Fluence Corporation Limited

ABN 52 127 734 196

Audited financial report for the year ended 31 December 2020

Fluence Corporation Limited ABN 52 127 734 196
Annual Report - 31 December 2020

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Fluence Corporation Limited
Corporate Directory

Directors	Mr Richard Irving *Chairman and Chief Executive Officer (appointed as CEO on 13 November 2020)* Mr Paul Donnelly *Lead Independent Director (appointed on 16 November 2020), Non-Executive Director* Mr Ross Haghighat *Non-Executive Director* Dr Rengarajan Ramesh *Non-Executive Director*
Company Secretary	Ms Melanie Leydin (appointed on 1 January 2021)
Registered Office	Level 4, 96-100 Albert Road South Melbourne VIC 3205 Australia Phone: +61 (0)3 9692 7222 Fax: +61 (0)3 9692 7222
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 Audit Pty Ltd 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 2020 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, Chairman and Chief Executive Officer (appointed as CEO on 13 November 2020)
Mr Henry Charrabé, Managing Director and CEO (retired on 13 November 2020) and Non-Executive Director (retired on 1 December 2020)
Mr Paul Donnelly, Lead Independent Director (appointed on 16 November 2020), Non-Executive Director
Mr Ross Haghighat, Non-Executive Director
Dr Rengarajan Ramesh, Non-Executive Director
Mr Peter Marks, Non-Executive Director (retired on 31 March 2020)
Mr Arnon Goldfarb, Non-Executive Director (retired on 7 January 2021)

Review of operations

In the final quarter of the 2020 year Fluence made some important strategic decisions, transitioning the CEO role and setting the business focus towards selling MABR wastewater treatment solutions in China and Southeast Asia and NIROBOX desalination solutions in the Middle East and Southeast Asia.

This strategic change is focused on profitable growth in four key product and market segments:
• MABR wastewater solutions in China and Southeast Asia;
• NIROBOX desalination solutions in the Middle East and South East Asia;
• Sales through partners in the US and Caribbean including recurring revenue projects through sales of water instead of equipment; and
• The Ivory Coast water treatment project

The activities in other geographies continue to secure profitable orders and explore partnerships to grow sales and share business costs.

Post completion of the Ivory Coast project in two years, Fluence is positioning to be a Smart Product Solutions (“SPS”) based business with targeted gross margins in the range of 35%, operating expenses to revenue of approximately 20% and EBITDA margins in the 15% range. The Ivory Coast project provides a valuable reference for complex water treatment and is an important source of profit and cash flow over the next two years. However, its lower margin will impact the overall reported gross margin until 2023, so we do not anticipate achieving these targets until at least 2023.

We expect that some SPS deployments will be on a recurring revenue or Build Own Operate Transfer (“BOOT”) basis, where wastewater treatment or fresh water is sold by volume. BOOT projects and other sources of recurring revenue, such as operations and maintenance contracts, remain very appealing on the right terms. Operating expenses are expected to fall further when selling SPS as these are standardized products, reducing engineering costs and therefore significantly lowering the cost of sales as a percentage of revenue.

Review of operations (continued)

FY 2020 in Summary

During FY 2020 Fluence achieved a number of important milestones, including underlying positive EBITDA. The Company began to execute on the Ivory Coast water treatment project (IC), achieved strong sales of the Smart Product Solutions (SPS) into China and Southeast Asia, with Recurring Revenues (RR) also contributing, albeit slightly below expectations. Finally, FY 2020 finished with a sharpening of the strategic focus for the group and a change of leadership. Fluence is strongly positioned for growth for the coming year, underpinned by SPS sales and the expectation of continuing to be positive EBITDA for the year. Further details follow:

• Underlying EBITDA positive $2.3 million in FY 2020 versus an EBITDA loss of $23.6 million in FY 2019.
• Revenue of $97.4 million in FY 2020, up 62% from $60.2 million in FY 2019.
• Operating expenses in FY 2020 were down 28% to US$28.6 million or from 66% of revenues to 29% of revenues. The improvement was due to a focus on spending less in non-core areas.
• Smart Product Solutions revenue of $32.3 million, up 22% on FY 2019, including MABR sales growth of 38% to US$19.0 million, despite COVID-19 headwinds significantly impacting the timing of sales.
• Recurring revenue of $8.1 million, up 16% on FY 2019, slightly below guidance of $9 million mainly due to delays in the Peru project.
• Ivory Coast project: during FY 2020, financial close was achieved and conditions precedent met. Subsequently there has been receipt of an advance payment and the first two milestone payments totalling €49.4 million (approx. US$60 million), confirming completion of the preliminary engineering design phase of the Ivory Coast water treatment plant.
• Ongoing partner engagement in China and Southeast Asia with continued partner development in the Middle East.
• Sales of MABR systems in the United States to the Department of Agriculture and working closely with oil and gas customers to provide packaged water and wastewater systems for their needs.
• Finance facility of a US$20 million non-dilutive debt facility with Upwell Water secured general working capital to further support growth in MABR and other smart product solutions.
• Cash balance of $31.0 million as at 31 December 2020, up from $21.9 million as at 31 December 2019. In addition short term and long-term liquid investments amounted to $38.9M.

	31 December 2020 $'000
Loss for the year	**(19,859)**
Less:	
Depreciation and amortisation	(3,108)
Other losses from continuing operations	(6,133)
Other losses from discontinued operations	(69)
Finance costs - net from continuing operations	(1,645)
Finance costs - net from discontinued operations	(126)
Impairment expense	(11,903)
Income tax expense from discontinued operations	(117)
Add:	
Income tax benefit from continuing operations	938
EBITDA	**2,304**

Review of operations (continued)

1 Detailed review of key market segments

(i) Smart Products Solutions - MABR and NIROBOX

China

FY 2020 was particularly challenging, given the impact of COVID-19 and various lockdowns leading to slowing of orders over the year. Despite these headwinds the region generated 30% growth in revenues on the prior year, underpinned by the three volume partnerships in place. In addition, there was careful management of costs with reductions further supporting gross margins.

The Company successfully executed projects for both Three Gorges Group for the Great Protection of Yangtze River ("Three Gorges"), and Beijing China Railway Science New Technology Co. Ltd. ("China Rail"). Both Three Gorges and China Rail are state owned enterprises ("SOEs") with national scope. Discussions, including potential volume partnerships, continue with both of these SOEs. Current partnerships and prospective new partners are key to the future growth of Fluence.

COVID-19 lockdowns are expected to continue in China, continuing to slow the timing of new orders. However, the Company remains confident that there are substantial opportunities available through the Company’s strategic partners.

Southeast Asia

Fluence now has 10 plants operating or being deployed in the Philippines, comprising eight (8) MABR plants and two (2) desalination plants, in a wide variety of settings. Excellent operating results from existing plants coupled with strong and significant local relationships are anticipated to lead to new business.

Fluence’s MABR plant in Cambodia, the first wastewater treatment plant of any kind in the country, is now under construction. Fluence also has desalination plants operating successfully in Vietnam.
Given these successful deployments and strong local relationships, Fluence anticipates continued business growth in these and other Southeast Asian countries, driven both by government enforcement of stricter wastewater treatment standards and steadily worsening water scarcity as local economies develop.

Middle East

NIROBOX and related desalination products are well established with 115 units sold to date. As in other geographies, Fluence is looking to develop strong partnerships to accelerate sales and several such discussions are underway. The Company has now completed three (3) NIROBOX projects in Egypt and has completed more than half of its scope of work on the New Mansoura project in Egypt. Five (5) other projects in the Middle East are executing well and there are several large opportunities in the pipeline.

Review of operations (continued)

1 Detailed review of key market segments (continued)

Ivory Coast

Financial close was achieved and conditions precedent were met on the €165 million Ivory Coast project. During the year the Ivory Coast Project is designed to treat water from Lagune Aghien to help supply the fresh water needs of the country's largest city, Abidjan. In the final quarter of 2020 Fluence received payments totalling €49.4 million (approx. US$60 million). This included €31 million in respect of first two milestone payments for the completion of the preliminary engineering design phase with the balance as a contractual advance payment following commencement of construction.

Commissioning of the 150,000 m3/day surface water treatment plant is anticipated in early 2023. Fluence's focus is to deliver the project on time and on budget.

San Quintin

All current and prospective projects are being reviewed by the group to ensure they continue to generate a satisfactory return on investment. Fluence has decided not to proceed with the San Quintin desalination project as a number of local changes resulted in projected returns below an acceptable risk - return threshold.

Fluence and the State Water Commission of Baja California (CEA) continued to actively discuss a mutually acceptable path forward for the San Quintin water treatment project throughout 2020. These discussions are on parallel paths, focusing on the terms of either a sale of the project to a third party or, alternatively, a termination by mutual agreement.

Under either scenario it is expected that the Company will not recover all the costs which have been capitalised to date. Accordingly, the Company elected to write down the carrying value of the San Quintin related assets by $11.9 million as at 31 December 2020.

The decision to not proceed with the project is expected to be cash flow positive for the Company due to the anticipated repayment to Fluence of approximately $3 million in respect of a security deposit.

Review of operations (continued)

1 Detailed review of key market segments (continued)

Other markets

• In 2020 Fluence won a contract to provide the effluent treatment plant for a meat and processing plant in Gorina, Argentina. The plant will process 5,000m3/day. Once completed, the plant will not only be producing clean water, but also 12,000m3/day of biogas, which will feed a 1.5MW cogeneration unit, helping to produce electricity for the meat processing plant.
• In the June quarter 2020, Fluence won a contract to build a SUBRE solution in Kingston, Jamaica. The plant is a Greenfield project that will house three (3) stacks of six (6) SUBRE units each, allowing the plant to process 675m3/day upon completion.
• In Africa additional contracts were secured with Aspiral units sold to ARSI University in Ethiopia and Fluence will partner with Sky Links for the Ghana rural water authority, providing 11 pre-engineered and standardised surface water treatment system in various villages in Ghana.
• In September Fluence secured a $3.2 million contract, though a joint venture with International Company for Water Services (IWS), with a semi-government utility company to rehabilitate and upgrade a 12,000m3/day seawater reverse osmosis desalination plant in Sharm El Sheikh, Egypt.
• An MABR project in South Africa will be a pilot project installed in cooperation with a local partner to treat wastewater from effluent to various levels of usage, ultimately allowing for reuse to potable levels.
• Development work on the Peru BOOT project continues to be delayed due to COVID-19.

Sustainability

Fluence’s innovative solutions contribute to resource conservation, energy savings, making energy from waste and enabling water reuse.

Fluence’s MABR and NIROBOX installations around the world collectively save an estimated 25 GWh of energy (17,900 tons of CO_2) annually compared to conventional technologies. Treated wastewater from Fluence’s MABR installations collectively removes 1,050 tons of nutrients which would otherwise damage the environment.

Fluence’s Waste to Energy solutions treat wastewater and produce energy on-site by converting biomass to biogas which generates 147 GWh in energy savings (103,500 tons of CO_2) annually compared to fossil fuels.

Fluence water and wastewater solutions meet 10 out of 17 United Nations Sustainable Development Goals.

