that financial close on the €165 million (US$182 million) Ivory Coast water treatment plant has been achieved with the execution of the financing agreement by the Ministry of Finance of Ivory Coast (the "Customer") and the Israeli Discount Bank ("IDB"). Export Agency of Israel, ASHRA will provide credit risk insurance.

On 2 March 2020 the Company announced that it has secured a SUBRE membrane aerated biofilm reactor (MABR) sale in the Kingdom of Cambodia through its local partner, Xwater Technology Co., Ltd. This order has a value of more than US$7 million, consists of 66 SUBRE towers, and is expected to be delivered by June 2020.

Subsequent to reporting date, on 31 January 2020, the World Health Organisation (WHO) announced a global health emergency because of a new strain of coronavirus (COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. Because of the rapid increase in exposure globally, on 11 March 2020, the WHO classified the COVID-19 outbreak as a pandemic. These events are having a significant negative impact on world stock markets, currencies and general business activities.

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 15 years of experience in developing water and wastewater 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: 10,391,855 Director options with an exercise price of A$0.93; 3,360,000 Director options with an exercise price of A$0.39.
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	Alterity Therapeutics Ltd. (listed on ASX and NASDAQ), Noxopharm Ltd, Nyrada Inc. (listed on ASX), Electriq~Global Ltd (unlisted) and Elsight Ltd (listed on ASX)
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: 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)

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 Indirect interest in 2,254,403 shares
Interest in options	Direct interest in: 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)

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. He is an Operating partner at Eagletree Capital since 2010. 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 More 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, TSP, a chemical company and Hpnow, a company that developed hydrogen peroxide equipment
Other current directorships	Atlantium, TGA, TSP and Hpnow (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*	
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 Chief Executive Office of Flagstaff Partners, an independent corporate advisory firm. Previously, Mr. Donnelly was an Executive Director at Macquarie Capital, where he worked for 25 years in various roles, including President & CEO of Macquarie's Canadian operations, and Global Head of Equity and Debt Capital Markets. Mr. Donnelly has a broad range of investment banking experience, in Australia and internationally, with particular skills in capital markets. Over his thirty-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
Interest in shares	Indirect interest in 500,000 shares held by Tres Petitbijou Pty Ltd ATF <Tres Petitbijou Superannuation Fund>
Interest in options	Indirect interest through Tres Petitbijou Pty Ltd ATF <Tres Petitbijou Superannuation Fund> in: 250,000 Director options with an exercise price of A$0.60; 250,000 Director options with an exercise price of A$0.80.
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 2019, and the number of meetings attended by each Director were:

Fluence - for the year ended 31 December 2019	Full Board		Meetings of committees: Audit		Meetings of committees: Remuneration and Nomination	
	A	B	A	B	A	B
Mr Richard Irving	11	12	-	-	4	4
Mr Henry Charrabé **	12	12	-	-	-	-
Mr Ross Haghighat	12	12	-	-	4	4
Mr Peter Marks	12	12	11	11	4	4
Dr Ramesh Rengarajan **	11	12	-	-	-	-
Mr Arnon Goldfarb **	10	12	-	-	-	-
Mr Paul Donnelly	11	12	11	11	-	-
Mr Ross Kennedy (Company Secretary and Audit Committee member)	-	-	11	11	-	-

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. MABR has demonstrated compliance with China Class 1A effluent standards as well as with 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 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 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;

Remuneration report (Audited) (continued)

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

- The MD & CEO has added focus on growth in shareholder wealth, as measured by growth in the share price;
- 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.

The current level of Non-Executive Directors' fees and payments remain in line with previous benchmarking recommendations provided by Mercer Consulting. 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 2020.

This follows the same decision in 2018 and 2019, such that Non-Executive Director fees are unchanged from the Mercer Consulting recommendations in 2017.

The Non-Executive Chair's fees for 2019 were determined in parallel to the fees of other Non-Executive Directors, and also having regard to the scope of the role and comparative roles in the external market. The Non-Executive Chairman did not participate in any discussions relating to the determination of his own remuneration.

Directors engaged on Committees of the Board are also entitled to receive Board Committee fees. These too have remained unchanged since 2017.

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 Director Fee and Board Committee Fees, Directors may receive share options but do not receive other incentives or compensation.

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 AU$ 1,000,000 (equivalent of US$ 767,000 at that time).

Remuneration report (Audited) (continued)

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

Executive remuneration

The consolidated Company 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, deferred compensation and allowance;
- 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.

Executive remuneration levels also reference to a detailed benchmarking review of peer companies undertaken by Mercer Consulting in mid-2017 updated for subsequent increases for cost of living adjustments and any changes in the scope of responsibilities.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Remuneration and Nomination Committee and then the Board of Directors. The review also had regard to individual responsibilities, performance and business unit performance.

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 Board also reserves the right to award discretionary bonuses to executives for exceptional achievements which may relate to specific transactions.

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 and was last amended on 18 June 2019. 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 to 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. The performance-based element requires KPI’s set annually to be achieved for these options to vest.

Business performance in 2019 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 reflection of the modest business achievements during 2019 executive STI bonuses for 2019 were towards the lower end of the available bonus quantum. No performance options have been deemed to have vested with respect to the 2019 year.

Remuneration report (Audited) (continued)

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

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.

Key management personnel bonuses for the year 2020 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 relative to pre-determined KPI's during the financial year and exceptional achievements.

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.

The Directors' report presents the Fluence Corporation Limited 2019 remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year.

(b) Details of remuneration

Amounts of remuneration (shown in USD)

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

Directors and other key management personnel for 2019 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
• Rengarajan Ramesh - Non-Executive Director
• Arnon Goldfarb - Non-Executive Director
• Paul Donnelly - Non-Executive Director
• Francesco Fragasso - Chief Financial Officer
• Anthony Hargrave - Chief Operating Officer
• Erik Arfalk - Chief Marketing Officer
• Spencer Smith - Chief Legal Officer

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)
• Rengarajan Ramesh - 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)

Fluence Corporation Limited
Directors' Report
31 December 2019
(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 payment	
2019	Cash salary and fees					Superannuation	Long service leave	Equity settled shares	Equity settled options	Total
	Base salary	Deferred compensation*	Total salary and fees	Bonus	Allowance					
	$	$	$	$	$	$	$	$	$	$
Executive directors:										
Henry Charrabé	600,000	300,000	900,000	-	255,232	-	-	-	937,663	2,092,895
Total	**600,000**	**300,000**	**900,000**	**-**	**255,232**	**-**	**-**	**-**	**937,663**	**2,092,895**
Non-executive directors:										
Richard Irving	131,236	-	131,236	-	-	-	-	-	65,990	197,226
Peter Marks	102,432	-	102,432	-	-	-	-	-	48,624	151,056
Ross Haghighat	95,490	-	95,490	-	-	-	-	-	48,624	144,114
Rengarajan Ramesh	95,608	-	95,608	-	-	-	-	-	83,777	179,385
Arnon Goldfarb	62,432	-	62,432	-	-	-	-	-	20,242	82,674
Paul Donnelly	69,554	-	69,554	-	-	-	-	-	14,611	84,165
Total	**556,752**	**-**	**556,752**	**-**	**-**	**-**	**-**	**-**	**281,868**	**838,620**

* Subject to being employed at the end of the year (31 December 2019).

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	
2019	Cash salary and fees					Superannuation	Long service leave	Equity settled shares	Equity settled options	Total
	Base salary	Deferred compensation*	Total salary and fees	Bonus	Allowance					
	$	$	$	$	$	$	$	$	$	$
Other key management personnel:										
Francesco Fragasso	271,667	-	271,667	34,078	-	-	-	-	33,756	339,501
Anthony Hargrave	300,000	-	300,000	25,487	-	-	-	-	18,804	344,291
Erik Arfalk	225,500	-	225,500	15,575	-	-	-	-	21,097	262,172
Spencer Smith	274,840	35,000	309,840	11,048	-	-	-	-	33,968	354,856
Total	**1,072,007**	**35,000**	**1,107,007**	**86,188**	**-**	**-**	**-**	**-**	**107,625**	**1,300,820**
Grand total	**2,228,759**	**335,000**	**2,563,759**	**86,188**	**255,232**	**-**	**-**	**-**	**1,327,156**	**4,232,335**

* Subject to being employed at the end of the year (31 December 2019).

Fluence Corporation Limited
Directors' Report
31 December 2019
(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 payment	
2018	**Cash salary and fees**					**Superannuation**	**Long service leave**	**Equity settled shares**	**Equity settled options**	**Total**
	Base salary	**Deferred compensation**	**Total salary and fees**	**Bonus**	**Allowance**					
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Executive directors:										
Henry Charrabé	600,000	300,000	900,000	144,122	255,232	-	-	-	694,793	1,994,147
Total	**600,000**	**300,000**	**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
Rengarajan Ramesh	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

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Amounts of remuneration (shown in USD) (continued)

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
	Base Salary	Deferred compensation	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	260,000	35,000	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	**1,258,018**	**35,000**	**1,293,018**	**331,255**	**-**	**-**	**-**	**-**	**249,893**	**1,874,166**
Grand total	**2,533,541**	**335,000**	**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)

Remuneration subject to performance in 2019:

Some cash compensation is dependent on meeting defined performance measures. The amount of the cash compensation 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	**Maximum potential compensation**	**Maximum potential compensation subject to performance**	**Percentage of compensation subject to performance**
Henry Charrabé	1,530,232	375,000	24.5%
Francesco Fragasso	382,067	110,400	28.9%
Anthony Hargrave	390,000	90,000	23.1%
Erik Arfalk	280,500	55,000	19.6%
Spencer Smith	371,840	62,000	16.7%

Name	**Compensation subject to performance paid/payable 2019**	**Compensation subject to performance not earned 2019**
Henry Charrabé	0.0%	100.0%
Francesco Fragasso	30.9%	69.1%
Anthony Hargrave	28.3%	71.7%
Erik Arfalk	28.3%	71.7%
Spencer Smith	17.8%	82.2%

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.

