Fluence Corporation Limited

ABN 52 127 734 196

Audited financial report
for the year ended 31 December 2021

Fluence Corporation Limited ABN 52 127 734 196
Annual Report - 31 December 2021

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Fluence Corporation Limited
Corporate Directory

Directors	Mr Richard Irving *Chairman and Chief Executive Officer (CEO)* Mr Paul Donnelly *Lead Independent Director, Non-Executive Director* Mr Ross Haghighat *Non-Executive Director* Dr Rengarajan Ramesh *Non-Executive Director* Ms Samantha Tough (appointed 1 June 2021) *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 2021 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 (CEO)
Mr Paul Donnelly, Lead Independent Director, Non-Executive Director
Mr Ross Haghighat, Non-Executive Director
Dr Rengarajan Ramesh, Non-Executive Director
Ms Samantha Tough, Non-Executive Director (appointed 1 June 2021)

Review of operations

In 2021 we continued to execute the plan of transforming the organisation towards sales of smart products and building recurring revenue. During the year, despite the negative impact of the COVID-19 restrictions, Fluence continued to grow Smart Product Solution (SPS) revenue in multiple geographies; in particular MABR wastewater treatment solutions in China, NIROBOX™ desalination solution in the Middle East, and sales of both product lines in North America and South East Asia.

We continued to focus on profitable growth in our 4 key market segments:
• MABR wastewater solutions in China and Southeast Asia;
• NIROBOX™ desalination solutions in the Middle East and Southeast Asia;
• Recurring revenue opportunities in North America and the Caribbean, targeting the sale of water as a service to commercial customers; and
• The Ivory Coast Water Treatment Project

We have continued to secure profitable orders in other geographies and explore partnerships to grow sales and share business costs.

The Ivory Coast project provides a valuable reference for complex water treatment and will continue to be an important source of revenue, profit and cash flow through completion (expected mid-2023). However, the project's lower gross margin will impact the overall reported gross margin through 2023. While the Ivory Coast project is executed we continue to transition Fluence to an SPS based business that generates a higher margin.

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 a strategic target. Operating expenses are expected to fall further when selling SPS as these are standardised products, reducing engineering costs and therefore significantly lowering the cost of sales as a percentage of revenue, resulting in overall higher profitability for Fluence.

Review of operations (continued)

FY 2021 in Summary

During FY 2021 Fluence achieved positive underlying EBITDA. The Company continued to execute on the Ivory Coast water treatment project, while recording strong revenue growth in SPS, in particular MABR, and sales growth outside China. Strong SPS backlog entering 2022 underpins the Company's confidence for FY 2022. Key achievements include:

• Revenue from Continuing Operations of $103.2 million in FY 2021, up 15% from $89.8 million in FY 2020[1].
• Guidance met for Smart Product Solution Revenue and Positive Underlying EBITDA[2] - SPS revenues for FY 2021 from continuing and discontinued operations were $39.6 million versus guidance of $35-50 million. Underlying EBITDA positive $1.0 million in FY 2021[3].
• SPS revenue from Continuing Operations of $36.9 million, up 22% on FY 2020, despite COVID-19 headwinds significantly impacting the timing of sales in China.
• SPS backlog entering FY 2022 is 52% higher than that entering FY 2021.
• MABR Sold Capacity Increased 56% - 313 plants sold to date (up from 245) with a total treatment capacity to treat wastewater for almost 1 million people (up from 600,000).
• Ongoing partner engagement in China and Southeast Asia with continued partner development in the Middle East.
• MABR sold capacity excluding China exceeded sales within China - sales in Cambodia, the Caribbean, US, and United Arab Emirates enabled sales outside of China in FY 2021 to outpace sales within China for the first time.
• Expanded NIROBOX™ Sales - 8 units (6 plants) sold in FY 2021, including 5 plants at Caribbean resorts and the first multi-unit NIROBOX™ order in Taiwan.
• Increased debt facility with Upwell Water by $10 million to $30 million to further support growth in MABR and other smart product solutions.
• Cash balance of $41.4 million as at 31 December 2021, up $10.4 million from $31.0 million as at 31 December 2020. In addition, short-term and long-term liquid investments amounted to $25 million.
• Cost Out Improvement - Continued operating efficiency gains with full year operating expenses down 8% in FY 2021 versus FY 2020.