Review of operations (continued)

1 Detailed review of key market segments (continued)

Outlook for FY 2021

Fluence 2021 guidance is SPS revenue of US$35 million to US$50 million and underlying EBITDA positive on an annual basis.

• As evidenced by FY 2020 sales, other SPS products have seen strong interest in Southeast Asia, the Middle East and elsewhere. Given the outlook on continuing volume partnerships and reflecting COVID-19 uncertainty, Fluence has provided a wide guidance range for 2021 SPS revenues of US$35.0 - 50.0 million, with much of the growth coming from MABR sales. The guidance range will be refined during the year.
• Fluence expects continuing new orders from each of its three (3) strategic partners in China. There is, however, uncertainty on timing and whether the contemplated size of each partners' demand will be revised; however, Fluence anticipates continued MABR sales growth in 2021.
• Given the ongoing negotiations regarding San Quintin, and the review of additional projects to ensure they will achieve minimum acceptable investment returns, Fluence is not providing guidance on recurring revenue at this time. This remains, however, an important aspect of the business by virtue of both operations and maintenance contracts and BOOT projects.
• Fluence is guiding to Underlying EBITDA positive for 2021 on a full year basis, with the focus on maximising profitable growth of MABR and other SPS products.

Significant events after balance date

No matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

Information on directors

Richard Irving *Chairman and Chief Executive Officer*	
Qualifications	BSC (First class honours) in Electrical Engineering, Manchester University, UK MSC Electrical Engineering, Manchester University, UK
Experience and expertise	Richard Irving was appointed as the Chairman and Chief Executive Officer of Fluence Corporation Limited on 13 November 2020. Mr. Irving has served as Executive Chairman and Non-Executive Chairman of Fluence Corporation Limited and its predecessor (Emefcy Group Limited) since 2010. Based in Silicon Valley, Richard co-founded Pond Venture Partners in 1997 and brings over 30 years of 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	Chairman and Chief Executive Officer Member of the Remuneration and Nomination Committee up to 13 November 2020
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; and 950,000 Director options with an exercise price of A$1.50.
Contractual rights to shares	None

Information on directors (continued)

Paul Donnelly *Lead Independent Director and 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 served as Non-Executive Director for Fluence Corporation Limited and was appointed Lead Independent Director on 16 November 2020. 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 and 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 expertise in capital markets. Over the course of his 30-year career, he has gathered deep transactional experience advising on significant and complex transactions for leading Australian and international companies.
Other current public company directorships	None
Former public company directorships in last 3 years	None
Special responsibilities	Lead Independent Director (from 16 November 2020), Non-Executive Director Chair of the Audit and Risk Committee (from 1 April 2020, previously Member)
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

Information on directors (continued)

Ross Haghighat *Non-Executive Director*	
Qualifications	BSC and a Masters in Material Science in Organometallic Chemistry, Rutgers University. MBA, Boston College - Carroll School of Management
Experience and expertise	Ross Haghighat serves as a Non-Executive Director for Fluence Corporation Limited. He has over 30 years of experience in the technology sector as founder or co-founder of 6 companies with a combined shareholder value exceeding $4.5B. With over 20 years of 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 has been a Non-Executive Director of Fluence Corporation Limited and its predecessor (Emefcy Group Limited) since 2015. He serves as Chairman of 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 public company directorships	Aduro Biotech, Inc, Triton Systems, Inc, FRX Polymers, Inc, Redrock Biometrics, Inc., Angel Medical Systems, Inc.
Former public company directorships in last 3 years	None
Special responsibilities	Chair of the Remuneration and Nomination Committee
Interest in shares	Direct interest in 600,000 shares
Interest in options	Direct interest in: 700,000 Director options with an exercise price of A$1.20; and 700,000 Director options with an exercise price of A$1.50.
Contractual rights to shares	None

Information on directors (continued)

Dr Rengarajan Ramesh *Non-Executive Director*	
Qualifications	Bachelor in Chemical Engineering from Annamalai University (India) Masters in Chemical Engineering from University of Akron (USA) Doctorate in Chemical Engineering from University of Akron (USA)
Experience and expertise	Dr Ramesh serves as Non-Executive Director for Fluence Corporation Limited. 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 providing hands on lab training to teachers and students.
Other public company current directorships	None
Former public company directorships in last 3 years	Liqtech - (NYSE:LIQT)
Special responsibilities	Member of the Audit and Risk Committee since 1 April 2020 Member of the Remuneration and Nomination Committee since 11 December 2020
Interest in shares	None
Interest in options	Direct interest in 1,500,000 Director options with an exercise price of A$0.835
Contractual rights to shares	None

Company Secretary

Ross Kennedy served as Company Secretary from December 2015 until his retirement on 31 December 2020. Ross holds the professional qualifications of Fellow Governance Institute of Australia, Fellow Australian Institute of Company Directors and Chartered Accountant.

Company Secretary (continued)

The current Company Secretary is Melanie Leydin, who was appointed to this position on 1 January 2021. Melanie is a Director and co-founder of Leydin Freyer, a professional company secretarial and accounting firm. Melanie earned a Bachelor of Business degree in Accounting and Corporate Law from Swinburne University (AU). She is also a Fellow of the Governance Institute of Australia.

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 2020, and the number of meetings attended by each Director were:

Fluence - for the year ended 31 December 2020	Full Board		Meetings of committees: Audit		Meetings of committees: Remuneration and Nomination	
	A	**B**	**A**	**B**	**A**	**B**
Mr Richard Irving (3)	21	21	-	-	4	4
Mr Henry Charrabé (1,4)	18	18	-	-	-	-
Mr Ross Haghighat	21	21	-	-	5	5
Mr Peter Marks (2)	2	3	2	3	2	2
Dr Rengarajan Ramesh	21	21	10	11	-	-
Mr Arnon Goldfarb (6)	21	21	-	-	-	-
Mr Paul Donnelly (5)	19	21	14	14	-	-
Mr Ross Kennedy (Company Secretary and Audit Committee member)	21	21	14	14	5	5

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
1 = Not a member of a Board Committee
2 = Mr Peter Marks retired as a Director on 31 March 2020
3 = Mr Richard Irving was appointed Chairman and Chief Executive Officer with effect as from 13 November 2020 and stepped down from the Remuneration and Nomination Committee on this date
4 = Mr Henry Charrabé retired as Managing Director and Chief Executive Officer on 13 November 2020 and as a Non-Executive Director on 1 December 2020
5 = Mr Paul Donnelly was appointed Lead Independent Director on 16 November 2020
6 = Mr Arnon Goldfarb retired as a Director on 7 January 2021

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 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 compensation framework is structured to ensure remuneration is competitive so as to attract and retain talent while at the same time appropriate relative to the business results delivered to the Company. The framework aligns executive compensation 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 compensation 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;
- The Chairman and Chief Executive Officer has added focus on growth in shareholder value, as measured by growth in the share price;
- Focusing the executives on key financial and 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 recommended corporate governance, the structure of Non-Executive Directors' remuneration is determined separately to the structure of executives' remuneration.

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.

In response to the COVID-19 pandemic, Non-Executive Directors deferred the receipt of Directors Fees for the period beginning 1 April 2020 and ending 31 October 2020. These deferred fees were paid in November 2020. With effect from 1 November 2020, it was agreed that Non-Executive Directors base fees would be reduced by 20% relative to the rate that had been in effect since 2017. The Board has determined that there will be no increase in base Non-Executive Director fees from end of year levels for 2021. The previous level of Non-Executive Directors' fees was in line with earlier benchmarking recommendations provided by Mercer Consulting Australia, 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, 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.

Remuneration report (Audited) (continued)

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

Directors remuneration (continued)

Following the departure of Mr Henry Charrabé as CEO on 13 November 2020, Mr Richard Irving assumed the combined role of Chairman and CEO. Mr Paul Donnelly assumed the role of Lead Independent Director on 16 November 2020.

The Non-Executive Chair's fees for 2020 applicable until 13 November 2020 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. Such Committee fees 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).

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 which collectively comprise the executive's total remuneration:

- Base pay, deferred compensation and allowance;
- Short-term performance incentives;
- Share-based payments; and
- Other remuneration such as superannuation and long service leave.

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. Such review also takes into account 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.

Remuneration report (Audited) (continued)

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

Executive remuneration (continued)

The STI program for 2020 comprised specific Company-wide targets and tailored individual targets to align 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 comprised equity-based remuneration in the form of unlisted options. An updated employee share option plan was approved by shareholders on 4 June 2020. Options are awarded to executives as long-term incentives aligned to shareholder wealth through the exercise price being calculated at a premium to the 20-day volume weighted average market price prior to the date of grant. Appropriately structured LTI's also provide incentives to retain talent.

Certain executive options comprised 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 2020 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 2020 and having regard to the impact of the COVID-19 pandemic, executive STI bonuses for 2020 were generally towards the mid-range of the available bonus quantum. Fifty per cent of performance options have been deemed to have vested with respect to the 2020 year.

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 2021 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 2020 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.

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Amounts of remuneration (shown in USD) (continued)

Directors and other key management personnel for 2020 consisted of:
• Richard Irving - Chairman and Chief Executive Officer (appointed CEO on 13 November 2020)
• Henry Charrabe - Managing Director and Chief Executive Officer (retired on 13 November 2020) and Non-Executive Director (retired on 1 December 2020)
• Paul Donnelly - Lead Independant Director (appointed on 16 November 2020), Non-Executive Director
• Ross Haghighat - Non-Executive Director
• Dr Rengarajan Ramesh - Non-Executive Director
• Peter Marks - Non-Executive Director (retired on 31 March 2020)
• Arnon Goldfarb - Non-Executive Director (retired on 7 January 2021)
• Francesco Fragasso - Chief Financial Officer
• Anthony Hargrave - Chief Operating Officer
• Erik Arfalk - Chief Marketing Officer
• Spencer Smith - Chief Legal Officer

Directors and other key management personnel for 2019 consisted of:
• Richard Irving - Non-Executive Chairman
• Henry Charrabe - Managing Director and Chief Executive Officer
• Peter Marks - Non-Executive Director
• Ross Haghighat - Non-Executive Director
• Dr 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)

	Short-term benefits					**Post-employment benefits**		**Long-term benefits**	**Share-based payment**	
2020	**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:										
Richard Irving (a)	244,115		244,115						65,707	309,822
Henry Charrabé (a)	638,750	562,500	1,201,250	150,000	408,468	-	-	-	602,084	2,361,802
Total	**882,865**	**562,500**	**1,445,365**	**150,000**	**408,468**	**-**	**-**	**-**	**667,791**	**2,671,624**
Non-executive directors:										
Peter Marks (b)	22,106	-	22,106	-	-	-	-	-	48,415	70,521
Ross Haghighat	97,311	-	97,311	-	-	-	-	-	48,415	145,726
Rengarajan Ramesh (c)	26,371	-	26,371	-	-	-	-	-	83,417	109,788
Arnon Goldfarb (b), (c)	36,275	-	36,275	-	-	-	-	-	24,530	60,805
Paul Donnelly	84,912	-	84,912	-	-	-	-	-	24,698	109,610
Total	**266,975**	**-**	**266,975**	**-**	**-**	**-**	**-**	**-**	**229,475**	**496,450**

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	
2020	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	281,200	-	281,200	72,229	-	-	-	-	37,836	391,265
Anthony Hargrave	309,000	-	309,000	57,487	-	-	-	-	30,460	396,947
Erik Arfalk	233,400	-	233,400	34,575	-	-	-	-	27,853	295,828
Spencer Smith	319,000	35,000	354,000	40,798	26,418	-	-	-	39,901	461,117
Total	**1,142,600**	**35,000**	**1,177,600**	**205,089**	**26,418**	**-**	**-**	**-**	**136,050**	**1,545,157**
Grand total	**2,292,440**	**597,500**	**2,889,940**	**355,089**	**434,886**	**-**	**-**	**-**	**1,033,316**	**4,713,231**

* Mr Charrabé's allowance includes housing allowance and unused vacation allowance paid during 2020. Mr Smith's allowance includes a portion of unused vacation allowance paid during the year 2020.