2019	Balance at the start of the year	Received as compensation	Options exercised	Net change exercised / purchased	Total
Executive Director					
Henry Charrabé	-	-	-	-	-
Non-Executive Directors					
Richard Irving	37,264,579	-	-	-	37,264,579
Peter Marks	2,754,403	-	-	-	2,754,403
Ross Haghighat	500,000	-	-	-	500,000
Rengarajan Ramesh	-	-	-	-	-
Arnon Goldfarb	-	-	-	-	-
Paul Donnelly*	-	-	-	500,000	500,000
	40,518,982	**-**	**-**	**500,000**	**41,018,982**
Key Management Personnel					
Francesco Fragasso	-	-	-	-	-
Anthony Hargrave	-	-	-	-	-
Erik Arfalk	-	-	-	-	-
Spencer Smith	-	-	-	-	-
	-	**-**	**-**	**-**	**-**
Total	**40,518,982**	**-**	**-**	**500,000**	**41,018,982**

* Paul Donnelly acquired 500,000 Fluence shares on 11 March 2019 via Tres Petitbijou Pty Ltd ATF (the "Fund"). Paul is a Director of the Trustee and beneficiary of the Fund.

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Issue of shares (continued)

2018	**Balance at the start of the year**	**Received as compensation**	**Options exercised**	**Net change exercised / purchased**	**Total**
Executive Director					
Henry Charrabé	-	-	-	-	-
Non-Executive Directos					
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
Rengarajan Ramesh	-	-	-	-	-
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 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.

2019	**Balance at the start of the year**	**Granted as compensation**	**Option expired / exercised**	**Net change other**	**Balance at end of year**	**Vested & Exercisable**	**Escrowed / Unvested**
Executive Director							
Henry Charrabé	11,191,336	3,360,000	(799,481)	-	13,751,855	5,989,909	7,761,946
	11,191,336	**3,360,000**	**(799,481)**	**-**	**13,751,855**	**5,989,909**	**7,761,946**
Non-Executive Directos							
Richard Irving	1,900,000	-	-	-	1,900,000	1,900,000	-
Peter Marks	1,900,000	-	(500,000)	-	1,400,000	1,400,000	-
Ross Haghighat	1,900,000	-	(500,000)	-	1,400,000	1,400,000	-
Rengarajan Ramesh	1,500,000	-	-	-	1,500,000	1,500,000	-
Arnon Goldfarb	1,500,000	-	-	-	1,500,000	-	1,500,000
Paul Donnelly	-	500,000	-	-	500,000	-	500,000
	8,700,000	**500,000**	**(1,000,000)**	**-**	**8,200,000**	**6,200,000**	**2,000,000**
Key Management Personnel							
Francesco Fragasso	800,000	-	(25,000)	-	775,000	225,000	550,000
Anthony Hargrave	500,000	-	(3,906)	-	496,094	121,094	375,000
Erik Arfalk	500,000	-	(15,625)	-	484,375	140,625	343,750
Spencer Smith	425,000	140,000	-	-	565,000	370,050	194,950
	2,225,000	**140,000**	**(44,531)**	**-**	**2,320,469**	**856,769**	**1,463,700**
Total	**22,116,336**	**4,000,000**	**(1,844,012)**	**-**	**24,272,324**	**13,046,678**	**11,225,646**

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Issue of options (continued)

2018	**Balance at the start of the year**	**Granted as compensation**	**Option expired / exercised**	**Net change other**	**Balance at end of year**	**Vested & Exercisable**	**Escrowed / Unvested**
Executive Director							
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**
Non-Executive Directos							
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
Rengarajan Ramesh	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**
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)

Share-based payments granted as compensation during the year

For the period, options were issued to one director as approved by shareholders and to Key Management Personnel under the Fluence Corporation Limited Employee Share Option Plan 2015 (amended 2017). In accordance with AASB 2 Share Based Payments, the tables include employee options agreed to be issued up to and including 31 December 2019. Options issued to Key Management Personnel generally 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)

2019	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	30 May 2019	3,360,000	1,050,000	0.1529	0.39	14 July 2025	513,787
Non-Executive Directors							
Richard Irving	-	-	-	-	-	-	-
Peter Marks	-	-	-	-	-	-	-
Ross Haghighat	-	-	-	-	-	-	-
Rengarajan Ramesh	-	-	-	-	-	-	-
Arnon Goldfarb	-	-	-	-	-	-	-
Paul Donnelly	30 May 2019	250,000	-	0.1120	0.60	13 June 2023	28,000
	30 May 2019	250,000	-	0.0893	0.80	13 June 2023	22,328
Key Management Personnel							
Francesco Fragasso	-	-	-	-	-	-	-
Anthony Hargrave	-	-	-	-	-	-	-
Erik Arfalk	-	-	-	-	-	-	-
Spencer Smith	31 January 2019	140,000	76,300	0.0888	0.39	30 September 2021	12,433

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	-	-	-	-	-	-	-
Rengarajan Ramesh	-	-	-	-	-	-	-
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)

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:	Non-Executive Chairman Director fees of AU$250,000 (US$173,808) fees per annum. Remuneration is reviewed annually by the Remuneration and Nomination Committee

Name:	Peter Marks
Title:	Non-Executive Director
Agreement commenced:	12 May 2015
Term of agreement:	Open
Details:	Non-Executive Director fees of AU$120,000 (US$83,428) per annum plus Member of Remuneration and Nomination Committee fees of AU$12,000 (US$8,343) per annum and Chair of Audit and Risk Committee fees of AU$16,000 (US$11,124) 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 AU$120,000 (US$83,428) per annum plus Chair of Remuneration and Nomination Committee fees of AU$16,000 (US$11,124) per annum. Remuneration is reviewed annually by the Remuneration and Nomination Committee.

Name:	Dr. Rengarajan Ramesh
Title:	Non-executive Director
Agreement commenced:	14 July 2017
Term of agreement:	Open
Details:	Non-executive director fees of AU$120,000 (US$83,428) per annum. Remuneration is 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 AU$120,000 (US$83,428) per annum. Remuneration is reviewed annually by the Remuneration and Nomination Committee.

Name:	Paul Donnelly
Title:	Non-executive Director
Agreement commenced:	20 July 2018
Term of agreement:	Open
Details:	Non-executive director fees of AU$120,000 (US$83,428) per annum plus Member of Audit and Risk Committee fees of AU$12,000 (US$8,343) per annum. Remuneration is reviewed annually by the Remuneration and Nomination Committee.

Remuneration report (Audited) (continued)

Service agreements (continued)

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. The contract was renewed for an additional one year term on 3 July 2019.

Details of remuneration:

Cash salary and fees:	US$600,000 (base salary)
Bonuses and deferred remuneration:	US$300,000 (year-end deferred remuneration annually), discretionary bonus of up to US$75,000, payable annually and a cash bonus of up to US$300,000 for outperformance on defined performance metrics for 2019
Other Benefits:	Health insurance and other health and welfare benefits for Mr. Charrabé and his family (capped at 30% of base salary) and housing allowance of US$255,232 per annum

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)
840,000	30 May 2019	AU$0.39	Options are fully vested
840,000	30 May 2019	AU$0.39	Options will vest and become exercisable in equal instalments at the end of each consecutive three (3) month period over two (2) years, commencing on 30 May 2019

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 four (4) years period, commencing on 26 May 2018. Vesting of these options will be subject to meeting performance criteria established by the board
1,680,000	30 May 2019	AU$0.39	Options vest subject to the Company achieving two (2) consecutive positive EBITDA quarters during the period beginning with Q3 2019 and ending with Q2 2021

If there is a change in control of the Company, all of the then unvested options will immediately vest and become exercisable. Otherwise, all of the options will expire on the earlier of 60 days after termination of Mr Charrabé's employment or by 14 July 2025.

Remuneration report (Audited) (continued)

Service agreements (continued)

Name:	Francesco Fragasso
Title:	Chief Financial Officer
Agreement commenced:	2 April 2018
Term of agreement:	Notice period by either party of 60 days

Details of remuneration:

Cash salary and fees:	US$271,667 (base salary)
Bonuses and deferred remuneration:	Performance based bonus of up to 40% of base salary
Other Benefits:	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:	US$300,000 (base salary)
Bonuses and deferred remuneration:	Performance based bonus of up to 30% of based salary
Other Benefits:	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:	US$225,500 (base salary)
Bonuses and deferred remuneration:	Performance based bonus up to 25% of base salary
Other Benefits:	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:	The contract was renewed for an additional one year term on July 17, 2019

Details of remuneration:

Cash salary and fees:	US$274,840 (base salary)
Bonuses and deferred remuneration:	US$35,000 (year-end deferred remuneration annually) and performance based bonus
Other Benefits:	Health insurance for Mr. Smith and his family

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
140,000	31 January 2019	AU$0.39	49,000 options vested at grant date, 91,000 options will vest and become exercisable in ten equal instalments at the end of each consecutive three (3) month period, commencing on 30 April 2019

Remuneration report (Audited) (continued)

Financial performance

The Directors disclose the following three years of financial performance on the basis that they consider this period most relevant for comparative purposes. This period includes Emefcy Group Limited being renamed Fluence Corporation Limited following the acquisition of the RWL Water LLC group on 14 July 2017.

The earnings of the consolidated entity for the three years to 31 December 2019 are summarised below:

	2019 $'000	2018 $'000	*2017 $'000
Financial results			
Revenue	61,294	101,123	33,188
Loss before income tax	(29,598)	(62,360)	(22,881)
Loss for the year	(31,585)	(62,802)	(23,568)

*The results for 2017 reflect contributions from RWL Water LLC for the period 14 July 2017 (date of acquisition by Emefcy Group Limited) to 31 December 2017.