	31 December 2021 $'000
Loss for the year	**(15,083)**
Add:	
Depreciation and amortisation	2,495
Share-based compensation	446
Other losses from continuing operations	3,669
Finance costs - net from continuing operations	2,690
Income tax from continuing operations	195
Loss from discontinued operations	5,926
Add:return of one-time items	
Restructuring related costs	568
Non-Operating legal costs	136
EBITDA	**1,042**

[1] Continuing operations exclude Italy classified as business held for sale.
[2] Underlying EBITDA excludes any significant one-off items
[3] Discontinued operations Include Italy classified as business held for sale

Review of operations (continued)

1 Detailed review of key market segments

(i) Smart Products Solutions - MABR and NIROBOX

China

China region generated a 21% growth in new orders on the prior year, underpinned by five volume partnerships in place, despite the FY 2021 challenges driven by the impact of COVID-19 and various lockdowns leading to a slowing of orders over the year.

These included volume orders for Aspiral systems from China Three Gorges Group for the Great Protection of Yangtze River ("Three Gorges"), new provincial partner Yangzhou Yijiang and the Company's existing three volume partners Hunan Kaitian, Hubei ITEST, and Liaoning Huahong. Current partnerships and prospective new partners are key to the future growth of Fluence and discussions, including potential new volume partnerships, continue.

The Company signed a Joint Development Agreement with Beijing Enterprises Water Group (China) Investment Limited (“BEWG”) to focus on optimizing Aspiral MABR plants with the intent to jointly sell these globally. BEWG manages 1,115 wastewater treatment plants.

Fluence received the Breakthrough Technology Award for its MABR technology and the Award For Operating Stability for its SUBRE plant in Panjin, Liaoning province at the most recent China Rural Wastewater Union Annual Conference. These awards, combined with Fluence’s market leading position, help to further underpin Fluence’s strong and growing reputation in China and Southeast Asia.

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.

During FY 2021 the first two MABR plants in Sihanoukville, Cambodia were fully commissioned and are operating well with the capacity to treat wastewater for 100,000 people. This enabled discussions about new projects resulting in a new order in Cambodia of $8.5 million from the same client to supply the largest MABR plant in the world treating wastewater from 160,000 people and providing an excellent reference at the larger plant size range globally. The strong demand for efficient wastewater treatment in Cambodia and other Southeast Asian countries is 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 30 plants (120 units) sold to date. Fluence continues to develop strong partnerships to accelerate sales.

Securing an initial MABR sale in the United Arab Emirates will provide an important local demonstration of the Company’s ability to safely recycle wastewater for irrigation in the Gulf Cooperation Council region where reuse is gaining strong adoption.

Review of operations (continued)

1 Detailed review of key market segments (continued)

Ivory Coast

Fluence continued to successfully execute the Ivory Coast project throughout FY 2021, achieving completion of milestones 3, 4 and 5, securing $51.8 million in contractual payments, and negotiating the release of $15.8 million in restricted funds from the escrowed advance payment received in Q4 2020.

Commissioning of the 150,000 m3/day surface water treatment plant is anticipated in mid-2023. Fluence’s focus remains on delivering the project mid-2023, a few months later than originally planned but still in line with the client's expectations.

North America and the Caribbean

In FY 2021 Rick Cisterna has joined the executive team as Chief Strategy Officer focusing on expanding the wastewater solutions and BOOT projects in North America and the Caribbean.

The sale of 7 SPS plants to the Caribbean resorts in FY 2021 is anticipated to lead to further hospitality business in the region where Fluence will prioritise recurring revenue around the sale of water versus equipment sales.

Fluence and the State Water Commission of Baja California ("CEA") continued to actively discuss the mutual termination of the San Quintin water treatment project throughout FY 2021 in parallel with the discussions for a potential sale of the project to a third party. Under either scenario, all capitalised costs will not be recoverable. Accordingly, in FY 2020 the Company elected to write down the carrying value of the San Quintin related assets to nil.

The decision to not proceed with the project is expected to bring positive cash flow to the Company from the return of the $3 million currently held as a security deposit.