(a) Mr Irving was appointed as CEO on 13 November 2020. Mr Charrabé retired as Managing Director and CEO on 13 November 2020 and as Non-Executive Director on 1 December 2020.

(b) Mr Marks retired as Non-Executive Director on 31 March 2020. Mr Goldfarb retired as Non-Executive Director on 7 January 2021.

(c) Compensation deferred during 2020 was paid at the beginning of 2021.

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**

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**

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Amounts of remuneration (shown in USD) (continued)

Remuneration subject to performance in 2020:

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	1,548,232	375,000	24.2%
Richard Irving	400,000	-	-
Francesco Fragasso	391,600	110,400	28.2%
Anthony Hargrave	399,000	90,000	22.6%
Erik Arfalk	288,400	55,000	19.1%
Spencer Smith	398,750	79,750	20.0%

Name	**Compensation subject to performance paid/payable 2020**	**Compensation subject to performance not earned 2020**
Henry Charrabé	40.0%	60.0%
Richard Irving	-	-
Francesco Fragasso	65.4%	34.6%
Anthony Hargrave	63.9%	36.1%
Erik Arfalk	62.9%	37.1%
Spencer Smith	51.2%	48.8%

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.

2020	**Balance at the start of the year**	**Received as compensation**	**Options exercised**	**Net change exercised / purchased**	**Total**
Executive Directors					
Richard Irving	37,264,579	-	-	-	37,264,579
Henry Charrabé	-	-	-	-	-
	37,264,579	**-**	**-**	**-**	**37,264,579**
Non-Executive Directors					
Peter Marks (*)	2,754,403	-	-	(2,554,403)	200,000
Ross Haghighat (**)	500,000	-	-	100,000	600,000
Rengarajan Ramesh	-	-	-	-	-
Arnon Goldfarb	-	-	-	-	-
Paul Donnelly	500,000	-	-	-	500,000
	3,754,403	**-**	**-**	**(2,454,403)**	**1,300,000**
Key Management Personnel					
Francesco Fragasso	-	-	-	-	-
Anthony Hargrave	-	-	-	-	-
Erik Arfalk	-	-	-	-	-
Spencer Smith	-	-	-	-	-
	-	**-**	**-**	**-**	**-**
Total	**41,018,982**	**-**	**-**	**(2,454,403)**	**38,564,579**

* Peter Marks sold 2,554,403 shares between 2 June 2020 and 24 November 2020 after he retired as a Director.

* Ross Haghighat acquired 100,000 Fluence shares on 20 August 2020.

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Issue of shares (continued)

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 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.

2020	**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 Directors							
Richard Irving	1,900,000	-	-	-	1,900,000	1,900,000	-
Henry Charrabé	13,751,855	-	(1,890,000)	-	11,861,855	11,861,855	-
	15,651,855	**-**	**(1,890,000)**	**-**	**13,761,855**	**13,761,855**	**-**
Non-Executive Directors							
Peter Marks	1,400,000	-	-	-	1,400,000	1,400,000	-
Ross Haghighat	1,400,000	-	-	-	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
	6,300,000	**-**	**-**	**-**	**6,300,000**	**5,800,000**	**500,000**
Key Management Personnel							
Francesco Fragasso	775,000	330,000	(100,000)	-	1,005,000	361,875	643,125
Anthony Hargrave	496,094	360,000	(62,500)	-	793,594	235,469	558,125
Erik Arfalk	484,375	300,000	(62,500)	-	721,875	243,750	478,125
Spencer Smith	565,000	300,000	-	-	865,000	550,200	314,800
	2,320,469	**1,290,000**	**(225,000)**	**-**	**3,385,469**	**1,391,294**	**1,994,175**
Total	**24,272,324**	**1,290,000**	**(2,115,000)**	**-**	**23,447,324**	**20,953,149**	**2,494,175**

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Issue of options (continued)

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 Directors							
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)

Share-based payments granted as compensation during the year

For the period, options were issued to certain Key Management Personnel under the Fluence 2015 Employee Share Option Plan (as amended) and the Fluence 2020 Employee Share Option Plan. In accordance with AASB 2 Share Based Payments, the tables include employee options agreed to be issued up to and including 31 December 2020. Options issued to Key Management Personnel during the period generally vest on a time basis in 16 equal quarterly increments subject to the employee continuing to be employed by the Group at the vesting date.

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

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

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

2020	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	-	-	-	-	-	-	-
Richard Irving	-	-	-	-	-	-	-
Non-Executive Directors							
Peter Marks	-	-	-	-	-	-	-
Ross Haghighat	-	-	-	-	-	-	-
Rengarajan Ramesh	-	-	-	-	-	-	-
Arnon Goldfarb	-	-	-	-	-	-	-
Paul Donnelly	-	-	-	-	-	-	-
Key Management Personnel							
Francesco Fragasso	26 February 2020	330,000	61,875	0.0765	0.44	1 March 2024	25,257
Anthony Hargrave	26 February 2020	360,000	67,500	0.0765	0.44	1 March 2024	27,553
Erik Arfalk	26 February 2020	300,000	56,250	0.0765	0.44	1 March 2024	22,961
Spencer Smith	26 February 2020	300,000	56,250	0.0765	0.44	1 March 2024	22,961

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)

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:	Chairman and CEO (since 13 November 2020)
Agreement commenced:	18 December 2015. Mr Irving was initially Executive Chairman of Emefcy Limited and Fluence Corporation Limited, before becoming a Non-Executive Chairman of Fluence Corporation Limited. On 13 November 2020, Mr Irving was appointed Chairman and Chief Executive Officer of Fluence Corporation Limited.
Term of agreement:	Open
Details:	In the role of Non-Executive Chairman up to 13 November 2020, Mr Irving received Directors fees at the rate of AU$250,000 (US$171,959) per annum. From 13 November 2020, in the role of Chairman and CEO, Mr Irving receives fees of US$400,000 per annum and with no entitlement to bonuses. 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$82,540) per annum to 31 October 2020 and AU$96,000 (US$66,032) from 1 November 2020 plus Chair of Remuneration and Nomination Committee fees of AU$16,000 (US$11,005) 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$82,540) per annum to 31 October 2020 and AU$96,000 per annum (US$66,032) from 1 November 2020 plus Member of the Audit and Risk Committee fees of AU$12,000 (US$8,254) per annum with effect as from 1 April 2020 and Member of the Remuneration and Nomination Committee fees of AU$12,000 (US$8,254) per annum with effect as from 11 December 2020. 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$82,540) per annum to 31 October 2020 and AU$96,000 per annum (US$66,032) from 1 November 2020 plus Member of Audit and Risk Committee fees of AU$12,000 (US$8,254) per annum to 31 March 2020 and Chair of the Audit and Risk Committee fees of AU$16,000 (US$11,005) per annum from 1 April 2020. Mr Donnelly was appointed Lead Independent Director as from 16 November 2020 and in lieu of the added responsibilities of that role receives additional Non-Executive Director fees calculated as 10% of the base Non-Executive Director fee amounting to AU$9,600 (US$6,603) per annum. Remuneration is reviewed annually by the Remuneration and Nomination Committee.

Remuneration report (Audited) (continued)

Service agreements (continued)

Name:	Richard Irving
Title:	Chairman and Chief Executive Officer
Agreement commenced:	13 November 2020
Term of agreement:	The engagement term is not fixed

Details of remuneration:

Cash salary and fees:	US$400,000 (base salary)
Bonuses and deferred remuneration:	Mr. Irving has waived any rights to bonuses, termination or severance pay
Other Benefits:	Health insurance for Mr. Irving and his family

Employment Based Option Remuneration:

Number of Options Granted	Grant Date	Exercise Price	Vesting Period
950,000	14 July 2017	AU$1.20	Options vested on 7 July 2019
950,000	14 July 2017	AU$1.50	Options vested on 7 July 2019

On 13 November 2020 Mr Irving was granted 1,500,000 options to be issued subject to shareholder approval. The options are exercisable at a 10% premium to the 5-day VWAP as of 13 November 2020. The vesting of the options is subject to meeting performance milestones set by the Board and is accelerated upon a "change of control event". The options expiry date is 30 June 2022.

Remuneration report (Audited) (continued)

Service agreements (continued)

Name:	Henry Charrabé
Title:	Managing Director and Chief Executive Officer
Agreement commenced:	26 May 2017
Agreement terminated:	13 November 2020
Term of agreement:	Initial two-year term followed by automatic one-year renewals. By mutual agreement, the contract was terminated on 13 November 2020 with the last day as an employee on 11 February 2021. Severance obligation has been accrued in 2020 and will be paid in 2021 and 2022.

Details of remuneration:

Cash salary and fees:	US$618,000 (base salary)
Bonuses and deferred remuneration:	US$300,000 (deferred remuneration normally paid 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 2020
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

Any options granted to Mr Charrabé during 2017 that would have vested over the next 12 months following the separation date shall automatically vest and become exercisable as of 1 December 2020. All 2019 options, with a vesting date after the separation date, have been forfeited.

Remuneration report (Audited) (continued)

Service agreements (continued)

Name:	Francesco Fragasso
Title:	Chief Financial Officer
Agreement commenced:	2 April 2018
Term of agreement:	At will with 60 days' notice by either party

Details of remuneration:

Cash salary and fees:	US$281,200 (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.
330,000	26 February 2020	AU$0.44	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 February 2020.

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:	At will with 60 days' notice by either party

Details of remuneration:

Cash salary and fees:	US$309,000 (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.
360,000	26 February 2020	AU$0.44	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 February 2020.

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:	At will with 30 days' notice by either party

Details of remuneration:

Cash salary and fees:	US$233,400 (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.
300,000	26 February 2020	AU$0.44	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 February 2020.

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 RWL Water LLC on 31 May 2016. His current agreement was executed on July 14, 2017.
Term of agreement:	The initial term of the contract was 2 years and was renewed for an additional one-year term on July 17, 2019 and July 17, 2020
Cash salary and fees:	US$319,000 (base salary)
Bonuses and deferred remuneration:	Performance based bonus up to 25% of base salary
Other Benefits:	Health insurance for Mr. Smith and his family
Details of remuneration:	

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) month 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
300,000	26 February 2020	AU$0.44	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 February 2020.