Other factors relevant to shareholder returns include the share price performance and earnings per share over the same period:

	31 December 2019 $'000	31 December 2018 $'000	31 December 2017 $'000
Market factors			
Share price	AU$0.43	AU$0.31	AU$0.54

	2019 $	2018 $	2017 $
Financial factors			
Loss per share from continuing operations	(0.06)	(0.14)	(0.07)

[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 (AU$)	Number under option
29 February 2016	28 February 2020	$0.30	100,000
29 February 2016	28 February 2020	$0.40	100,000
11 April 2016	13 April 2020	$0.35	500,000
17 May 2016	16 May 2020	$0.59	400,000
17 May 2016	28 May 2020	$0.59	100,000
18 May 2016	18 May 2020	$0.40	1,000,000
18 May 2016	18 May 2021	$0.40	1,000,000
15 June 2016	31 May 2020	$0.93	1,000,000
25 July 2016	25 July 2020	$0.79	250,000
25 August 2016	25 August 2020	$0.87	225,000
23 September 2016	25 September 2020	$1.00	200,000
23 September 2016	9 November 2020	$1.00	200,000
27 October 2016	26 October 2020	$1.07	150,000
1 November 2016	31 October 2020	$0.74	500,000
9 February 2017	10 January 2021	$0.84	25,000
9 February 2017	9 February 2021	$1.00	350,000
28 March 2017	4 March 2021	$0.82	1,000,000
5 May 2017	3 May 2021	$0.86	150,000
31 May 2017	25 May 2025	$0.93	10,391,855
1 July 2017	6 July 2021	$0.97	100,000
14 July 2017	13 July 2021	$1.20	3,850,000
14 July 2017	13 July 2021	$1.50	3,850,000
14 July 2017	13 July 2021	$0.84	1,500,000
14 July 2017	25 May 2025	$0.84	350,000
14 July 2017	10 September 2021	$0.81	2,632,000
14 September 2017	13 November 2021	$0.86	1,140,000
10 January 2018	11 March 2022	$0.58	80,000
26 March 2018	25 May 2022	$0.48	1,334,375
28 June 2018	27 August 2022	$0.46	496,094
31 July 2018	31 July 2022	$1.20	750,000
31 July 2018	31 July 2022	$1.50	750,000
31 January 2019	30 September 2021	$0.39	1,043,000
10 April 2019	3 June 2022	$0.46	120,250
10 April 2019	3 December 2022	$0.46	69,000
16 April 2019	15 June 2023	$0.53	31,250
30 May 2019	13 June 2023	$0.60	250,000
30 May 2019	13 June 2023	$0.80	250,000
30 May 2019	14 July 2025	$0.39	3,360,000
			39,597,824

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 24 in the financial statements.

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

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

Auditor's independence declaration

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

Rounding of amounts

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

Corporate Governance Statement

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

For and on behalf of the Directors

Henry Charrabé
Managing Director & CEO
30 March 2020
New York

Tel: +61 3 9603 1700
Fax: +61 3 9602 3870
www.bdo.com.au

Collins Square, Tower Four
Level 18, 727 Collins Street
Melbourne VIC 3008
GPO Box 5099 Melbourne VIC 3001
Australia

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 2019, 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, 30 March 2020

Fluence Corporation Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2019

		Consolidated entity	
	Notes	31 December 2019 $'000	31 December 2018 $'000
Revenues			
Operating revenue	3	60,962	100,873
Other income		332	250
		61,294	**101,123**
Expenses			
Cost of sales (*)		(51,473)	(67,422)
Research and development expenses	3	(4,658)	(7,214)
Sales and marketing expenses (*)	3	(9,985)	(9,769)
General and administration expenses	3	(25,559)	(27,742)
Goodwill impairment		-	(56,293)
Other gains - net	3	1,328	4,436
Finance income/(costs) - net	3	(545)	521
Loss before income tax		**(29,598)**	**(62,360)**
Income tax expense	5	(1,987)	(442)
Loss for the year		**(31,585)**	**(62,802)**
Loss for the year is attributable to:			
Owners of Fluence Corporation Limited		(31,434)	(63,757)
Non-controlling interests	20	(151)	955
		(31,585)	**(62,802)**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations, net of tax		882	(14,376)
Total comprehensive income for the year		**(30,703)**	**(77,178)**
Total comprehensive income for the year is attributable to:			
Owners of Fluence Corporation Limited		(30,552)	(78,133)
Non-controlling interests	20	(151)	955
		(30,703)	**(77,178)**
Losses per share from continuing operations attributable to the ordinary equity holders of the Group:			
Basic and diluted loss per share	6	(0.06)	(0.14)

(*) Commission expenses were reclassified in 2019 from "Sales and marketing expenses" to "Cost of sales". As the result of this reclassification, for the year ending 31 December 2018, "Cost of sales" increased by $920 thousand to $67,422 thousand and "Sales and market expenses" have decreased by $920 thousand to $9,769 thousand.

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 2019

	Notes	Consolidated entity 31 December 2019 $'000	Consolidated entity 31 December 2018 $'000
ASSETS			
Current assets			
Cash and cash equivalents	7	21,908	38,741
Other financial assets	7	5,416	2,417
Trade and other receivables	8	39,777	33,514
Inventories	9	12,610	18,866
Prepayments		7,021	4,049
Concession arrangement assets	10	512	-
Other assets	11	357	67
Total current assets		**87,601**	**97,654**
Non-current assets			
Other receivables	8	-	10
Investments accounted for using the equity method	12	434	484
Deferred tax assets	5	858	1,208
Property, plant and equipment	13	14,162	14,846
Intangible assets	14	5,998	5,603
Concession arrangement assets	10	20,961	18,830
Other assets	11	4,180	3,159
Total non-current assets		**46,593**	**44,140**
Total assets		**134,194**	**141,794**
LIABILITIES			
Current liabilities			
Trade and other payables	15	43,826	48,845
Borrowings	16	877	368
Current tax liabilities		38	853
Provisions	17	6,264	4,092
Deferred revenue	18	21,596	25,898
Total current liabilities		**72,601**	**80,056**
Non-current liabilities			
Other liabilities	15	9,812	9,301
Borrowings	16	2,030	-
Deferred tax liabilities	5	2,041	532
Provisions	17	632	838
Total non-current liabilities		**14,515**	**10,671**
Total liabilities		**87,116**	**90,727**
Net assets		**47,078**	**51,067**
EQUITY			
Contributed equity	19	211,840	185,126
Foreign currency translation reserve	21	(14,870)	(15,752)
Accumulated losses		(150,955)	(119,521)
		46,015	49,853
Non-controlling interests	20	1,063	1,214
Total equity		**47,078**	**51,067**

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 2019

Consolidated entity	Notes	Contributed equity $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Total $'000	Non- controlling interests $'000	Total equity $'000
Balance at 1 January 2018		**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 total equity at the beginning of the financial year		**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	19	26,237	-	-	26,237	-	26,237
Issue of options	4	1,991	-	-	1,991	-	1,991
Transactions with non-controlling interests	20	-	-	-	-	105	105
Balance at 31 December 2018		**185,126**	**(15,752)**	**(119,521)**	**49,853**	**1,214**	**51,067**
Balance at 1 January 2019		**185,126**	**(15,752)**	**(119,521)**	**49,853**	**1,214**	**51,067**
Loss for the period		-	-	(31,434)	(31,434)	(151)	(31,585)
Other comprehensive income		-	882	-	882	-	882
Total comprehensive income for the year		**-**	**882**	**(31,434)**	**(30,552)**	**(151)**	**(30,703)**
Transactions with owners in their capacity as owners:							
Issue of ordinary shares, net of transaction costs	19	25,009	-	-	25,009	-	25,009
Issue of options	4	1,705	-	-	1,705	-	1,705
Balance at 31 December 2019		**211,840**	**(14,870)**	**(150,955)**	**46,015**	**1,063**	**47,078**

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 2019

	Notes	Consolidated entity 31 December 2019 $'000	Consolidated entity 31 December 2018 $'000
Cash flows from operating activities			
Receipt from customers		60,635	50,168
Payments to suppliers and employees (*)		(96,384)	(99,317)
Royalties paid to Chief Scientist Office (Israel)		-	(23)
Receipt from/(transfer to) restricted cash		(114)	108
Interest received		306	3,066
Interest and other costs of finance paid		(654)	(353)
Income taxes paid		(512)	(154)
Net cash (outflow) from operating activities	7	**(36,723)**	**(46,505)**
Cash flows from investing activities			
Payment for purchases of plant and equipment		(1,092)	(2,848)
Funds transferred to term deposit, net		(4,018)	(780)
Proceeds from sale of property, plant and equipment		2,443	24
Acquisition of non-controlling interest in a subsidiary		(300)	(1,803)
Payments for construction of concession assets (*)		(1,946)	(3,378)
Net cash (outflow) from investing activities		**(4,913)**	**(8,785)**
Cash flows from financing activities			
Proceeds from issues of ordinary shares		26,072	26,415
Proceeds from exercise of share options		20	799
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		(1,128)	(977)
Proceeds from / (repayment of) borrowings		2,557	(519)
Finance lease payments		(1,849)	(1,631)
Net cash inflow from financing activities		**25,672**	**23,192**
Net (decrease) in cash and cash equivalents		(15,964)	(32,098)
Cash and cash equivalents at the beginning of the financial year		38,741	75,153
Effects of exchange rate changes on cash and cash equivalents		(869)	(4,314)
Cash and cash equivalents at end of year	7	**21,908**	**38,741**

(*) Payments for construction of concession assets were separated in 2019 from "Payments to suppliers and employees" and reclassified from "Cash flows from operating activities" to "Cash flows from investing activities". As the result of this reclassification, for the year ending 31 December 2018, "Payments to suppliers and employees" have decreased by $3,378 thousand to $99,317 thousand and "Payments for construction of concession assets" have increased to $3,378 thousand.

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 2019 was authorised for issue in accordance with a resolution of the Directors on the 26th day of March 2020.

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 (aa)).

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 the going concern basis, which assumes the consolidated entity will have sufficient cash to pay its debts, as and when they become payable, for a period of at least 12 months from the date the financial report was authorised for issue.

For the year ended 31 December 2019, the consolidated entity incurred an operating loss after tax of $31,585,000 (2018: $62,802,000) and had cash outflows from operating activities of $36,723,000 (2018: $46,505,000), and total net cash outflows of $15,964,000, after including cash outflows from investing activities and cash inflows from financing activities. The Group had cash and cash equivalents of $21,908,000 and other financial assets of $5,416,000 at 31 December 2019.

1 Summary of significant accounting policies (continued)

(b) Basis of preparation (continued)

(i) Going concern (continued)

The consolidated entity has prepared a cash flow forecast supported by detailed assumptions and scenario planning directed to sustaining business growth. These forecasts indicate that the consolidated entity will be able to fund its ongoing operations for a period of 12 months from the date the financial report was authorised for issue.

The Group has prepared cash flow forecasts that include the following:

- Positive Group operating cash inflows for the 12 months ended 31 December 2020 and 15 months ended 31 March 2021; positive Group net cash flows for the 12 months ended 31 December 2020, and 15 months ended 31 March 2021 after allowing for operating, investing and financing cash flows.
- The positive Group operating cash inflows have been based on a substantial contracted sales backlog of US$155million for FY 2020, which includes the Ivory Coast Project and other projects. Revenues from the Ivory Coast Project are US$ 187 million for financial years 2020, 2021 and 2022. Key assumptions include the Ivory Coast Project commencing during the 2020 financial year, and cash flows from other projects in the contracted sales backlog will continue to be generated as scheduled in the cash flow forecasts.
- The Group also has in place a project financing loan facility with Generate Capital, which will be applied to finance completion of strong cash flow generation projects. The cash flow forecasts allow for a drawdown on the Generate Capital facility. The resulting net cash flows from major projects will provide further working capital to the consolidated entity.