Other markets

The Company successfully commissioned a desalination plant built for ArcelorMittal in Brazil which enables the international steel group to avoid using municipal water in steel production. This is the first desalination plant of any kind implemented for Arcelor Mittal, the second largest steel producer in the world with plants in 17 countries.

Sustainability

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

Fluence’s MABR and NIROBOX™ installations around the world collectively save an estimated 32 GWh of energy (23,100 tons of CO_2) annually compared to conventional technologies. Even more importantly, many wastewater treatment technologies emit Nitrous Oxide (N_2O): 300 times worse than CO_2 from an atmospheric warming perspective. Fluence MABR systems currently save 314 tons/year of N_2O emissions, equivalent to a further 93,600 tons of CO_2. Treated wastewater from Fluence’s MABR installations collectively removes 2,100 tons of nutrients that would otherwise damage the environment.

Fluence water and wastewater solutions meet 9 out of 17 United Nations Sustainable Development Goals.

Review of operations (continued)

1 Detailed review of key market segments (continued)

Outlook for FY 2022

For FY 2022, Fluence is providing annual guidance of SPS revenue of at least $45 million and underlying EBITDA positive of $3 million on a full year basis.

• Building off FY 2021 sales and backlog, SPS products continue to see strong interest in Southeast Asia, the Middle East, and elsewhere. Much of the growth is expected to come from MABR sales, including existing volume partnerships.
• Fluence expects continuing new orders from each of its 5 strategic partners in China.
• The Ivory Coast project is expected to be executed according to the plan, and will continue to be a significant contributor to the Company's EBITDA and Cash Flow.
• The new CEO appointment in March 2022 will accelerate the development of North America and Australia markets.
• While Fluence is not providing guidance on recurring revenue at this time, it remains an important aspect of the business by virtue of both operations and maintenance contracts and BOOT projects.
• Fluence is guiding to underlying EBITDA of $3 million positive for FY 2022 on a full year basis, with a specific focus on maximising profitable growth of MABR and other SPS products.

Significant events after balance date

On 14 March 2022, the Group appointed Thomas Pokorsky as CEO and Managing Director. Richard Irving will retain his position as Chairman of the Board.

No other 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 is the Chairman of Fluence Corporation. Mr Irving has served as Chairman and Chief Executive Officer, 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
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: 1,500,000 Director options with an exercise price of A$0.29; and 1,000,000 Director options with an exercise price of A$0.23.
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 is the Lead Independent Director and Non-Executive Director for Fluence Corporation Limited. 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, Non-Executive Director Chair of the Audit and Risk Committee
Interest in shares	Indirect interest in 500,000 shares held by Tres Petitbijou Pty Ltd ATF <Tres Petitbijou Superannuation Fund>
Interest in options	Indirect interest through Tres Petitbijou Pty Ltd ATF <Tres Petitbijou Superannuation Fund> in: 250,000 Director options with an exercise price of A$0.60; 250,000 Director options with an exercise price of A$0.80; and 1,000,000 Director options with an exercise price of A$0.23.
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 six companies with a combined shareholder value exceeding $4.5 billion. 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 CEO and Managing Director of BIOS Acquisition Corp (NASDAQ: BIOS), a listed biotech investment company; as non executive director of Chinook Therapeutics (NASDAQ: KDNY) a late clinical stage precision medicine entity; as Chairman of FRX Polymers, a listed Toronto Stock Exchange listed company, and as Chairman of AngleMedical, a PreIPO commercial stage MedTech company.
Other current public company directorships	NASDAQ: BIOS; NASDAQ: KDNY; TSX: FRX
Former public company directorships in last 3 years	NYSE listed CITIC Acquisition Corp; NASDAQ listed Aduro Biotech
Special responsibilities	Chair of the Remuneration and Nomination Committee
Interest in shares	Direct interest in 600,000 shares
Interest in options	Direct interest in: 1,000,000 Director options with an exercise price of A$0.23.
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 advisors for City College of New York for Zahn Innovation Center and also a visiting scholar at Princeton University.
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 Member of the Remuneration and Nomination Committee
Interest in shares	None
Interest in options	Direct interest in 1,000,000 Director options with an exercise price of A$0.23.
Contractual rights to shares	None