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.

The earnings of the consolidated entity for the three years to 31 December 2020 are summarised below:

	2020 $'000	2019 $'000 (*)	2018 $'000
Financial results			
Revenue	97,139	59,848	101,123
Loss before income tax from continuing operations	(8,378)	(29,355)	(62,360)
Loss from discontinued operations	(12,419)	(238)	-
Loss for the year	(19,859)	(31,585)	(62,802)

* The results for 2019 have been adjusted to conform with AASB 5: "Assets held for sale and discontinued operations" presentation requirements.

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

	31 December 2020 $'000	31 December 2019 $'000	31 December 2018 $'000
Market factors			
Share price	AU$0.23	AU$0.43	AU$0.31
	2020 $	2019 $	2018 $
Financial factors			
Loss per share from continuing operations	(0.01)	(0.06)	(0.14)

[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
18 May 2016	18 May 2021	$0.40	1,000,000
09 February 2017	10 January 2021	$0.84	25,000
09 February 2017	09 February 2021	$1.00	350,000
28 March 2017	04 March 2021	$0.82	1,000,000
05 May 2017	03 May 2021	$0.86	150,000
31 May 2017	25 May 2025	$0.93	10,391,855
01 July 2017	06 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	10 September 2021	$0.81	2,500,000
14 July 2017	25 May 2025	$0.84	350,000
14 September 2017	13 November 2021	$0.86	840,000
26 March 2018	25 May 2022	$0.48	1,171,875
28 June 2018	27 August 2022	$0.46	433,594
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	913,000
10 April 2019	03 June 2021	$0.46	20,000
10 April 2019	03 December 2021	$0.46	2,000
10 April 2019	03 June 2022	$0.46	86,000
10 April 2019	03 December 2022	$0.46	62,000
30 May 2019	30 May 2023	$0.60	250,000
30 May 2019	30 May 2023	$0.80	250,000
30 May 2019	14 July 2025	$0.39	1,470,000
26 February 2020	03 June 2021	$0.44	20,000
26 February 2020	10 September 2021	$0.44	100,000
26 February 2020	03 June 2022	$0.44	92,000
26 February 2020	03 December 2022	$0.44	92,000
26 February 2020	01 March 2023	$0.44	12,000
26 February 2020	30 May 2023	$0.44	132,000
26 February 2020	29 August 2023	$0.44	188,000
26 February 2020	29 November 2023	$0.44	72,000
26 February 2020	01 March 2024	$0.44	1,562,000
24 September 2020	29 August 2024	$0.23	56,000
24 September 2020	30 May 2024	$0.23	44,000
30 November 2020	29 August 2024	$0.26	172,000
			34,607,324

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 26 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, 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 and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor, and
- 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 41.

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

Richard Irving
Chairman and Chief Executive Officer
31 March 2021
New York

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DECLARATION OF INDEPENDENCE BY TIM FAIRCLOUGH TO THE DIRECTORS OF FLUENCE CORPORATION LIMITED

As lead auditor of Fluence Corporation Limited for the year ended 31 December 2020, 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.

Tim Fairclough

TIM FAIRCLOUGH
Director

BDO Audit Pty Ltd

Melbourne, 31 March 2021

Fluence Corporation Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2020

	Notes	Consolidated entity 31 December 2020 $'000	Consolidated entity 31 December 2019 $'000
Revenues			
Operating revenue	4	97,139	59,848
Other income		227	332
		97,366	**60,180**
Expenses			
Cost of sales		(69,337)	(50,455)
Research and development expenses	4	(3,316)	(4,658)
Sales and marketing expenses	4	(6,093)	(9,977)
General and administration expenses	4	(19,220)	(25,325)
Other (losses)/gains	4	(6,133)	1,292
Finance costs - net	4	(1,645)	(412)
Loss before income tax		**(8,378)**	**(29,355)**
Income tax benefit/(expense)	6	938	(1,992)
Loss from continuing operations after tax		**(7,440)**	**(31,347)**
Loss from discontinued operations	**3**	**(12,419)**	**(238)**
Loss for the year		**(19,859)**	**(31,585)**
Loss for the year is attributable to:			
Owners of Fluence Corporation Limited		(17,016)	(31,434)
Non-controlling interests		(2,843)	(151)
		(19,859)	**(31,585)**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations, net of tax		2,932	882
Total comprehensive income for the year		**(16,927)**	**(30,703)**
Total comprehensive income for the year is attributable to:			
Continuing operations		(4,207)	(30,468)
Discontinued operations		(9,877)	(84)
Owners of Fluence Corporation Limited		**(14,084)**	**(30,552)**
Continuing operations		(158)	(82)
Discontinued operations		(2,685)	(69)
Non-controlling interests		**(2,843)**	**(151)**
		(16,927)	**(30,703)**

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 Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2020
(continued)

	Notes	Consolidated entity 31 December 2020 $	 31 December 2019 $
Losses per share from continuing operations attributable to the ordinary equity holders of the Group:			
Basic and diluted loss per share	7	(0.01)	(0.06)
Losses per share from discontinued operations attributable to the ordinary equity holders of the Group:			
Basic and diluted loss per share	7	(0.02)	0.00
Losses per share attributable to the ordinary equity holders of the Group:			
Basic and diluted loss per share	7	(0.03)	(0.06)

(*) The comparative figures have been adjusted to conform with the AASB 5: "Assets held for sale and discontinued operations" presentation requirements. Refer to Note 3 "Discontinued operations" for detailed information on the changes in comparatives presentation.

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 2020

	Notes	Consolidated entity 31 December 2020 $'000	Consolidated entity 31 December 2019 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	31,038	21,908
Other financial assets	8	15,474	5,416
Trade and other receivables	9	38,486	39,777
Inventories	10	12,810	12,610
Prepayments		7,823	7,021
Concession arrangement assets	11	353	512
Other assets	13	605	357
Total current assets		**106,589**	**87,601**
Non-current assets			
Investments accounted for using the equity method	14	415	434
Deferred tax assets	6	610	858
Property, plant and equipment	15	12,981	14,162
Intangible assets	16	1,834	5,998
Concession arrangement assets	11	8,750	20,961
Long-term deposits	12	23,368	4,023
Other assets	13	215	157
Total non-current assets		**48,173**	**46,593**
Total assets		**154,762**	**134,194**
LIABILITIES			
Current liabilities			
Trade and other payables	17	40,860	43,826
Borrowings	18	1,878	877
Current tax liabilities		175	38
Provisions	19	6,594	6,264
Deferred revenue	20	32,045	21,596
Total current liabilities		**81,552**	**72,601**
Non-current liabilities			
Other liabilities	17	8,147	9,812
Borrowings	18	19,825	2,030
Deferred tax liabilities	6	928	2,041
Provisions	19	711	632
Deferred revenue	20	13,127	-
Total non-current liabilities		**42,738**	**14,515**
Total liabilities		**124,290**	**87,116**
Net assets		**30,472**	**47,078**
EQUITY			
Contributed equity	21	212,161	211,840
Foreign currency translation reserve	23	(11,938)	(14,870)
Accumulated losses		(167,971)	(150,955)
		32,252	46,015
Non-controlling interests	22	(1,780)	1,063
Total equity		**30,472**	**47,078**

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 2020

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 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	21	25,009	-	-	25,009	-	25,009
Issue of options	5	1,705	-	-	1,705	-	1,705
Balance at 31 December 2019		**211,840**	**(14,870)**	**(150,955)**	**46,015**	**1,063**	**47,078**
Balance at 1 January 2020		**211,840**	**(14,870)**	**(150,955)**	**46,015**	**1,063**	**47,078**
Loss for the period		-	-	(17,016)	(17,016)	(2,843)	(19,859)
Other comprehensive income		-	2,932	-	2,932	-	2,932
Total comprehensive income for the year		**-**	**2,932**	**(17,016)**	**(14,084)**	**(2,843)**	**(16,927)**
Transactions with owners in their capacity as owners:							
Issue of options	5	321	-	-	321	-	321
Balance at 31 December 2020		**212,161**	**(11,938)**	**(167,971)**	**32,252**	**(1,780)**	**30,472**

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 2020

	Notes	Consolidated entity 31 December 2020 $'000	Consolidated entity 31 December 2019 $'000
Cash flows from operating activities			
Receipt from customers		122,440	60,635
Payments to suppliers and employees		(98,975)	(96,384)
Receipt from/(transfer to) restricted cash		106	(114)
Interest received		148	306
Interest and other costs of finance paid		(1,396)	(654)
Income taxes paid		(76)	(512)
Net cash inflow/(outflow) from operating activities	8	**22,247**	**(36,723)**
Cash flows from investing activities			
Payment for purchases of plant and equipment		(1,168)	(1,092)
Funds transferred to term deposit, net		(32,897)	(4,018)
Proceeds from sale of property, plant and equipment		225	2,443
Proceeds from disposal of short-term deposits		5,000	-
Acquisition of non-controlling interest in a subsidiary		-	(300)
Payments for construction of concession assets		(466)	(1,946)
Net cash outflow from investing activities		**(29,306)**	**(4,913)**
Cash flows from financing activities			
Proceeds from issues of ordinary shares		-	26,072
Proceeds from exercise of share options		-	20
Transactions costs related to issue of ordinary shares		-	(1,128)
Proceeds from borrowings		18,593	2,557
Finance lease payments		(1,633)	(1,849)
Net cash inflow from financing activities		**16,960**	**25,672**
Net increase/(decrease) in cash and cash equivalents		9,901	(15,964)
Cash and cash equivalents at the beginning of the financial year		21,908	38,741
Effects of exchange rate changes on cash and cash equivalents		(771)	(869)
Cash and cash equivalents at end of year	**8**	**31,038**	**21,908**

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 2020 was authorised for issue in accordance with a resolution of the Directors on the 31th of March 2021.

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 2020, the consolidated entity incurred an operating loss after tax of $19,859,000 (2019: $31,585,000) and had cash inflows from operating activities of $22,247,000 (2019: cash outflows of $36,723,000), and total net cash inflows of $9,901,000 (2019: cash outflows of $15,964,000). The Group had cash and cash equivalents of $31,038,000 and other financial assets of $15,474,000 at 31 December 2020 (2019: $21,908,000 and $5,416,000 respectively).

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.

1 Summary of significant accounting policies (continued)

(b) Basis of preparation (continued)

(i) Going concern (continued)

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

- Positive Group operating cash inflows for the 12 months ended 31 December 2021 and 15 months ended 31 March 2022; positive Group net cash flows for the 12 months ended 31 December 2021, and 15 months ended 31 March 2022 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$226 million for FY 2021 and further, which includes the Ivory Coast Project and other projects. Contracted revenues from the Ivory Coast Project are US$158 million for financial years 2021 and 2022.
- The group has in place a project financing and working capital loan facility with an affiliate of Upwell (the 'Upwell Facility'), which will be applied to finance completion of strong cash flow generation projects. The cash flow forecast allow for a drawdown on the Upwell Facility. The resulting net cash flows from major projects will provide further working capital to the consolidated entity.