Subsequent to reporting date, on 31 January 2020, the World Health Organisation (WHO) announced a global health emergency because of a new strain of coronavirus (COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. Because of the rapid increase in exposure globally, on 11 March 2020, the WHO classified the COVID-19 outbreak as a pandemic. These events are having a significant negative impact on world stock markets, currencies and general business activities.

Completion of projects included in the current cash flows from operating activities do not allow for significant delays, which may result from the global COVID-19 pandemic. At this stage it is impossible to forecast the impact that this pandemic may have, if any, on the timing for completion of projects. If the global COVID-19 pandemic does cause delays in completion of the key projects, this can be expected to materially affect Group forecast cash flows in terms of operating, investing and financial activities. The occurrence of significant delays in forecast operating activities and plans may lead to requiring the Group to raise additional finance or equity to fund ongoing operations. As a consequence the potential impact the global COVID-19 pandemic may have on the Group's business operations and resulting cash flows may create a material uncertainty that may cast doubt on the consolidated entity's ability to continue as a going concern.

The financial statements, as presented, do not reflect the situation should the consolidated entity be unable to continue as a going concern. If the going concern assumption is not valid, the consequence is the consolidated entity may be unable to realise the value of its assets including its intangible assets and discharge its liabilities in the ordinary course of business.

(ii) New and amended standards adopted by the group

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period (refer to note 1(ab) for more information about first implementation of new standards).

All other accounting standards adopted by the Group are consistent with the most recent Annual Report for the year ended 31 December 2018.

1 Summary of significant accounting policies (continued)

(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 2019

The current portion of Concession arrangement assets previously included in the Consolidated Statement of Financial Position in the Appendix 4E Preliminary Final Report for the year ended 31 December 2019 within "Non-current assets" has been reclassified to "Concession arrangement assets" within Current assets for a more accurate presentation.

As a result of this reclassification, for the year ending 31 December 2019, "Concession arrangement assets" (current) have increased by $512,000 to $512,000 and "Concession arrangement assets" (non-current) has decreased by $512,000 to $20,961,000, when compared to the Appendix 4E Preliminary Final Report.

The Acquisitions of non-current assets in Note 2 "Segment Information" have been updated after Notes 13 "Property, plant and equipment" and 14 "Intangible assets" have been finalised.

(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 28.

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

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 obligations can be satisfied at a point in time or over time.

Revenue related to construction or upgrade services under service concession arrangements 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.

(h) 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.

(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 of expected future payments to be made in respect of services provided by employees up to the reporting date.
- The liability for annual leave and the portion of long service leave that has vested at the reporting date included in the current provision for employee benefits.
- The portion of long service leave that has not vested at the reporting date is included in the non-current provision for employee benefits.

1 Summary of significant accounting policies (continued)

(i) Employee benefits (continued)

(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 and Other Comprehensive Income 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) 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.

1 Summary of significant accounting policies (continued)

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

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.

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 and Other Comprehensive Income.

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.

(k) 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.

1 Summary of significant accounting policies (continued)

(l) 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 Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(m) 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.

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.

(n) 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.

(o) 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
Capitalised development costs	15 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.

1 Summary of significant accounting policies (continued)

(p) 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.

(q) 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.

(r) 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.

1 Summary of significant accounting policies (continued)

(r) Income tax (continued)

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.

(s) 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 Flows 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.

(t) 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) 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.

1 Summary of significant accounting policies (continued)

(t) Intangible assets (continued)

(i) Research and development (continued)

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

Amortisation commences when the assets are ready for use.

(ii) 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 a service concession arrangement 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.

(u) 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.

(v) 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.

(w) 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.

(x) 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.

1 Summary of significant accounting policies (continued)

(y) 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.

(z) 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.

(aa) 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)

(aa) 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 stage of 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 project

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.

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.

1 Summary of significant accounting policies (continued)

(aa) Significant Accounting Estimates and Assumptions (continued)

(vii) **PDVSA project (continued)**

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.

During 2019, the United States Office of Foreign Assets Control (OFAC), enacted further sanctions with respect to Venezuela (the Venezuelan Sanctions). As Fluence is headquartered in the US, the Company has determined that the Venezuelan Sanctions are applicable to the Company and its subsidiaries. While in place, the Venezuelan Sanctions prohibit US persons from having certain dealings with Venezuela (subject to certain exceptions). This extends to any work Fluence's Argentinean subsidiary may otherwise have performed for PDVSA. We are keeping the customer informed as permitted under the OFAC regulations, and to date no claims have been brought in response to the issue. We are currently exploring all possible options to move forward in light of the Venezuelan Sanctions, including seeking an OFAC license to perform under the arrangements with PDVSA.

(viii) **San Quintin project**

In January 2016, the Group entered into a service concession arrangement in Mexico to build and operate a desalination plant (the "Desalination Plant"). The construction started in October 2018 and is expected to be completed by September 2021.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.

During the years 2017, 2018 and 2019, The Company recognised revenue of US$0.6 million, US$13.1 million and US$1.1 million, respectively, 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 new Administration of the State of Baja California took office at the end of 2019 and subsequently appointed new officials at the Comisión Estatal del Agua de Baja California (the "Customer"). The Customer informed the Company on 15 February 2020 of their intent to proceed with the San Quintin project. Since such time, the Customer and the Company have been engaged in discussions to address any remaining open items under the contract.

(ab) New and amended standards adopted by the group

AASB Interpretation 23*: Uncertainty over income tax treatments (IFRIC 23):*

IFRIC 23 clarifies the application of recognition and measurement requirements of AASB 112 Income Taxes where there is uncertainty over income tax treatments. The Interpretation specifically addresses:

- Whether an entity considers uncertain tax treatments separately;
- That the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored;
- That the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment;

1 Summary of significant accounting policies (continued)

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

- That the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method best predicts the resolution of the uncertainty; and,
- That the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

The Group has assessed the impact of IFRIC 23 on the financial statements. The assessment concluded that the Interpretation did not have any material impact on the Group's financial statements. Consequently, no retrospective adjustment is required.

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:

- 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.

2019	Operating Units $'000	Production and Innovation $'000	Intersegment Elimination $'000	Total $'000
Segment revenue				
Operating revenue and other income	60,765	1,920	(1,391)	61,294
	60,765	**1,920**	**(1,391)**	**61,294**
Segment expense				
Segment depreciation and amortisation	(2,038)	(863)	-	(2,901)
Share of profits of associates	84	-	-	84
Write off of inventories	(1,299)	-	-	(1,299)
Segment expense	(63,578)	(7,730)	(6,783)	(78,091)
Unallocated expenses - corporate	-	-	-	(10,672)
	(66,831)	**(8,593)**	**(6,783)**	**(92,879)**
Segment results	**(6,066)**	**(6,673)**	**(8,174)**	**(31,585)**

2 Segment information (continued)

2019	Operating Units $'000	Production and Innovation $'000	Intersegment Elimination $'000	Total $'000
Assets				
Investments in associates	434	-	-	434
Segment assets	110,880	6,536	(5,483)	111,933
Unallocated assets - corporate	-	-	-	21,827
	111,314	**6,536**	**(5,483)**	**134,194**
Liabilities				
Segment liabilities	(80,184)	(8,871)	4,168	(84,887)
Unallocated liabilities - corporate	-	-	-	(2,229)
	(80,184)	**(8,871)**	**4,168**	**(87,116)**
Acquisitions of non-current assets	2,804	80	-	2,884

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	(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 result	**(61,147)**	**(11,267)**	**21,474**	**(62,802)**
Assets				
Investments in associates	484	-	-	484
Segment assets	115,475	9,006	(1,383)	123,098
Unallocated assets - corporate	-	-	-	18,212
	115,959	**9,006**	**(1,383)**	**141,794**
Liabilities				
Segment liabilities	(81,469)	(8,663)	3,004	(87,128)
Unallocated liabilities - corporate	-	-	-	(3,599)
	(81,469)	**(8,663)**	**3,004**	**(90,727)**
Acquisitions of non-current assets	4,087	733	-	4,820

2 Segment information (continued)

Unallocated expenses

	Consolidated entity	
	31 December 2019 $'000	31 December 2018 $'000
Other corporate expenses	(10,672)	(11,862)

Unallocated assets

	Consolidated entity	
	31 December 2019 $'000	31 December 2018 $'000
Cash and cash equivalents	11,575	14,003
Other assets	10,252	4,209
	21,827	**18,212**

Unallocated liabilities

	Consolidated entity	
	31 December 2019 $'000	31 December 2018 $'000
Trade and other payables	(882)	(2,126)
Other liabilities	(1,347)	(1,473)
	(2,229)	**(3,599)**

Intersegment transactions

Intersegment transactions are made on a arm's-length basis. Intersegment transactions are eliminated on consolidation.