Information on directors (continued)

Samantha Tough *Non-Executive Director*	
Qualifications	B Juris; LLB; FAICD
Experience and expertise	Samantha Tough was appointed as the Non-Executive Director of Fluence Corporation on 1 June 2021. Ms Tough brings over 20 years of experience in public and private companies as both an executive and director in a range of industry sectors including energy, oil and gas, resources, engineering, health, venture capital, data analytics, law and tertiary education. Ms. Tough is a Fellow of the AICD. Ms Tough is currently Chair of Horizon Power, Chair National Energy Selection Committee and Director of the Clean Energy Finance Corporation. Ms. Tough is also Pro Vice Chancellor Engagement at the University of Western Australia leading the Innovation and Industry Engagement group.
Other current public company directorships	None
Former public company directorships in last 3 years	30 Metal Forge Ltd.
Special responsibilities	Member of the Audit and Risk Committee
Interest in shares	None
Interest in options	Direct interest in: 1,000,000 Director options with an exercise price of A$0.23.
Contractual rights to shares	None

Company Secretary

Melanie Leydin is the Company Secretary. Melanie 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 2021, and the number of meetings attended by each Director were:

Fluence - for the year ended 31 December 2021	Full Board		Meetings of committees			
			Audit and Risk		Remuneration and Nomination	
	A	B	A	B	A	B
Mr Richard Irving	10	10	-	-	-	-
Mr Paul Donnelly	10	10	11	11	-	-
Mr Ross Haghighat	10	10	-	-	5	5
Dr Rengarajan Ramesh	10	10	11	11	5	5
Ms Samantha Tough (1)	5	5	4	4	-	-

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 = Ms Samantha Tough was appointed Non-Executive Director and Member of the Audit and Risk Committee from 1 June 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 to ensure remuneration is competitive to attract and retain talent while at the same time being appropriate relative to Group's results. 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 caliber 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, the Board has determined that there will be no increase in base Non-Executive Director fees from prior 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.

Mr. Richard Irving continued to hold the combined role of Chairman and CEO, and Mr. Paul Donnelly continued to hold the role of Lead Independent Director.

Remuneration report (Audited) (continued)

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

Directors remuneration (continued)

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 and strategic bonuses.

ASX listing rules require the aggregate Non-Executive Directors' remuneration to 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 (the equivalent of US$ 767,000 at that time).

Executive remuneration

The Group 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 are referenced 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.

The STI program for 2021 comprised specific Company-wide targets to align to specific areas of responsibility. Key Performance Indicators ("KPIs") 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.

Remuneration report (Audited) (continued)

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

Executive remuneration (continued)

The LTI program comprised equity-based remuneration in the form of unlisted share 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 KPIs set annually to be achieved for these options to vest.

Business performance in 2021 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 caliber 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 business achievements during 2021, executive STI bonuses for 2021 were generally towards the mid-range of the available bonus quantum.

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 2022 will be considered by the Remuneration and Nomination Committee and the Board on the basis of the consolidated entity’s performance relative to pre-determined KPI's during the financial year and exceptional achievements.

Directors consider that the options 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 2021 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 2021 consisted of:
• Richard Irving - Chairman and Chief Executive Officer
• Paul Donnelly - Lead Independent Director, Non-Executive Director
• Ross Haghighat - Non-Executive Director
• Dr Rengarajan Ramesh - Non-Executive Director
• Samantha Tough - Non-Executive Director (appointed on 1 June 2021)
• Francesco Fragasso - Chief Financial Officer
• Anthony Hargrave - Chief Operating Officer
• Spencer Smith - Chief Legal Officer
• Richard Cisterna - Chief Strategy Officer (appointed on 13 December 2021)
• Erik Arfalk - Chief Marketing Officer (retired on 31 March 2021)