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.

(ii) New and amended standards adopted by the group

All accounting standards adopted by the Group are consistent with the most recent Annual Report for the year ended 31 December 2019.

(c) Comparatives

The comparative figures have been adjusted to conform with the AASB 5: "Assets held for sale and discontinued operations" presentation requirements. Refer to Note 3 "Discontinued operations" for detailed information on the changes in comparatives presentation.

(i) Revision to Appendix 4E Preliminary Final Report for the year ended 31 December 2020

Total comprehensive income for the year attributable to owners of Fluence Corporation Limited from continuing operations and discontinued operations has been revised. As a result of this revision, for the year ending 31 December 2020, total comprehensive income for the year attributable to owners of Fluence Corporation Limited from continuing operations increased by $9,734,000 to ($4,207,000) and Total comprehensive income for the year attributable to owners of Fluence Corporation Limited from discontinued operations decreased by $9,734,000 to ($9,877,000). Total comprehensive income for the year attributable to non-controlling interests from continuing operations increased by $591,000 to ($158,000) and Total comprehensive income for the year attributable to non-controlling interests from discontinued operations decreased by $591,000 to ($2,685,000).

The Acquisitions of non-current assets in Note 2 "Segment Information" have been updated after Notes 15 "Property, plant and equipment" and 16 "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 30.

1 Summary of significant accounting policies (continued)

(d) Principles of consolidation (continued)

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.

(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 expects 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 17 provides further information on how the group accounts for government grants.

Government grants are recognised in profit or 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.

1 Summary of significant accounting policies (continued)

(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.

(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 5.

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.

1 Summary of significant accounting policies (continued)

(i) Employee benefits (continued)

(ii) Share-based payments (continued)

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.

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 Other Comprehensive Income (OCI) of those investees is presented as part of the Group’s OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

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

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

1 Summary of significant accounting policies (continued)

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

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

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 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.

(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 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.

1 Summary of significant accounting policies (continued)

(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.

(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 which is that entity’s functional currency.

(ii) Presentation Currency

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

1 Summary of significant accounting policies (continued)

(q) Foreign currency translation (continued)

(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 as at the reporting 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.

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.

1 Summary of significant accounting policies (continued)

(s) Goods and Services Tax (GST) (continued)

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.

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

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.

1 Summary of significant accounting policies (continued)

(u) Impairment (continued)

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.

(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.

1 Summary of significant accounting policies (continued)

(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 17 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").

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

(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.

1 Summary of significant accounting policies (continued)

(aa) Significant accounting estimates and assumptions (continued)

(v) Impairment

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 16 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 (PDVSA contract), for detailed engineering and the 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 advanced payments 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 a smaller scope of work, comprising the plant named "Portuguesa", at a project value of US$45 million.

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. This extends to any work Fluence's Argentinean subsidiary may otherwise have performed for PDVSA. Fluence is keeping the customer informed as permitted under the OFAC regulations, and to date no claims have been brought in response to the issue.

(ab) New and amended standards adopted by the group

No new standards were adopted neither needed to be adopted during 2020.

2 Segment information

Segment disclosure replicates the manner in which the 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. 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;

2 Segment information (continued)

- 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.

2020	Operating Units $'000	Product and Innovation $'000	Intersegment Elimination $'000	Total $'000
Segment revenue				
Operating revenue and other income	97,132	1,442	(1,208)	97,366
	97,132	**1,442**	**(1,208)**	**97,366**
Segment expense				
Segment depreciation and amortisation	(1,887)	(1,027)	-	(2,914)
Share of profits of associates	55	-	-	55
Write off of inventories	(32)	-	-	(32)
Segment expense	(90,480)	(1,554)	1,208	(90,826)
Loss after tax from discontinued operations	(12,419)	-	-	(12,419)
Unallocated expenses - corporate	-	-	-	(11,089)
	(104,763)	**(2,581)**	**1,208**	**(117,225)**
Segment results	**(7,631)**	**(1,139)**	**-**	**(19,859)**
Assets				
Investments in associates	415	-	-	415
Segment assets	137,105	6,264	(4,141)	139,228
Unallocated assets - corporate	-	-	-	15,119
	137,520	**6,264**	**(4,141)**	**154,762**
Liabilities				
Segment liabilities	(92,852)	(10,800)	4,141	(99,511)
Unallocated liabilities - corporate	-	-	-	(24,779)
	(92,852)	**(10,800)**	**4,141**	**(124,290)**
Acquisitions of non-current assets	1,595	191	-	1,786

2019	Operating Units $'000	Product and Innovation $'000	Intersegment Elimination $'000	Total $'000
Segment revenue				
Operating revenue and other income	59,651	1,920	(1,391)	60,180
	59,651	**1,920**	**(1,391)**	**60,180**

2 Segment information (continued)

2019	Operating Units $'000	Product and Innovation $'000	Intersegment Elimination $'000	Total $'000
Segment expense				
Segment depreciation and amortisation	(2,024)	(863)	-	(2,887)
Share of profits of associates	84	-	-	84
Write off of inventories	(1,299)	-	-	(1,299)
Segment expense	(62,478)	(7,730)	(6,783)	(76,991)
Unallocated expenses - corporate	-	-	-	(10,672)
	(65,717)	**(8,593)**	**(6,783)**	**(91,765)**
Segment result	**(6,066)**	**(6,673)**	**(8,174)**	**(31,585)**
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

Unallocated expenses

	Consolidated entity 31 December 2020 $'000	31 December 2019 $'000
Other corporate expenses	(11,089)	(10,672)

Unallocated assets

	Consolidated entity 31 December 2020 $'000	31 December 2019 $'000
Cash and cash equivalents	9,924	11,575
Other assets	5,195	10,252
	15,119	**21,827**

2 Segment information (continued)

Unallocated liabilities

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Trade and other payables	(1,089)	(882)
Borrowings	(20,446)	-
Other liabilities	(3,244)	(1,347)
	(24,779)	**(2,229)**

Intersegment transactions

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

3 Discontinued operations

(a) Description

In December 2020, following challenges with project execution, the Board decided it no longer wished to move forward with the San Quintin project. In the view of Fluence management, a mutual termination is the most likely potential outcome at this point in time.

According to the criteria listed in AASB 5: "Non-current assets held for sale and discontinued operations", the San Quintin project meets the definition of a discontinued operation.

In preparation for project closure, the impairment of assets associated with the project was recorded in the 2020 financial year and amounted to $11,903,000, including impairment of capitalised intangible concession asset in the amount of $4,012,000 (2019: nil). The loss after income tax from discontinued operations amounted to $12,419,000 (2019: nil).

(b) Financial performance and cash flow information

The financial performance and cash flow information presented are for the year ended 31 December 2020 and the year ended 31 December 2019.

3 Discontinued operations (continued)

(b) Financial performance and cash flow information (continued)

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Revenue	417	1,114
Cost of sales	(373)	(1,018)
Sales and marketing expenses	-	(8)
General and administrative expenses	(248)	(234)
Impairment expense (a)	(11,903)	-
Other gains/(losses) - net	(69)	36
Finance costs	(126)	(133)
Loss before income tax	**(12,302)**	**(243)**
Income tax (expense)/benefit	(117)	5
Loss after income tax from discontinued operations	**(12,419)**	**(238)**
Net cash inflow/(outflow) from operating activities	18	(330)
Net cash outflow from investing activities	(413)	(1,115)
Net cash inflow from financing activities	305	1,033
Effects of exchange rate changes on cash and cash equivalents	57	(78)
Net decrease in cash and cash equivalents from discontinuing operations	**(33)**	**(490)**

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
(a) Impairment expense		
Concession assets	(12,037)	-
Intangible assets	(4,012)	-
GST receivable	(475)	-
Reversal of accruals	4,621	-
	(11,903)	**-**

3 Discontinued operations (continued)

(c) Carrying amounts of assets and liabilities disposed

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Cash and cash equivalents	226	259
Trade receivables	4	485
Prepayments	59	82
Other current assets	8	5
Deferred tax assets	-	60
Property, plant and equipment	6	15
Intangible assets	-	4,122
Concession assets	-	12,368
Total assets	**303**	**17,396**

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Trade and other payables	193	10,587
Current tax liabilities	92	34
Other liabilities	262	4,621
Total liabilities	**547**	**15,242**

4 Operating revenue and expenses

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Operating revenue		
Contract revenue		
Smart product solutions	32,251	26,394
Customer engineering solutions	56,596	25,247
Service concession arrangements revenue	91	1,351
	88,938	**52,992**
Service revenue		
Revenues on services	3,598	4,946
Revenue on parts	3,035	1,910
Recurring revenue from concession assets	1,568	-
	8,201	**6,856**
	97,139	**59,848**

4 Operating revenue and expenses (continued)

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Research and development		
Salaries and other employee related expenses	2,020	2,266
Depreciation	929	465
Materials	299	1,246
Travel and entertainment	20	191
Professional fees	18	267
Other	30	223
	3,316	**4,658**

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Sales and marketing		
Salaries and other employee related expenses	4,195	6,352
Marketing activities	558	1,106
Travel and entertainment	436	1,008
Professional fees	418	701
Other	486	810
	6,093	**9,977**

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
General and administration		
Salaries and other employee related expenses	9,199	11,141
Professional fees	3,259	4,741
Depreciation	1,654	2,338
Director expense	1,388	1,870
Office expenses	1,290	1,677
Insurance	1,159	873
Travel and entertainment	360	1,364
Bank charges	329	339
Maintenance	156	101
Import and export expenses	-	219
Reversal of bad debt provision	(30)	(91)
Other	456	753
	19,220	**25,325**

4 Operating revenue and expenses (continued)

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Other gains/(loss) - net		
Foreign exchange gain/(loss)	(5,546)	1,604
Withholding taxes	(548)	(550)
Write down of inventory	(32)	(1,299)
Gain from investments accounted for using the equity method	55	84
Gain on disposal of property, plant and equipment	70	1,393
Increase/(reversal of) provisions	119	(334)
Other	(251)	394
	(6,133)	**1,292**

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Finance income/(costs) - net		
Interest income	222	324
Interest expense	(1,668)	(442)
Fund valuation gain	-	129
Project financing and other	(199)	(423)
	(1,645)	**(412)**

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Aggregate expenses		
Aggregate depreciation and amortisation expenses	3,108	3,089
Aggregate employee benefits expense	22,884	27,752

5 People costs

(a) Share-based payments

Employee Option Plan

A share option plan has been established by the consolidated entity and approved by shareholders at a general meeting, whereby the consolidated entity may, at the discretion of the Board of Directors, grant options over ordinary shares in the Group to employees, consultants and directors 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 the movement in options granted under the plan during the year ended 31 December 2020:

5 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			**76,432,872**	**(13,773,161)**	**37,723,937**	**(23,061,887)**	**39,597,824**
Options vested during the year					8,416,402		
11 February 2020	15 June 2023	0.53		-	-	(31,250)	(31,250)
11 February 2020	3 June 2022	0.46	-	-	-	(2,250)	(2,250)
11 February 2020	3 December 2021	0.46	-	-	-	(5,000)	(5,000)
26 February 2020	3 June 2021	0.44	20,000	-	-	-	20,000
26 February 2020	10 September 2021	0.44	100,000	-	-	-	100,000
26 February 2020	3 December 2021	0.44	2,000	-	-	-	2,000
26 February 2020	3 June 2022	0.44	106,000	-	-	-	106,000
26 February 2020	3 December 2022	0.44	88,000	-	-	-	88,000
26 February 2020	1 March 2023	0.44	12,000	-	-	-	12,000
26 February 2020	30 May 2023	0.44	144,000	-	-	-	144,000
26 February 2020	29 August 2023	0.44	200,000	-	-	-	200,000
26 February 2020	29 November 2023	0.44	88,000	-	-	-	88,000
26 February 2020	1 March 2024	0.44	1,562,000	-	-	-	1,562,000
05 March 2020	30 September 2021	0.39	-	-	-	(1,950)	(1,950)
05 March 2020	10 September 2021	0.81	-	-	-	(4,500)	(4,500)
05 March 2020	30 September 2021	0.39	-	-	-	(39,000)	(39,000)
05 March 2020	13 November 2021	0.86	-	-	-	(112,500)	(112,500)
12 March 2020	27 August 2022	0.46	-	-	-	(62,500)	(62,500)
12 March 2020	25 May 2022	0.48	-	-	-	(162,500)	(162,500)
14 April 2020	13 April 2020	0.35	-	-	-	(500,000)	(500,000)
30 April 2020	30 September 2021	0.39	-	-	-	(61,000)	(61,000)
30 April 2020	11 March 2022	0.58	-	-	-	(80,000)	(80,000)
30 April 2020	1 November 2020	0.74	-	-	-	(500,000)	(500,000)
30 April 2020	13 November 2021	0.86	-	-	-	(187,500)	(187,500)

5 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
30 April 2020	31 May 2020	0.93	-	-	-	(1,000,000)	(1,000,000)
30 April 2020	30 September 2021	0.39	-	-	-	(3,050)	(3,050)
30 April 2020	10 September 2021	0.81	-	-	-	(7,500)	(7,500)
04 May 2020	28 February 2020	0.30	-	-	-	(100,000)	(100,000)
04 May 2020	28 February 2020	0.40	-	-	-	(100,000)	(100,000)
18 May 2020	18 May 2020	0.40	-	-	-	(1,000,000)	(1,000,000)
18 May 2020	16 May 2020	0.59	-	-	-	(400,000)	(400,000)
28 May 2020	28 May 2020	0.59	-	-	-	(100,000)	(100,000)
30 June 2020	29 August 2023	0.44	-	-	-	(9,750)	(9,750)
30 June 2020	29 November 2023	0.44	-	-	-	(3,500)	(3,500)
30 June 2020	10 September 2021	0.81	-	-	-	(79,750)	(79,750)
30 June 2020	30 September 2021	0.39	-	-	-	(25,000)	(25,000)
30 June 2020	3 June 2022	0.46	-	-	-	(9,000)	(9,000)
30 June 2020	3 June 2022	0.44	-	-	-	(9,000)	(9,000)
07 July 2020	29 November 2023	0.44	-	-	-	(500)	(500)
20 July 2020	29 August 2023	0.44	-	-	-	(2,250)	(2,250)
20 July 2020	10 September 2021	0.81	-	-	-	(8,250)	(8,250)
28 July 2020	25 July 2020	0.79	-	-	-	(250,000)	(250,000)
28 July 2020	3 June 2022	0.46	-	-	-	(3,000)	(3,000)
28 July 2020	3 June 2022	0.44	-	-	-	(3,000)	(3,000)
25 August 2020	25 August 2020	0.87	-	-	-	(225,000)	(225,000)
24 September 2020	30 May 2024	0.23	44,000	-	-	-	44,000
24 September 2020	29 August 2024	0.23	56,000	-	-	-	56,000
28 September 2020	9 November 2020	1.00	-	-	-	(200,000)	(200,000)
01 October 2020	10 September 2021	0.81	-	-	-	(32,000)	(32,000)
01 October 2020	30 May 2023	0.44	-	-	-	(12,000)	(12,000)
01 October 2020	29 November 2023	0.44	-	-	-	(9,750)	(9,750)
27 October 2020	27 October 2020	0.44	-	-	-	(150,000)	(150,000)

5 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
30 October 2020	29 November 2023	0.44	-	-	-	(2,250)	(2,250)
09 November 2020	26 September 2020	1.00	-	-	-	(200,000)	(200,000)
30 November 2020	29 August 2024	0.26	172,000	-	-	-	172,000
09 December 2020	14 July 2025	0.39	-	-	-	(1,890,000)	(1,890,000)
Closing balance			**79,026,872**	**(13,773,161)**	**46,140,339**	**(30,646,387)**	**34,607,324**

5 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, $
26 February 2020	03 June 2021	0.30	0.44	Nil	0.731	0,0355
26 February 2020	10 September 2021	0.30	0.44	Nil	0.700	0.0413
26 February 2020	03 December 2021	0.30	0.44	Nil	0.673	0.0457
26 February 2020	03 June 2022	0.30	0.44	Nil	0.635	0.0539
26 February 2020	03 December 2022	0.30	0.44	Nil	0.613	0.0611
26 February 2020	01 March 2023	0.30	0.44	Nil	0.603	0.0643
26 February 2020	30 May 2023	0.30	0.44	Nil	0.607	0.0674
26 February 2020	29 August 2023	0.30	0.44	Nil	0.611	0.0705
26 February 2020	29 November 2023	0.30	0.44	Nil	0.614	0.0735
26 February 2020	01 March 2024	0.30	0.44	Nil	0.618	0.0765
24 September 2020	30 May 2024	0.21	0.23	Nil	0.209	0.0601
24 September 2020	29 August 2024	0.21	0.23	Nil	0.225	0.0620
30 November 2020	29 August 2024	0.33	0.26	Nil	0.182	0.1069

The weighted average remaining contractual life of options outstanding at year-end was 2.11 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 $0.1124. 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: 69%

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 2020 $'000	31 December 2019 $'000
Consultant share based payments	49	146
Employee share based payments	(646)	349
Director share based payments	918	1,210
	321	**1,705**

5 People costs (continued)

(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:

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Short-term employee benefits	3,679,915	2,905,179
Share based payments	1,033,316	1,327,156
	4,713,231	**4,232,335**

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 2020 and 31 December 2019.

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

6 Income tax

(a) Income tax expense

The components of tax expense comprise:

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Current tax		
Current tax	(124)	(3,146)
Adjustments for current tax of prior periods	35	-
IFRIC 23 liability	45	-
Adjustments for current tax of prior periods		
Increase/(decrease) in deferred tax assets	(248)	(350)
(Increase)/decrease in deferred tax liabilities	1,113	1,509
	821	**(1,987)**
Income tax expense is attributable to:		
Loss from continuing operations	938	(1,992)
Loss from discontinued operations	(117)	5
Aggregate income tax expense	**821**	**(1,987)**

6 Income tax (continued)

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

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Loss from continuing operations before income tax	(8,378)	(29,355)
Loss from discontinued operations before income tax	(12,302)	(238)
	(20,680)	**(29,593)**
Prima facie tax on profit from ordinary activities	(6,204)	(8,879)
Tax losses carried forward	6,204	8,879
Tax expense - Fluence Italy S.R.L.	172	(79)
Tax expense - Fluence Israel Ltd	(291)	(162)
Tax expense - Fluence Argentina	1,065	(1,760)
Tax expense - other	(125)	14
Income tax expense	**821**	**(1,987)**

(c) Deferred tax balances

(i) Deferred tax assets

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
The balance comprises temporary differences attributable to:		
Tax losses	406	232
Unrealised foreign exchange gain/loss	3	-
Accrued WIP	-	199
Accrued licence fee	100	-
Other accruals	-	155
Doubtful debts provision	-	74
Annual leave provision	12	54
Other	89	144
	610	**858**

6 Income tax (continued)

(c) Deferred tax balances (continued)

(ii) Deferred tax liabilities

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
The balance comprises temporary differences attributable to:		
WIP	581	1,018
Fixed assets	22	87
Other	325	936
	928	**2,041**

(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 2020 was $44,596,000 (2019: $38,447,000).

7 Loss per share

(a) Loss per share from continuing operations

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Loss per share from continuing operations		
Loss after income tax	(7,440)	(31,347)
Non-controlling interest	158	82
Loss after income tax from continuing operations attributable to the ordinary equity holders of the Group	**(7,282)**	**(31,265)**

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Basic loss per share	(0.01)	(0.06)
Diluted loss per share	(0.01)	(0.06)

7 Loss per share (continued)

(b) Loss per share from discontinued operations

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Loss per share from discontinued operations		
Loss after income tax	(12,419)	(238)
Non-controlling interest	2,685	69
Loss after income tax from discontinued operations attributable to the ordinary equity holders of the Group	**(9,734)**	**(169)**

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Basic loss per share	(0.02)	0.00
Diluted loss per share	(0.02)	0.00

(c) Loss per share

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Loss per share		
Loss after income tax	(19,859)	(31,585)
Non-controlling interest	2,843	151
Loss after income tax attributable to the ordinary equity holders of the Group	**(17,016)**	**(31,434)**

	Consolidated entity	
	31 December 2020 $	31 December 2019 $
Basic loss per share	(0.03)	(0.06)
Diluted loss per share	(0.03)	(0.06)

(d) Weighted average number of shares

	Consolidated entity	
	2020 Number	2019 Number
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings/(loss) per share	624,854,034	553,262,961

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

(a) Cash and cash equivalents

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Cash and cash equivalents	31,038	21,908
	31,038	**21,908**

(b) Other financial assets

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Restricted cash	109	416
Short term deposits	15,365	5,000
	15,474	**5,416**

Short term deposits are collections from the Ivory Coast projects deposited for a period of less than twelve months.