3 Operating revenue and expenses

	Consolidated entity	
	31 December 2019 $'000	31 December 2018 $'000
Operating revenue		
Contract revenue		
Smart product solutions	26,394	21,795
Customer engineering solutions	25,247	51,820
Service concession arrangements revenue	2,465	20,847
	54,106	**94,462**

3 Operating revenue and expenses (continued)

	Consolidated entity	
	31 December 2019 $'000	31 December 2018 $'000
Service revenue		
Revenues on services	4,946	3,699
Other	1,910	2,712
	6,856	**6,411**
	60,962	**100,873**

	Consolidated entity	
	31 December 2019 $'000	31 December 2018 $'000
Research and development		
Salaries and other employee related expenses	2,266	2,153
Materials	1,246	4,093
Depreciation	465	205
Professional fees	267	210
Travel and entertainment	191	227
Other	223	326
	4,658	**7,214**

	Notes	Consolidated entity	
		31 December 2019 $'000	31 December 2018 $'000
Sales and marketing			
Salaries and other employee related expenses		6,352	5,639
Marketing activities		1,106	1,719
Travel and entertainment		1,013	1,124
Professional fees		701	466
Other		813	821
		9,985	**9,769**

3 Operating revenue and expenses (continued)

	Consolidated entity 31 December 2019 $'000	Consolidated entity 31 December 2018 $'000
General and administration		
Salaries and other employee related expenses	11,141	9,961
Professional fees	4,904	5,987
Depreciation	2,338	2,554
Director expense	1,870	1,761
Office expenses	1,677	1,076
Travel and entertainment	1,364	1,396
Insurance	873	689
Bank charges	339	368
Import and export expenses	219	852
Maintenance	101	255
Increase/(reversal of) bad debt provision	(91)	2,229
Other	824	614
	25,559	**27,742**

	Consolidated entity 31 December 2019 $'000	Consolidated entity 31 December 2018 $'000
Other gains/(loss) - net		
Foreign exchange gain / (loss)	1,634	5,255
Gain / (loss) on disposal of Property, plant and equipment	1,393	(19)
Write down of inventory	(1,299)	(172)
Withholding taxes	(550)	(686)
(Increase)/reversal of provisions	(334)	78
Loss from investments accounted for using the equity method	84	38
Other	400	(58)
	1,328	**4,436**

	Consolidated entity 31 December 2019 $'000	Consolidated entity 31 December 2018 $'000
Finance income/(costs) - net		
Interest income	328	3,066
Fund valuation gain/(loss)	129	(1,947)
Interest expense	(579)	(407)
Project financing and other	(423)	(191)
	(545)	**521**

3 Operating revenue and expenses (continued)

	Consolidated entity	
	31 December 2019 $'000	31 December 2018 $'000
Aggregate expenses		
Aggregate depreciation and amortisation expenses	3,089	2,937
Aggregate employee benefits expense	27,752	29,120

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)

Grant/change date	Expiry Date	Exercise Price (AU$)	Granted	Exercised	Vested	Cancelled / Reversed	Balance at year end
Opening balance			**70,602,872**	**(13,288,643)**	**20,941,631**	**(10,877,558)**	**46,436,671**
Options vested during the year					16,782,306		
31 January 2019	30 September 2021	0.39	1,198,000	-	-	**-**	1,198,000
4 February 2019	31 January 2019	0.40	-	-	-	(1,940,000)	(1,940,000)
27 March 2019	25 May 2025	0.93	-	-	-	(799,481)	(799,481)
27 March 2019	25 May 2025	0.48	-	-	-	(40,625)	(40,625)
27 March 2019	27 August 2022	0.46	-	-	-	(3,906)	(3,906)
4 April 2019	31 March 2019	0.72	-	-	-	(3,000,000)	(3,000,000)
4 April 2019	10 September 2021	0.81	-	-	-	(124,000)	(124,000)
10 April 2019	3 June 2022	0.46	272,000	-	-	-	272,000
15 April 2019	11 March 2022	0.58	-	-	-	(100,000)	(100,000)
15 April 2019	25 May 2025	0.85	-	-	-	(347,389)	(347,389)
16 April 2019	15 June 2023	0.53	500,000	-	-	-	500,000
29 April 2019	30 September 2021	0.39	-	-	-	(16,250)	(16,250)
29 April 2019	10 September 2021	0.81	-	-	-	(52,500)	(52,500)
27 May 2019	10 September 2021	0.81	-	-	-	(4,500)	(4,500)
27 May 2019	23 December 2019	0.30	-	(132,884)	-	-	(132,884)
27 May 2019	23 December 2019	0.40	-	(132,884)	-	-	(132,884)
27 May 2019	30 September 2021	0.39	-	(8,750)	-	-	(8,750)
30 May 2019	13 June 2023	0.60	250,000	-	-	-	250,000
30 May 2019	13 June 2023	0.80	250,000	-	-	-	250,000
30 May 2019	14 July 2025	0.39	3,360,000	-	-	-	3,360,000
18 June 2019	10 September 2021	0.81	-	-	-	(35,000)	(35,000)
10 July 2019	23 March 2020	0.30	-	-	-	(50,000)	(50,000)
10 July 2019	23 March 2020	0.40	-	-	-	(50,000)	(50,000)
10 July 2019	3 June 2022	0.46	-	-	-	(30,000)	(30,000)
10 July 2019	3 December 2022	0.46	-	-	-	(18,000)	(18,000)

4 People costs (continued)

(a) Share-based payments (continued)

Employee Option Plan (continued)

Grant/change date	Expiry Date	Exercise Price (AU$)	Granted	Exercised	Vested	Cancelled / Reversed	Balance at year end
10 July 2019	30 September 2021	0.81	-	-	-	(412,750)	(412,750)
10 July 2019	20 December 2020	0.86	-	-	-	(75,000)	(75,000)
14 July 2019	14 July 2019	0.72	-	-	-	(300,000)	(300,000)
6 August 2019	30 Spetember 2021	0.81	-	-	-	(31,500)	(31,500)
18 September 2019	30 September 2021	0.81	-	-	-	(15,750)	(15,750)
30 September 2019	30 September 2019	0.75	-	-	-	(750,000)	(750,000)
23 October 2019	30 September 2021	0.39	-	-	-	(40,000)	(40,000)
23 October 2019	10 September 2021	0.81	-	-	-	(140,000)	(140,000)
16 December 2019	16 December 2019	0.40	-	-	-	(2,000,000)	(2,000,000)
30 December 2019	23 December 2019	0.30	-	(210,000)	-	-	(210,000)
30 December 2019	23 December 2019	0.30	-	-	-	(88,589)	(88,589)
30 December 2019	23 December 2019	0.40	-	-	-	(298,589)	(298,589)
30 December 2019	23 March 2020	0.30	-	-	-	(50,000)	(50,000)
30 December 2019	27 October 2020	1.07	-	-	-	(200,000)	(200,000)
30 December 2019	3 December 2022	0.46	-	-	-	(6,000)	(6,000)
30 December 2019	25 August 2020	0.87	-	-	-	(100,000)	(100,000)
30 December 2019	12 April 2020	0.30	-	-	-	(50,000)	(50,000)
30 December 2019	12 April 2020	0.40	-	-	-	(50,000)	(50,000)
30 December 2019	3 June 2022	0.46	-	-	-	(23,750)	(23,750)
30 December 2019	15 June 2023	0.53	-	-	-	(468,750)	(468,750)
30 December 2019	10 September 2021	0.81	-	-	-	(352,000)	(352,000)
30 December 2019	30 September 2021	0.39	-	-	-	(90,000)	(90,000)
30 December 2019	3 May 2021	0.86	-	-	-	(25,000)	(25,000)
30 December 2019	3 December 2021	0.46	-	-	-	(5,000)	(5,000)
Closing balance			**76,432,872**	**(13,773,161)**	**37,723,937**	**(23,061,887)**	**39,597,824**

4 People costs (continued)

(a) Share-based payments (continued)

Employee Option Plan (continued)

(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.

Grant date	Expiry Date	Share price at grant date (AU$)	Exercise Price (AU$)	Dividend yield	Risk-free interest rate (%)	Fair value at grant date
31 January 2019	30 September 2021	0.363	0.39	Nil	1.77	0.0888
10 April 2019	3 June 2022	0.550	0.46	Nil	1.43	0.1717
16 April 2019	15 June 2023	0.530	0.53	Nil	1.48	0.1692
30 May 2019	14 July 2025	0.455	0.39	Nil	1.39	0.1529
30 May 2019	13 June 2023	0.455	0.60	Nil	1.15	0.1120
30 May 2019	13 June 2023	0.455	0.80	Nil	1.15	0.0893

The weighted average remaining contractual life of options outstanding at year-end was 2.89 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 $0.1965. These values were calculated using the binomial lattice, based on the Cox, Ross Rubinstein (1979) method applying the following inputs:

Weighted average exercise price: $0.62
Expected share price volatility: 59%

The volatility measure was obtained based on the historical returns of the company's stock on the ASX.

(b) Expenses arising from share-based payment transactions

	Consolidated entity	
Share based payment expense	31 December 2019 $'000	31 December 2018 $'000
Consultant share based payments	146	74
Employee share based payments	349	823
Director share based payments	1,210	1,094
	1,705	**1,991**

(c) 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)

(c) Key Management Personnel Disclosures (continued)

Compensation (continued)

	Consolidated entity	
	31 December 2019 $	31 December 2018 $
Short-term employee benefits	2,905,179	3,599,150
Share based payments	1,327,156	1,283,452
	4,232,335	**4,882,602**

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 2019 and 31 December 2018.

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

5 Income tax

(a) Income tax expense

The components of tax expense comprise:

	Consolidated entity	
	31 December 2019 $'000	31 December 2018 $'000
Current tax		
Current tax	(3,146)	(18)
Adjustments for current tax of prior periods		
(Increase)/decrease in deferred tax assets	(350)	715
Increase/(decrease) in deferred tax liabilities	1,509	(1,139)
	(1,987)	**(442)**

5 Income tax (continued)

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

	Consolidated entity	
	31 December 2019 $'000	31 December 2018 $'000
Loss from continuing operations before income tax	(29,598)	(62,360)
Prima facie tax on profit from ordinary activities	(8,879)	(18,708)
Tax losses carried forward	8,879	18,708
Tax expense - Fluence Italy S.R.L.	(79)	(111)
Tax expense - Fluence Israel Ltd	(162)	(152)
Tax expense - Fluence Argentina	(1,760)	(110)
Tax expense - other	14	(69)
Income tax expense	**(1,987)**	**(442)**

(c) Deferred tax balances

(i) Deferred tax assets

	Consolidated entity	
	31 December 2019 $'000	31 December 2018 $'000
The balance comprises temporary differences attributable to:		
Tax losses	232	184
Unrealised foreign exchange gain/loss	-	1
Accrued WIP	199	19
Accrued licence fee	-	361
Other accruals	155	107
Doubtful debts provision	74	-
Annual leave provision	54	60
Other	144	476
	858	**1,208**

5 Income tax (continued)

(c) Deferred tax balances (continued)

(ii) Deferred tax liabilities

	Consolidated entity	
	31 December 2019 $'000	31 December 2018 $'000
The balance comprises temporary differences attributable to:		
Unrealised foreign exchange gain/loss	-	4
WIP	1,018	238
Fixed assets	87	290
Other	936	-
	2,041	**532**

(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 2019 was $38,447,000 (2018: $29,568,000).

6 Loss per share

(a) Basic loss per share

	Consolidated entity	
	31 December 2019 $	31 December 2018 $
Loss attributable to the ordinary equity holders of the Group	(0.06)	(0.14)

(b) Diluted loss per share

	Consolidated entity	
	31 December 2019 $	31 December 2018 $
Loss attributable to the ordinary equity holders of the Group	(0.06)	(0.14)

6 Loss per share (continued)

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

	Consolidated entity	
	31 December 2019 $'000	31 December 2018 $'000
Profit attributable to the ordinary equity holders of the Group used in calculating basic earnings per share:		
From continuing operations	(31,585)	(62,802)

(d) Weighted average number of shares

	Consolidated entity	
	2019 Number	2018 Number
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	553,262,961	439,535,108

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

(a) Cash and cash equivalents

	Consolidated entity	
	31 December 2019 $'000	31 December 2018 $'000
Cash and cash equivalents	21,908	38,741
	21,908	**38,741**

(b) Other financial assets

	Consolidated entity	
	31 December 2019 $'000	31 December 2018 $'000
Restricted cash	416	1,538
Short term deposits	5,000	879
	5,416	**2,417**

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

(c) Cash flow information

	Consolidated entity	
	31 December 2019 $'000	31 December 2018 $'000
(Loss) after income tax	(31,585)	(62,802)
Adjustment for:		
Depreciation and amortisation expenses	2,901	2,937
Share based payments expense	1,705	1,991
Impairment loss	-	56,293
Increase/(decrease) in bad debt provision	(91)	2,229
Warranty provision	241	1,008
Inventory reserve	1,299	172
(Gain)/loss on disposal of property, plant and equipment	(1,393)	21
Share of profits of associates and joint ventures	(84)	(38)
Increase/(decrease) in provision for losses	334	(11,347)
Increase/(decrease) in employee benefits provision	(370)	29
Restructuring provision	1,741	-
Finance costs - net	197	2,192
Foreign exchange differences	(1,634)	(5,255)
Decrease in restricted cash	1,040	108
(Increase)/decrease in trade and other receivables	4,971	(5,708)
(Increase)/decrease in inventory	5,081	(394)
(Increase) in prepaid expenses	(3,069)	(717)
Decrease in net tax asset	2,257	442
(Increase)/decrease in other current and non-current assets	(1,423)	2,061
Increase/(decrease) in trade and other payables (*)	(16,022)	4,087
(Decrease) in deferred revenues	(2,819)	(33,814)
Cash generated from operations	**(36,723)**	**(46,505)**

(*) Payments for construction of concession assets included in Cash flows from operating activities for the year ending 31 December 2018 have been reclassified to Cash flows from investing activities. As the result of this reclassification, for the year ending 31 December 2018, Cash flows from operating activities decreased by $3,378 thousand to $46,505 thousand. The non-cash increase of concession arrangements asset for the year ending 31 December 2018 has been reclassified to Increase/(decrease) in trade and other payables for a purpose of accurate comparison between 2019 and 2018.

8 Trade and other receivables

	Consolidated entity	
	31 December 2019 $'000	31 December 2018 $'000
Current receivables - Trade receivables		
Contract receivables	22,936	15,176
Contract unbilled receivables	15,689	17,882
Provision for impairment - contract receivables	(2,874)	(3,211)
	35,751	**29,847**
Current receivables - Other receivables		
GST receivable	2,953	2,631
Income tax receivable	997	529
Other taxes receivable	(29)	406
Other receivables	105	101
	4,026	**3,667**
Total current trade and other receivables	**39,777**	**33,514**
Non-current receivables		
Long-term receivables	1,190	1,223
Provision for impairment - long-term receivables	(1,190)	(1,213)
Total non-current receivables	**-**	**10**

		Consolidated entity	
	Notes	31 December 2019 $'000	31 December 2018 $'000
Additional information on contract debtors			
Total contract debtors		35,751	29,847
Total contract liabilities	15	(22,116)	(29,040)
		13,635	**807**

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.

9 Inventories

	Consolidated entity	
	31 December 2019 $'000	31 December 2018 $'000
Raw materials - at cost	8,537	9,217
Work in progress - at cost	1,318	6,151
Finished goods - at lower of cost or net realisable value	2,755	3,498
	12,610	**18,866**

10 Concession asset

The Group have three concession service arrangements on hand as of 31 December 2019:

- 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 completed in January 2020. 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 2019, the Group has recognised revenue of $0.5 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 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 2021. 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 2019, the Group has recognised revenue of $1.1 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 $0.3 million and $0.8 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. For more information refer to note 1 (aa) (viii).
- 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 July 2020. 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 2019, the Group has recognised revenue of $0.8 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 2019 $'000	31 December 2018 $'000
Concession assets		
Current concession asset	512	-
Non-current concession asset	20,961	18,830
	21,473	**18,830**

11 Other assets

	Consolidated entity 31 December 2019 $'000	31 December 2018 $'000
Current assets		
Other	357	67
	357	**67**

	Consolidated entity 31 December 2019 $'000	31 December 2018 $'000
Non-current assets		
Construction bond	3,526	2,400
Other	654	759
	4,180	**3,159**

12 Investments accounted for using the equity method

					Quoted fair value / Carrying Amount	
					31 December 2019 $'000	31 December 2018 $'000
Name of entity	**Place of business/ country of incorporation**	**% of ownership interest**	**Nature of relationship**	**Measurement method**		
E.T.G.R Water Infrastructure Management	Israel	50%	Associate	Equity method	434	484

As of 31 December 2019, the Group holds 50% interest in E.T.G.R Water Infrastructure Management partnership. This investment contributed a gain of $84,000 to Fluence Corporation Limited, 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 2019								
Cost or fair value	194	4,830	5,019	1,303	2,789	760	8,750	23,645
Accumulated 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**
Year ended 31 December 2019								
Opening net book amount	194	3,487	2,626	447	732	250	7,110	14,846
Additions	92	161	243	133	215	248	1,497	2,589
Disposals	(180)	(835)	-	-	-	(35)	-	(1,050)
Depreciation charge	-	(220)	(360)	(205)	(184)	(111)	(1,628)	(2,708)
Exchange differences	14	19	108	(19)	96	(51)	318	485
Closing net book amount	**120**	**2,612**	**2,617**	**356**	**859**	**301**	**7,297**	**14,162**
At 31 December 2019								
Cost	120	3,496	5,484	1,492	3,087	874	10,668	25,221
Accumulation depreciation	-	(884)	(2,867)	(1,136)	(2,228)	(573)	(3,371)	(11,059)
Net book amount	**120**	**2,612**	**2,617**	**356**	**859**	**301**	**7,297**	**14,162**

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 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 or fair value	194	4,830	5,019	1,303	2,789	760	8,750	23,645
Accumulated 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**

14 Intangible assets

Consolidated entity	Goodwill $'000	Capitalised development costs $'000	Capitalised concession asset $'000	Total $'000
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**
Year ended 31 December 2019				
Opening net book amount	-	1,912	3,691	5,603
Additions	-	-	295	295
Amortisation charge	-	(193)	-	(193)
Currency translation differences	-	157	136	293
Closing net book amount	**-**	**1,876**	**4,122**	**5,998**

(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 conducted an overall review of their Value in Use model at 30 June 2018 and 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 was 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)**	**-**

15 Trade and other payables and other liabilities

		Consolidated entity	
		31 December 2019	31 December 2018
	Notes	$'000	$'000
Current			
Trade payables		12,357	10,558
Accrued payroll liabilities		2,594	2,919
Accrued project expenses	8	22,116	29,040
Payable to non-controlling interests *(i)*		-	300
Government grants *(ii)*		1,384	1,852
Lease liability *(iii)*		1,201	1,319
Other accruals		4,174	2,857
		43,826	**48,845**
Non-current			
Government grants *(ii)*		3,178	2,982
Lease liability *(iii)*		6,329	6,026
Other liabilities		305	293
		9,812	**9,301**

(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. It has been fully paid as of 31 December 2019.

(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, 2019 and 2018, the Group recognised a liability to the OCS in the amount of $4,359,000 and $4,628,000 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%.

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 2019 and 2018, the Group recognised a liability to the MNI in the amount of $203,000 and $206,000 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%.

15 Trade and other payables and other liabilities (continued)

(iii) **AASB 16 lease liability**

In 2018, the Group implemented AASB 16. The liability of $7,530,000 arising from the implementation of this new standard represents the Group obligation to make lease payments as of 31 December 2019 (31 December 2018: $7,345,000).

16 Borrowings

	Consolidated entity	
	31 December 2019 $'000	31 December 2018 $'000
Borrowings		
Current borrowings	877	368
Non-current borrowings	2,030	-
	2,907	**368**

In March 2019, the Company drew down a $2 million from its $50 million non-recourse debt facility with Generate Capital which was put in place to fund its Build, Own, Operate and Transfer ('BOOT') projects.

17 Provisions

	Consolidated entity	
	31 December 2019 $'000	31 December 2018 $'000
Current		
Employee benefits	1,316	1,469
Provision - onerous contracts	334	-
Warranty provision	1,540	1,299
Other provisions	3,074	1,324
	6,264	**4,092**
Non-current		
Employee benefits	632	838
	632	**838**

Consolidated entity	**Employee benefits $'000**	**Warranty $'000**	**Onerous contracts $'000**	**Other $'000**	**Total $'000**
Current					
At 1 January 2019	1,469	1,299	-	1,324	4,092
Additions	55	667	334	2,109	3,165
Reversal	-	-	-	(368)	(368)
Utilised	(214)	(426)	-	-	(640)
Currency translation differences	6	-	-	9	15
Total	**1,316**	**1,540**	**334**	**3,074**	**6,264**

17 Provisions (continued)

Consolidated entity	Employee benefits $'000	Warranty $'000	Onerous contracts $'000	Other $'000	Total $'000
Non-current					
At 1 January 2019	838	-	-	-	838
Additions	98	-	-	-	98
Reversal	-	-	-	-	-
Utilised	(309)	-	-	-	(309)
Currency translation differences	5	-	-	-	5
	632	**-**	**-**	**-**	**632**

18 Deferred revenue

	Consolidated entity 31 December 2019 $'000	Consolidated entity 31 December 2018 $'000
Deferred revenue	21,596	25,898

Deferred revenue represents remaining pre-payments made primarily by PDVSA upon entering into a multi-year contract with the Group in 2015. For more information regarding the PDVSA project refer to note 1(aa)(vii).