(c) Cash flow information

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Loss after income tax	(19,859)	(31,585)
Adjustment for:		
Depreciation and amortisation expenses	3,108	2,901
Share based payments expense	321	1,705
Impairment loss	11,903	-
Decrease in bad debt provision	(30)	(91)
Warranty provision	150	241
Inventory reserve	32	1,299
Gain on disposal of property, plant and equipment	(70)	(1,393)
Share of profits of associates and joint ventures	(55)	(84)
Provision for losses	309	334
Increase/(decrease) in employee benefits provision	195	(370)
Increase/(decrease) in restructuring provision	(428)	1,741
Finance costs - net	522	197
Foreign exchange differences	5,546	(1,634)
Decrease in restricted cash	318	1,040
(Increase)/decrease in trade and other receivables	(2,213)	4,971
(Increase)/decrease in inventory	(1,139)	5,081
Increase in prepaid expenses	(1,865)	(3,069)

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

(c) Cash flow information (continued)

	Consolidated entity 31 December 2020 $'000	Consolidated entity 31 December 2019 $'000
(Increase)/decrease in net tax asset	(771)	2,257
Increase in other current and non-current assets	(327)	(1,423)
Decrease in trade and other payables	(776)	(16,022)
Increase/(decrease) in deferred revenues	27,376	(2,819)
Cash generated from/(used in) operations	**22,247**	**(36,723)**

9 Trade and other receivables

	Consolidated entity 31 December 2020 $'000	Consolidated entity 31 December 2019 $'000
Current receivables - Trade receivables		
Contract receivables	23,013	22,936
Contract unbilled receivables	15,478	15,689
Provision for impairment - contract receivables	(2,079)	(2,874)
	36,412	**35,751**
Current receivables - Other receivables		
GST and other taxes receivable	1,207	2,924
Income tax receivable	816	997
Other receivables	51	105
	2,074	**4,026**
Total current trade and other receivables	**38,486**	**39,777**
Non-current receivables		
Long-term receivables	1,300	1,190
Provision for impairment - long-term receivables	(1,300)	(1,190)
Total non-current receivables	**-**	**-**

	Notes	Consolidated entity 31 December 2020 $'000	Consolidated entity 31 December 2019 $'000
Additional information on contract debtors			
Total contract debtors		36,412	35,751
Total contract liabilities	17	(17,779)	(22,116)
		18,633	**13,635**

9 Trade and other receivables (continued)

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.

10 Inventories

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Raw materials - at cost	7,477	8,537
Work in progress - at cost	1,937	1,318
Finished goods - at lower of cost or net realisable value	3,396	2,755
	12,810	**12,610**

11 Concession asset

The Group has three (3) concession service arrangements on hand as of 31 December 2020:

- 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 October 2019. Under the terms of the agreement, the Group will operate the desalination plant and provide water to the grantor for a period of 15 years. The Group will be responsible for any maintenance services required during the concession period. The Group does not expect major repairs to be necessary during the concession period. The grantor provides 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 2020, the Group has recognised revenue of $1.5 million on the desalination plant.
- In January 2016 the Group entered into a service concession arrangement in Mexico to build and operate a desalination plant. In December 2020, following challenges with project execution, the Board decided it no longer wishes to move forward with this project. A mutual termination is the most likely potential outcome. An impairment of assets associated with this project was recorded in 2020 and amounted to $11.9 million. For more information refer to Note 3.
- 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 October 2021. 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 2020, the Group has recognised revenue of $0.1 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 and were recognised as a concession asset.

11 Concession asset (continued)

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Concession assets		
Current concession asset	353	512
Non-current concession asset	8,750	20,961
	9,103	**21,473**

12 Long-term deposits

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Long-Term Deposits		
Collections from customers deposited for a period of more than twelve months	23,368	4,023
	23,368	**4,023**

Long term deposits are collections from the Ivory Coast projects deposited for a period of more than twelve months.

13 Other assets

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Current assets		
Government benefits	422	345
Other	183	12
	605	**357**

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Non-current assets		
Prepaid contract costs	215	157
	215	**157**

14 Investments accounted for using the equity method

					Carrying Amount	
					31 December 2020 $'000	31 December 2019 $'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	415	434

As of 31 December 2020, the Group holds 50% interest in E.T.G.R Water Infrastructure Management partnership. This investment contributed a gain of $55,000 to Fluence Corporation Limited (2019: $84,000), which is included in 'Other gains/(losses)' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

15 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 2020								
Cost or fair value	120	3,496	5,484	1,492	3,087	874	10,668	25,221
Accumulated 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**
Year ended 31 December 2020								
Opening net book amount	120	2,612	2,617	356	859	301	7,297	14,162
Additions	-	227	224	56	571	90	514	1,682
Assets included in a disposal group classified as held for sale and other disposals	-	(75)	-	(24)	-	(56)	-	(155)
Depreciation charge	-	(147)	(772)	(142)	(207)	(97)	(1,601)	(2,966)
Exchange differences	-	101	(72)	156	(110)	-	183	258
Closing net book amount	**120**	**2,718**	**1,997**	**402**	**1,113**	**238**	**6,393**	**12,981**
At 31 December 2020								
Cost	120	3,723	5,693	1,395	3,812	883	10,958	26,584
Accumulation depreciation	-	(1,005)	(3,696)	(993)	(2,699)	(645)	(4,565)	(13,603)
Net book amount	**120**	**2,718**	**1,997**	**402**	**1,113**	**238**	**6,393**	**12,981**

15 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 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
Assets included in a disposal group classified as held for sale and other 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 or fair value	120	3,496	5,484	1,492	3,087	874	10,668	25,221
Accumulated 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**

16 Intangible assets

Consolidated entity	Note	Capitalised development costs $'000	Capitalised concession asset $'000	Total $'000
Year ended 31 December 2020				
Opening net book amount		1,876	4,122	5,998
Additions		-	104	104
Impairment loss	3	-	(4,012)	(4,012)
Amortisation charge		(171)	-	(171)
Currency translation differences		129	(214)	(85)
Closing net book amount		**1,834**	**-**	**1,834**
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**

17 Trade and other payables and other liabilities

	Consolidated entity 31 December 2020 $'000	Consolidated entity 31 December 2019 $'000
Current		
Trade payables	12,750	12,357
Accrued payroll liabilities	3,072	2,594
Accrued project expenses	17,779	22,116
Government grants	1,168	1,384
Lease liability	1,409	1,201
Other accruals	4,682	4,174
	40,860	**43,826**
Non-current		
Government grants	2,518	3,178
Lease liability	5,335	6,329
Other liabilities	294	305
	8,147	**9,812**

17 Trade and other payables and other liabilities (continued)

(i) **Government Grant Liability**

The Group participates in programs sponsored by the Israel Innovation Authority ("IIA") (formerly the Office of the Chief Scientist ("OCS")), for the support of research and development projects. In exchange for the IIA's participation in the programs, the Group is required to pay royalties to the IIA at a rate between 3% and 4.5% of sales to end customers of products developed with funds provided by the IIA, if and when such sales are recognised. As of 31 December 2020 and 31 December 2019, the Group recognised a liability to the IIA in the amount of $3,505,000 and $4,359,000 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 18.2%.

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 2020 and 2019, the Group recognised a liability to the MNI in the amount of $180,000 and $203,000 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 18.2%.

18 Borrowings

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Borrowings		
Current borrowings and interest payable	1,878	877
Non-current borrowings	19,825	2,030
	21,703	**2,907**

On 29 July 2020, the Company entered into a loan agreement with an affiliate of Upwell LLC to provide an initial US$20 million finance facility. The facility can be increased up to US$50 million at the Company's request and at Upwell's discretion. The facility is available to fund the Build, Own, Operate and Transfer ("BOOT") projects and the Company's working capital.

19 Provisions

	Consolidated entity 31 December 2020 $'000	Consolidated entity 31 December 2019 $'000
Current		
Employee benefits	1,485	1,316
Warranty provision	1,822	1,540
Provision for onerous contracts	334	334
Restructuring provision	1,672	2,100
Other provisions	1,281	974
	6,594	**6,264**
Non-current		
Employee benefits	711	632
	711	**632**

Consolidated entity	**Employee benefits $'000**	**Warranty $'000**	**Onerous contracts $'000**	**Restructuring provision $'000**	**Other $'000**	**Total $'000**
Current						
At 1 January 2020	1,316	1,540	334	2,100	974	6,264
Additions	858	889	-	-	510	2,257
Reversal	-	-	-	(428)	-	(428)
Utilised	(702)	(739)	-	-	(201)	(1,642)
Currency translation differences	13	132	-	-	(2)	143
Total	**1,485**	**1,822**	**334**	**1,672**	**1,281**	**6,594**
Non-current						
At 1 January 2020	632	-	-	-	-	632
Additions	146	-	-	-	-	146
Reversal	(11)	-	-	-	-	(11)
Utilised	(96)	-	-	-	-	(96)
Currency translation differences	40	-	-	-	-	40
	711	**-**	**-**	**-**	**-**	**711**

20 Deferred revenue

	Consolidated entity 31 December 2020 $'000	Consolidated entity 31 December 2019 $'000
Current deferred revenue	32,045	21,596
Non-current deferred revenue	13,127	-
	45,172	**21,596**

20 Deferred revenue (continued)

Current deferred revenue represents remaining pre-payments made primarily by PDVSA upon entering into a multi-year contract with the Group in 2015 and payments obtained from the Ivory Coast project that will be released according to the payment schedule in the next 12 months. For more information regarding the PDVSA project refer to note 1(aa)(vii)

Non-current deferred revenue represents payments obtained from the Ivory Coast project and will be released according to the payment schedule in greater than 12 months.

21 Contributed equity

	31 December 2020 No.	31 December 2019 No.	31 December 2020 $'000	31 December 2019 $'000
Ordinary shares	624,854,034	624,854,034	204,056	204,056
Options	33,208,407	39,597,824	8,105	7,784
Share capital	**658,062,441**	**664,451,858**	**212,161**	**211,840**

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

	Number of shares	**$'000**
Opening balance 1 January 2020	624,854,034	204,056
Balance 31 December 2020	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.

21 Contributed equity (continued)

(b) Options

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

2020	**Number of options**
Opening balance	39,597,824
Unlisted options issued to employees	2,594,000
Cancelled, lapsed and forfeited options	(7,584,500)
Balance at 31 December 2020	34,607,324

(c) Summary of all unlisted options in existence

Date options granted	Expiry date	Issue price of shares (AU$)	Number under option
18 May 2016	18 May 2021	$0.40	1,000,000
09 February 2017	10 January 2021	$0.84	25,000
09 February 2017	09 February 2021	$1.00	350,000
28 March 2017	04 March 2021	$0.82	1,000,000
05 May 2017	03 May 2021	$0.86	150,000
31 May 2017	25 May 2025	$0.93	10,391,855
01 July 2017	06 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	10 September 2021	$0.81	2,500,000
14 July 2017	25 May 2025	$0.84	350,000
14 September 2017	13 November 2021	$0.86	840,000
26 March 2018	25 May 2022	$0.48	1,171,875
28 June 2018	27 August 2022	$0.46	433,594
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	913,000
10 April 2019	03 June 2021	$0.46	20,000
10 April 2019	03 December 2021	$0.46	2,000
10 April 2019	03 June 2022	$0.46	86,000
10 April 2019	03 December 2022	$0.46	62,000
30 May 2019	30 May 2023	$0.60	250,000
30 May 2019	30 May 2023	$0.80	250,000
30 May 2019	14 July 2025	$0.39	1,470,000
26 February 2020	03 June 2021	$0.44	20,000
26 February 2020	10 September 2021	$0.44	100,000
26 February 2020	03 June 2022	$0.44	92,000
26 February 2020	03 December 2022	$0.44	92,000
26 February 2020	01 March 2023	$0.44	12,000
26 February 2020	30 May 2023	$0.44	132,000
26 February 2020	29 August 2023	$0.44	188,000

21 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
26 February 2020	29 November 2023	$0.44	72,000
26 February 2020	01 March 2024	$0.44	1,562,000
24 September 2020	29 August 2024	$0.23	56,000
24 September 2020	30 May 2024	$0.23	44,000
30 November 2020	29 August 2024	$0.26	172,000
			34,607,324

22 Non-controlling interests

	Consolidated entity 31 December 2020 $'000
Opening Balance at 1 January 2020	1,063
Contributed equity	-
Loss for the year attributable to non-controlling interests	(2,843)
Closing Balance at 31 December 2020	**(1,780)**

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

The group has five subsidiaries with non-controlling interests.