19 Contributed equity

	31 December 2019 No.	31 December 2018 No.	31 December 2019 $'000	31 December 2018 $'000
Ordinary shares	624,854,034	537,375,296	204,056	179,047
Options	39,597,824	46,436,671	7,784	6,079
Share capital	**664,451,858**	**583,811,967**	**211,840**	**185,126**

(a) **Ordinary Shares - Fully Paid**	**Notes**	**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

19 Contributed equity (continued)

		Number of shares	$'000
Opening balance 1 January 2019		537,375,296	179,047
Private placement at AU$0.44 per share		81,818,181	24,455
Shares issued pursuant to a Share Purchase plan announced on 28 October 2019 at AU$0.44 per share		5,381,453	1,617
Exercise of options		279,104	65
		624,854,034	205,184
Transaction costs arising on share issue	(i)	-	(1,128)
Balance 31 December 2019		624,854,034	204,056

(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.

(b) Options

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

2019	**Number of options**
Opening balance	46,436,671
Unlisted options issued to employees	1,970,000
Unlisted options issued to directors	3,860,000
Exercised options	(484,518)
Cancelled, lapsed and forfeited options	(12,184,329)
Balance at 31 December 2019	39,597,824

(c) Summary of all unlisted options in existence

Date options granted	Expiry date	Issue price of shares (AU$)	Number under option
29 February 2016	28 February 2020	$0.30	100,000
29 February 2016	28 February 2020	$0.40	100,000
11 April 2016	13 April 2020	$0.35	500,000
17 May 2016	16 May 2020	$0.59	400,000
17 May 2016	28 May 2020	$0.59	100,000
18 May 2016	18 May 2020	$0.40	1,000,000
18 May 2016	18 May 2021	$0.40	1,000,000

19 Contributed equity (continued)

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

Date options granted	Expiry date	Issue price of shares (AU$)	Number under option
15 June 2016	31 May 2020	$0.93	1,000,000
25 July 2016	25 July 2020	$0.79	250,000
25 August 2016	25 August 2020	$0.87	225,000
23 September 2016	25 September 2020	$1.00	200,000
23 September 2016	9 November 2020	$1.00	200,000
27 October 2016	26 October 2020	$1.07	150,000
1 November 2016	31 October 2020	$0.74	500,000
9 February 2017	10 January 2021	$0.84	25,000
9 February 2017	9 February 2021	$1.00	350,000
28 March 2017	4 March 2021	$0.82	1,000,000
5 May 2017	3 May 2021	$0.86	150,000
31 May 2017	25 May 2025	$0.93	10,391,855
1 July 2017	6 July 2021	$0.97	100,000
14 July 2017	13 July 2021	$1.20	3,850,000
14 July 2017	13 July 2021	$1.50	3,850,000
14 July 2017	13 July 2021	$0.84	1,500,000
14 July 2017	25 May 2025	$0.84	350,000
14 July 2017	10 September 2021	$0.81	2,632,000
14 September 2017	13 November 2021	$0.86	1,140,000
10 January 2018	11 March 2022	$0.58	80,000
26 March 2018	25 May 2022	$0.48	1,334,375
28 June 2018	27 August 2022	$0.46	496,094
31 July 2018	31 July 2022	$1.20	750,000
31 July 2018	31 July 2022	$1.50	750,000
31 January 2019	30 September 2021	$0.39	1,043,000
10 April 2019	3 June 2022	$0.46	120,250
10 April 2019	3 December 2022	$0.46	69,000
16 April 2019	15 June 2023	$0.53	31,250
30 May 2019	13 June 2023	$0.60	250,000
30 May 2019	13 June 2023	$0.80	250,000
30 May 2019	14 July 2025	$0.39	3,360,000
			39,597,824

20 Non-controlling interests

	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**

20 Non-controlling interests (continued)

	Consolidated entity 31 December 2019 $'000
Opening Balance at 1 January 2019	1,214
Contributed equity	-
Profit for the year attributable to non-controlling interests	(151)
Closing Balance at 31 December 2019	**1,063**

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

(i) Desaladora Kenton SA de CV, Mexico was founded in December 2015 by RWL Water LLC group ('RWL') and Mexican partners in order to invest in the project to build, finance, operate and transfer (BOT) a seawater desalination plant in San Quintin, Baja California, Mexico. RWL holds the 51% ownership share in Desaladora Kenton SA de CV.

(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.

21 Foreign currency translation reserve

	Notes	Consolidated entity 31 December 2019 $'000	31 December 2018 $'000
Foreign currency translation reserve		(14,870)	(15,752)

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.

22 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.

22 Financial risk management (continued)

(a) Market risk

(i) Foreign exchange risk

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

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

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

Consolidated entity				**31 December 2019**					
	ILS	**EUR**	**AUD**	**ARS**	**RMB**	**BRL**	**MXN**	**AED**	**EGP**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets	1,939	3,217	1,897	1,518	9,837	4,173	415	112	6,515
Liabilities	(1,326)	(7,303)	-	(680)	(5,714)	(2,933)	(99)	-	-
	613	**(4,086)**	**1,897**	**838**	**4,123**	**1,240**	**316**	**112**	**6,515**

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 the above currencies change, on an absolute value basis, between 31 December 2019 and 31 December 2018.

	2019
	+10%/-10%
	$'000
Israeli New Shekel (ISL)	61/(61)
Euro (EUR)	(409)/409
Australian Dollar (AUD)	190/(190)
Argentina Peso (ARS)	84/(84)
Renminbi (RMB)	412/(412)
Brazilian Real (BRL)	124/(124)
Mexican Peso (MXN)	32/(32)
United Arab Emirates Dirham (AED)	11/(11)
Egyptian Pound (EGP)	652/(652)

(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.

22 Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

	Consolidated entity	
	31 December 2019 $'000	31 December 2018 $'000
Instruments with cash flow risk		
Cash and cash equivalents	21,908	38,741

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 2017, December 2018 and December 2019. The average change of rate was 0.125%.

	2019 +1%/-1% $'000	**2018 +1%/-1% $'000**
Cash and cash equivalents	219/(219)	396/(396)

(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	**Less than 6 months**	**Greater than 6 months**	**Total contractual cash flows**
At 31 December 2019	$'000	$'000	$'000
Trade receivables	18,249	1,813	20,062
Other receivables	105	-	105
	18,354	**1,813**	**20,167**

22 Financial risk management (continued)

(b) Credit risk (continued)

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

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.

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 has 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.

22 Financial risk management (continued)

(b) Credit risk (continued)

Impairment of financial assets (continued)

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;
- 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 reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

22 Financial risk management (continued)

(b) Credit risk (continued)

Impairment of financial assets (continued)

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.

Contractual maturities of financial liabilities	**Less than 6 months**	**Greater than 6 months**	**Total contractual cash flows**
At 31 December 2019	$'000	$'000	$'000
Trade and other payables and other liabilities	41,199	4,909	46,108
Borrowings	756	2,151	2,907
Lease liabilities	599	6,931	7,530
	42,554	**13,991**	**56,545**
At 31 December 2018			
Trade and other payables and other liabilities	40,237	10,564	50,801
Borrowings	108	260	368
Lease liabilities	659	6,686	7,345
	41,004	**17,510**	**58,514**

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.

22 Financial risk management (continued)

(d) Capital risk management

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

(i) Loan covenants

Under the terms of the debt facility with Generate Capital, the Company is required to comply with a minimum debt service ratio. The debt service ratio is determined on a consolidated basis.

The Company has complied with these covenants throughout the reporting period.

23 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).

2019	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Recurring fair value measurements				
Financial liabilities				
Government grant liability	-	-	4,562	4,562
	-	-	**4,562**	**4,562**

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**

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.

23 Recognised fair value measurements (continued)

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% (2018: 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 2018	**2,402**
Payment	23
Adjustment to fair value of liability	2,448
Currency translation differences	(39)
Closing Balance at 31 December 2018	**4,834**
Adjustment to fair value of liability	(292)
Currency translation differences	20
Closing Balance at 31 December 2019	**4,562**

24 Remuneration of auditors

	Consolidated entity 2019 $	2018 $
Audit and other assurance services		
Audit and review of financial statements - BDO East Coast Partnership	222,000	232,000
Audit and review of financial statements - BDO related practices	248,360	246,857
Overruns from prior years audits	-	23,000
	470,360	**501,857**
Other services		
BDO - Non-assurance services (i)	44,000	32,410
	44,000	**32,410**

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

25 Commitments and Contingent Liabilities

(a) Commitments

(i) As at 31 December 2019 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 $1,519 thousand (2018: $2,864 thousand).

(ii) The Group has a government grant liability of $4,562 thousands for more details refer to Note 15 - Trade and other payables and other liabilities.

25 Commitments and Contingent Liabilities (continued)

(b) Contingent liabilities

The Group was party to several claims during the year. With respect to claims brought against the Company, Fluence will vigorously defend itself and is confident they will be successfully defended. There is significant uncertainty as to whether a future liability will arise in respect of these claims. The amount of liability, if any, that may arise cannot be measured reliably at this time. The Directors are of the opinion that all known liabilities have been brought to account and that adequate provision has been made for any anticipated losses

26 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 28.

Key management personnel

Disclosures relating to key management personnel are set out in note 4 and the remuneration report in the directors' report.

Loans to/from related parties

Fluence Israel Limited has a balance payable to its non-controlling interests, Libra Ingenieros Civiles SA de CV and RJ Ingenieria of $53,000 and $120,000, on which the interest payable was accrued at $21,000 and $57,000 for the year 2019.

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 2019 and 2018.

Other transactions with related parties

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 $118,000 for the year 2019. The balance future commitment is approximately $122,000 for the year 2020.

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 2018 for 12 months, requires Fluence USA to pay a monthly base rent. Rent paid on this lease was approximately $18,000 for the year 2019. The lease expired in October 2019 with no further intention to renew.

Fluence USA Inc. purchases goods from Waste Water Depot, LLC, a limited liability company in which an employee of Fluence USA was the member. The employee relationship ended in 2019. There is some residual business activity with Waste Water Depot, LLC, primarily for spare parts. Activity is expected to decline over time.

27 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 2019 $'000 AUD	31 December 2018 $'000 AUD
Current assets	3,978	15,633
Total assets	72,865	73,260
Current liabilities	468	896
Total liabilities	492	918
Issued capital	253,916	215,611
Reserves	13,788	13,410
Accumulated losses	(195,331)	(156,679)
Total Equity	**72,373**	**72,342**
Loss for the period	(38,652)	(104,926)
Total comprehensive loss	**(38,652)**	**(104,926)**

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 2019 Fluence Corporation Limited had no contractual commitment and contingent liabilities.

28 Subsidiaries

Name	Place of incorporation	Ownership interest 2019	Ownership interest 2018
Parent Entity			
Fluence Corporation Limited	Australia	N/A	N/A
Subsidiaries of Fluence Corporation Limited			
Fluence Water Products and Innovation Limited	Israel	100%	100%
Emefcy Hong Kong Limited	Hong Kong	100%	100%
Subsidiaries of Emefcy Hong Kong Limited			
Fluence Water Technologies (Jiangsu) Limited	China	100%	100%
Fluence China Limited (Liaoning)	China	100%	N/A
Subsidiaries of Fluence Corporation Limited			
Fluence Corporation LLC	USA	100%	100%
Subsidiaries of Fluence Corporation LLC			
Aeromix Systems, Inc.	USA	100%	100%

28 Subsidiaries (continued)

Name	Place of incorporation	Ownership interest 2019	Ownership interest 2018
Fluence Middle East FZE	UAE	100%	100%
Nirosoft Trading (1987) Limited	Israel	100%	100%
Fluence Water Israel Limited	Israel	100%	100%
Subsidiaries of Fluence Water Israel Limited			
VIC Water Systems S.R.L	Italy	100%	100%
Nirosoft Industries Limited - Sucursal Colombia	Colombia	100%	100%
Nirosoft Cyprus Limited	Cyprus	100%	100%
Central America SA de CV	Mexico	100%	100%
Constructora Kenton SA de CV	Mexico	51%	51%
Subsidiaries of Fluence Corporation LLC			
Fluence Investments Limited	United Kingdom	100%	100%
Subsidiaries of Fluence Investments Limited			
RWL Desal Holding S de RL de CV	Mexico	100%	100%
Desaladora Kenton	Mexico	51%	51%
Subsidiaries of Fluence Corporation LLC			
Fluence Argentina SA	Argentina	100%	100%
Subsidiaries of Fluence Argentina SA			
Fluence Brazil Industria e Comercio de Sistemas de Tratamento de Agua Ltda.	Brazil	70%	70%
Subsidiaries of Fluence Corporation LLC			
Fluence Italia S.R.L	Italy	100%	100%
Subsidiaries of Fluence Italia S.R.L			
Fluence France SAS	France	100%	100%
Subsidiaries of Fluence Corporation LLC			
Fluence Investments LLC	USA	100%	100%
Subsidiaries of Fluence Investments LLC			
International Company for Water Services and Infrastructure S.A.E.	Egypt	75%	75%
Subsidiaries of Fluence Corporation LLC			
Fluence Boot Finance LLC	USA	100%	100%
Subsidiaries of Fluence Boot Finance LLC			
Fluence Generate GCM SA de CV	Mexico	100%	N/A
GCM Peru Ltda	Peru	100%	N/A
FLC Water Bahamas Limited	Bahamas	100%	N/A

29 Events occurring after the reporting period

On 7 January 2020 the Company announced that financial close on the €165 million (US$182 million) Ivory Coast water treatment plant has been achieved with the execution of the financing agreement by the Ministry of Finance of Ivory Coast (the "Customer") and the Israeli Discount Bank ("IDB"). Export Agency of Israel, ASHRA will provide a credit risk.

On 2 March 2020 the Company announced that it has secured a SUBRE membrane aerated biofilm reactor (MABR) sale in the Kingdom of Cambodia through its local partner, Xwater Technology Co., Ltd. This order has a value of more than US$7 million, consists of 66 SUBRE towers, and is expected to be delivered by June 2020.

29 Events occurring after the reporting period (continued)

Subsequent to reporting date, on 31 January 2020, the World Health Organisation (WHO) announced a global health emergency because of a new strain of coronavirus (COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. Because of the rapid increase in exposure globally, on 11 March 2020, the WHO classified the COVID-19 outbreak as a pandemic. These events are having a significant negative impact on world stock markets, currencies and general business activities.

Fluence Corporation Limited
Directors' Declaration
31 December 2019

In the Directors' opinion:

(a) the Financial Statements and notes set out on pages 46 to 99 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 2019 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
30 March 2020
New York

Tel: +61 3 9603 1700
Fax: +61 3 9602 3870
www.bdo.com.au

Collins Square, Tower Four
Level 18, 727 Collins Street
Melbourne VIC 3008
GPO Box 5099 Melbourne VIC 3001
Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Fluence Corporation Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Fluence Corporation Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, 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 2019 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 (including Independence Standards)* (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.

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

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.

<table>
<tr><th>Revenue - contract revenue and services revenue</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>
The Group is a project driven business, which enters into contracts in different geographies. Contract revenues are recognised over time or at point in time, as performance obligations are fulfilled. Contract revenue is recorded by Management after assessing all factors relevant to each contract including:

For revenue recognised over time, after determination of stage of completion and measurement of progress towards satisfaction of performance obligations; including estimation of total contract revenue and costs
For revenue recognised at a point in time, when the performance obligation is satisfied
Determination of transaction price
Estimation of project completion date.

In the case of those contracts recognised over time, judgement is required in order to determine the appropriate percentage of completion based on accurate costs incurred within the reporting period and the revenue recognised in accordance with the margins inherent in the contract.
The Group recognises within contract assets and contract receivables the value to customers of goods and services progressively transferred, the value of work completed as well as amounts invoiced to customers. The recognition of these amounts is based on Management’s assessment of the expected amounts receivable from the customer.
This has been determined as a key audit matter due to the:

Degree of estimation required over the course of a contract
Unique nature of individual contract terms leading to complex and judgemental revenue recognition
Judgement involved to assess the probability of recovery of contract assets and receivables.

The accounting policy for revenue as described in Note 1(f), ‘Revenue recognition’, and details of the key accounting estimates and assumptions associated with revenue are disclosed in Note 1(aa)(vi).
</td><td>
Our audit procedures included, but were not limited to:

Evaluating Management’s processes and controls in respect of the recognition of revenue
Selecting a sample of contracts for testing based on a number of quantitative and qualitative factors which may indicate that a greater level of judgement is required in recognising revenue, including:

History of issues identified
High potential impact and high likelihood of risk events
Material new contracts
High value contracts.

For the samples selected the following procedures were performed, as appropriate:

Obtaining an understanding of the contract terms and conditions to evaluate whether they reflected Management’s position including estimate of forecast revenue and costs
Testing a sample of costs incurred to date and agreeing these to supporting documentation
Assessing the measurement of stage of completion for contracts which satisfy the requirement to record revenue over time
Assessing the forecast costs to complete through discussion and challenging the project managers and finance personnel
Evaluating contract performance in the period post year end to the date of the audit opinion to confirm Management’s year end revenue recognition judgements
Evaluating the probability of recovery of outstanding amounts by reference to the status of contract negotiations, historical recoveries and supporting documentation.

Assessing the appropriateness of the relevant disclosures in the financial statements.

</td></tr>
</table>

Accounting for B.O.T. ('Build, Operate, Transfer') contracts	*How the matter was addressed in our audit*
The Group has entered into several B.O.T. contracts across different geographical locations, which have resulted in material assets, revenues and costs in the financial statements. Accounting for B.O.T. contracts is a key audit matter as there a degree of judgement in applying IFRIC 12, *Service Concession Arrangements*, in terms of the recognition of concession assets depending on whether the arrangement provides the Group with a right to receive payment or a right to charge the public for use of the asset. A right to charge the public for use of the asset is categorised as an intangible and amortised over the contract term. Further complexity arises in the determination of the individual performance obligations within the B.O.T. contract. Additionally, as the performance obligation is performed, revenue recognition is satisfied over time in accordance with the margins and time-line inherent in the contract. The Group has entered into new debt agreements in order to finance these arrangements, which gives rise to a financing component within the revenue recognition. Further, there is an element of judgement required by management in order to conduct an annual impairment assessment. The assessment needs to be take into account varying economic and political conditions inherent in the differing locations where B.O.T. arrangements exist. *The accounting policy for revenue is described in Note 1(f) and details of the key accounting estimates and assumptions associated with revenue are disclosed in Note 1(aa)(vi).*	Our audit procedures included, but were not limited to: • Testing the determination of the revenue recognition in accordance with IFRIC 12 and the margins and timeline in line with the terms of the concession arrangement both by our group audit team and by our component auditors • Vouching a sample of costs incurred to supporting documentation • Assessment of related loan agreements and the accounting for the finance component of the concession arrangements • Evaluating the impairment assessment of all material concession assets recognised at reporting date • Review of the adequacy of disclosure surrounding these concession arrangements within the financial statements.

Consolidation and financial reporting	*How the matter was addressed in our audit*
The Group comprises multiple interdependent subsidiaries operating across various geographical regions. This has been determined as a key audit matter due to: • Fluence's global operations necessitate significant intergroup transactions. This is considered a heightened risk due to the complexity associated with accounting and consolidating such transactions, in particular those recognised in foreign currencies other than the United States dollar, which is the currency that Fluence Corporation Limited ('Fluence') prepares its financial report • In 2019 the Group's subsidiary in Argentina, Fluence Argentina S.A., changed its functional currency from the Argentinian Peso (ARS) to the United States dollar ($USD). AASB121 *The Effects of Changes in Foreign Exchange Rates* requires the Group to prospectively apply the change from 1 January 2019. This is considered a heightened risk due to the size and materiality of the Argentinian entity to the Group *The accounting policy for consolidation as described in Note 1(d), 'Principles of consolidation', and details on the controlled entities as disclosed in Note 28 of the accompanying financial report are the basis of this key audit matter.*	Our audit procedures included, but were not limited to: • Evaluating Management's processes and controls in respect of the consolidated financial reporting • Reviewing the consolidation and performing detailed testing on the inputs, adjustments and eliminations recorded • Assessing Management's determination of the functional currency of Fluence Argentina as the United States dollar in accordance with AASB 121 *The Effects of Changes in Foreign Exchange Rates* • Engaging our component auditors in Argentina to audit the change in functional currency from ARS to $USD • Reviewing the judgements and assumptions made by Management to apply the requirements of AASB 121 • 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 contained in the Group's Annual report for the year ended 31 December 2019, but does not include the financial report and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the Shareholder Information, which is expected to be made available to us after that date.

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

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

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

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

Responsibilities of the directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

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

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

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

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 41 of the directors' report for the year ended 31 December 2019.

In our opinion, the Remuneration Report of Fluence Corporation Limited, for the year ended 31 December 2019, 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, 30 March 2020