(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. For more details please refer to Note 3.

(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. For more details please refer to Note 3.

(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. In October 2020 because of minority buyout the Group share increased by 6.8% and reached 76.8%.

(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.

(v) In May 2020 2020 the Group formed a new entity, Bimini Water Services Ltd which is held 60% by the Group to supply water to the customers in Bimini, Bahamas for 15 years.

22 Non-controlling interests (continued)

23 Foreign currency translation reserve

	Consolidated entity	
	31 December 2020 $'000	31 December 2019 $'000
Foreign currency translation reserve	(11,938)	(14,870)

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.

24 Financial risk management

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

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

(a) Market risk

(i) Foreign exchange risk

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

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

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

Consolidated entity **31 December 2020**

	ILS $'000	EUR $'000	AUD $'000	ARS $'000	CNY $'000	BRL $'000	MXN $'000	AED $'000	EGP $'000
Assets	1,394	48,803	347	7,059	14,743	3,478	-	82	7,972
Liabilities	(2,386)	(7,943)	(84)	(2,213)	(5,326)	(2,011)	-	-	-
	(992)	**40,860**	**263**	**4,846**	**9,417**	**1,467**	**-**	**82**	**7,972**

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 2020 and 31 December 2019.

24 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

	2020
	+10%/-10%
	$'000
Israeli New Shekel (ISL)	99/(99)
Euro (EUR)	4,086/(4,086)
Australian Dollar (AUD)	8/(8)
Argentina Peso (ARS)	485/(485)
Chinese Yuan (CNY)	942/(942)
Brazilian Real (BRL)	147/(147)
United Arab Emirates Dirham (AED)	26/(26)
Egyptian Pound (EGP)	797/(797)

(ii) Interest rate risk

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

	Consolidated entity	
	31 December 2020	31 December 2019
	$'000	$'000
Instruments with cash flow risk		
Cash and cash equivalents	31,038	21,908

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 2018, December 2019 and December 2020. The average change of rate was (-)0.76%.

	2020	**2019**
	+1%/-1%	**+1%/-1%**
	$'000	**$'000**
Cash and cash equivalents	310/(310)	219/(219)

(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 Statement of Financial Position 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.

24 Financial risk management (continued)

(b) Credit risk (continued)

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 2020	$'000	$'000	$'000
Trade receivables	18,884	2,058	20,942
Other receivables	51	-	51
	18,935	**2,058**	**20,993**

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**

Impairment of financial assets

In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model. 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.

24 Financial risk management (continued)

(b) Credit risk (continued)

Impairment of financial assets (continued)

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 minimised 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 minimised by developing a credit score for each counterparty by using historical information such as financial statements or use external rating agencies and developing a standard process to handling overdue accounts.

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

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

24 Financial risk management (continued)

(b) Credit risk (continued)

Impairment of financial assets (continued)

- 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.

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 2020	$'000	$'000	$'000
Trade and other payables and other liabilities	26,245	16,018	42,263
Borrowings	303	21,400	21,703
Lease liabilities	704	6,040	6,744
	27,252	**43,458**	**70,710**
At 31 December 2019			
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**

24 Financial risk management (continued)

(c) Liquidity risk (continued)

Maturity profile (continued)

Non-recourse debt facility

On 29 July 2020, The Company entered into a loan agreement with an affiliate of Upwell LLC to provide an initial US$20 million finance facility. The facility can be increased up to $50 million at the Company`s request and at Upwell`s discretion. The facility is available to fund the Build, Own, Operate and Transfer ("BOOT") projects and the Company`s working capital.

(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 Upwell, the Company is required to comply with a minimum debt service ratio, minimum unrestricted cash and cash equivalents and collection requirements for Ivory Coast Project Receivable. The debt service ratio and minimum unrestricted cash and cash equivalents are determined on a consolidated basis.

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

25 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).

2020	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Recurring fair value measurements				
Financial liabilities				
Government grant liability	-	-	3,686	3,686
	-	-	**3,686**	**3,686**

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**

25 Recognised fair value measurements (continued)

Fair value hierarchy (continued)

Disclosed fair values

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

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

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

The fair value of the government grant liability is determined by the expected time period that the grant liability is to be repaid from the royalty stream from future revenue discounted over time at a rate of 18.2% (2019: 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 2019	**4,834**
Adjustment to fair value of liability	(292)
Currency translation differences	20
Closing Balance at 31 December 2019	**4,562**
Adjustment to fair value of liability	(1,164)
Currency translation differences	288
Closing Balance at 31 December 2020	**3,686**

26 Remuneration of auditors

	Consolidated entity	
	2020 $	2019 $
Audit and other assurance services		
Audit and review of financial statements - BDO Audit Pty Ltd	249,000	222,000
Audit and review of financial statements - BDO related practices	252,000	248,360
	501,000	**470,360**
Other services		
BDO - Non-assurance services (i)	35,600	44,000
	35,600	**44,000**

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

27 Commitments and Contingent Liabilities

(a) Commitments

(i) As at 31 December 2020 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 $1,029 thousand (2019: $1,519 thousand).

(ii) The Group has a government grant liability of $3,686 thousand (2019: $4,562 thousand). For more details refer to Note 17 - Trade and other payables and other liabilities.

27 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.

28 Related party transactions

Parent entity

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

Subsidiaries

Interests in subsidiaries are set out in Note 30.

Key management personnel

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

Loans to/from related parties

Fluence Israel Limited has a balance payable to its non-controlling interests, Libra Ingenieros Civiles SA de CV and RJ Ingenieria of $60,000 and $144,000 on which the interest payable was accrued at $18,000 and $40,000 for the year 2020.

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 2020 and 2019.

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. The lease expires in December 2024. The lease is automatically renewed for another six years unless either party gives written notice. Rent expense on this lease was approximately $48,000 for the year 2017 post acquisition. The balance future commitment is approximately $128,000 for the year 2021.

Fluence USA Inc. purchases goods from Waste Water Depot, LLC, a limited liability company in which an employee of Fluence USA is the member. There was no activity in 2020 other than charges for website address.

29 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 2020 $'000 AUD	31 December 2019 $'000 AUD
Current assets	471	3,978
Total assets	**41,280**	**72,865**
Current liabilities	517	468
Total liabilities	**1,806**	**492**
Issued capital	254,749	253,916
Reserves	(6,663)	13,788
Accumulated losses	(208,612)	(195,331)
Total Equity	**39,474**	**72,373**
Loss for the period	(13,281)	(38,652)
Total comprehensive loss	**(13,281)**	**(38,652)**

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 2020 Fluence Corporation Limited had no contractual commitment and contingent liabilities.

30 Subsidiaries

Name	**Place of incorporation**	**Ownership interest 2020**	**Ownership interest 2019**
Parent Entity			
Fluence Corporation Limited	Australia	N/A	N/A
Subsidiaries of Fluence Corporation Limited			
Fluence Water Products and Innovation Limited	Israel	100%	100%
Fluence Hong Kong Limited	Hong Kong	100%	100%
Subsidiaries of Fluence Hong Kong Limited			
Fluence Water Technologies (Jiangsu) Limited	China	100%	100%
Fluence China Limited (Liaoning)	China	100%	100%
Fluence (Hunan) Water Technologies Limited	China	100%	100%
Subsidiaries of Fluence Corporation Limited			
Fluence Corporation LLC	USA	100%	100%
Subsidiaries of Fluence Corporation LLC			

30 Subsidiaries (continued)

Name	Place of incorporation	Ownership interest 2020	Ownership interest 2019
Aeromix Systems, Incorporated	USA	100%	100%
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%
FLC Water Mexico S de RL 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	77%	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			
FLC Boot Finance LLC	USA	100%	100%
Subsidiaries of Fluence Boot Finance LLC			
FLC Generate GCM SA de CV	Mexico	100%	100%
GCM Peru Ltda	Peru	100%	100%
Bimini Water Services Ltd.	Bahamas	60%	N/A
FLC Water Bahamas Limited	Bahamas	100%	100%

31 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

In the Directors' opinion:

(a) the Financial Statements and notes set out on pages 42 to 96 are in accordance with the *Corporations Act 2001*, including:

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

  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2020 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.

Richard Irving
Chairman and Chief Executive Officer
31 March 2021
New York

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INDEPENDENT AUDITOR'S REPORT

To the members of Fluence Corporation Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Fluence Corporation Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, 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 2020 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.

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.

Recognition of revenue - AASB 15 Revenue from Contracts with Customers and AASB 1059 Service Concession Arrangements

Key audit matter	*How the matter was addressed in our audit*
The Group is a project driven business and enters into contracts in different geographies. Under AASB 15 *Revenue from Contracts with Customers* revenues are recognised over time, or at a point in time, as performance obligations are fulfilled. AASB 1059 *Service Concession Arrangements* is also applicable to the Group's B.O.T ('Build, Operate, Transfer') contracts. Contract revenue is recorded after assessing all factors relevant to each individual contract including: • For revenue recognised over time: The 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. 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 is 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).*	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 likelihood of risk events – Material new contracts – High value contracts which may also include more than one performance obligation • For the samples selected, as appropriate, the following procedures were performed: – Obtaining an understanding of the contract terms and conditions to evaluate whether they reflected Management's position including estimate of forecast revenue and costs – Reviewing the determination and allocation of each performance obligation and associated margin – Vouching 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 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.

San Quintin Project – Audit of the impairment and classification as a discontinued operation

Key audit matter	*How the matter was addressed in our audit*
In January 2016 the Group entered into a service concession arrangement in Mexico to build and operate a desalination plant for a period of 30 years. In November 2020 the Group decided it would no longer proceed with the San Quintin project. Following an assessment by the Group at 31 December 2020: • The deemed unrecoverable contract assets were impaired • The project was accounted for as a discontinued operation. The San Quintin contract was considered a Key Audit Matter due to the judgement required, and material nature, of the impairment recognised. The project has been disclosed as a discontinued operation at 31 December 2020. *The accounting policy and details for the discontinued operation are disclosed in Note 3 of the accompanying financial report.*	Our audit procedures included, but were not limited to: • Reviewing legal correspondence between the Group's Management and the customer as well as Board minutes • Evaluating management's position paper and the indicators of impairment in relation to the project • Reviewing the judgements and assumptions made by Management to apply the requirements of AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* • Assessing, on a sample basis, the amounts impaired as a result of the project termination • Reviewing the accounting for the discontinued operation within the group consolidation • Assessing the relevance and adequacy of disclosures within the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2020, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

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

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

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 37 of the directors' report for the year ended 31 December 2020.

In our opinion, the Remuneration Report of Fluence Corporation Limited, for the year ended 31 December 2020, 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 Audit Pty Ltd

BDO
Tim Fairclough

Tim Fairclough
Director

Melbourne, 31 March 2021