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 Independent 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
• Spencer Smith - Chief Legal Officer
• Erik Arfalk - Chief Marketing 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	
2021	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	410,417	-	410,417	75,000	-	-	-	-	71,058	556,475
Total	**410,417**	**-**	**410,417**	**75,000**	**-**	**-**	**-**	**-**	**71,058**	**556,475**
Non-executive directors:										
Paul Donnelly	91,345	-	91,345	-	-	-	-	-	27,743	119,087
Ross Haghighat	84,133	-	84,133	-	-	-	-	-	37,978	122,112
Rengarajan Ramesh	90,143	-	90,143	-	-	-	-	-	58,173	148,316
Samantha Tough (a)	47,325	-	47,325	-	-	-	-	-	40,627	87,952
Total	**312,946**	**-**	**312,946**	**-**	**-**	**-**	**-**	**-**	**164,521**	**477,467**

Fluence Corporation Limited
Directors' Report
31 December 2021
(continued)

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Amounts of remuneration (shown in USD) (continued)

	Short-term benefits					Post-employment benefits		Long-term benefits	Share-based payment	
2021	**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	289,636	-	289,636	70,613	-	-	-	-	17,898	378,147
Anthony Hargrave	325,000	-	325,000	59,426	-	-	-	-	43,527	427,953
Spencer Smith	319,000	-	319,000	48,607	59,613	-	-	-	26,411	453,631
Richard Cisterna (b)	12,500	-	12,500	-	-	-	-	-	-	-
Erik Arfalk (c)	58,350	-	58,350	-	26,977	-	-	-	-	85,327
Total	**1,004,486**	**-**	**1,004,486**	**178,646**	**86,590**	**-**	**-**	**-**	**87,836**	**1,357,558**
Grand total	**1,727,849**	**-**	**1,727,849**	**253,646**	**86,590**	**-**	**-**	**-**	**323,415**	**2,391,500**

* Mr Smith's and Mr Arfalk's allowance includes a portion of unused vacation allowance paid during the year 2021.

(a) Ms Tough was appointed as Non-Executive Director on 1 June 2021.
(b) Mr Cisterna was appointed as the Chief Strategy Officer on 13 December 2021.
(c) Mr Arfalk resigned from the position of the Chief Marketing Officer on 31 March 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	
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)

Remuneration subject to performance in 2021:

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**
Richard Irving	500,000	75,000	15.0%
Francesco Fragasso	405,491	115,854	28.6%
Anthony Hargrave	422,500	97,500	23.1%
Spenser Smith	398,750	79,750	20.0%
Richard Cisterna (1)	250,000	-	-

Name	**Compensation subject to performance paid/payable 2021**	**Compensation subject to performance not earned 2021**
Richard Irving	100.0%	0.0%
Francesco Fragasso	60.9%	39.1%
Anthony Hargrave	60.9%	39.1%
Spenser Smith	60.9%	39.1%
Richard Cisterna (1)	-	-

(1) Richard Cisterna was appointed Chief Strategy Officer on 13 December 2021, hence not subject to performance based bonus in 2021.

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.

2021	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
	37,264,579	**-**	**-**	**-**	**37,264,579**
Non-Executive Directors					
Ross Haghighat	600,000	-	-	-	600,000
Rengarajan Ramesh	-	-	-	-	-
Paul Donnelly	500,000	-	-	-	500,000
Samantha Tough	-	-	-	-	-
	1,100,000	**-**	**-**	**-**	**1,100,000**
Key Management Personnel					
Francesco Fragasso	-	-	-	-	-
Anthony Hargrave	-	-	-	-	-
Spencer Smith	-	-	-	-	-
Richard Cisterna	-	-	-	-	-
Erik Arfalk	-	-	-	-	-
	-	**-**	**-**	**-**	**-**
Total	**38,364,579**	**-**	**-**	**-**	**38,364,579**

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Issue of shares (continued)

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.

Fluence Corporation Limited
Directors' Report
31 December 2021
(continued)

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.

2021	**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	2,500,000	(1,900,000)	-	2,500,000	-	**2,500,000**
	1,900,000	**2,500,000**	**(1,900,000)**	**-**	**2,500,000**	**-**	**2,500,000**
Non-Executive Directors							
Paul Donnelly	500,000	1,000,000	-	-	1,500,000	500,000	1,000,000
Ross Haghighat	1,400,000	1,000,000	(1,400,000)	-	1,000,000	-	1,000,000
Rengarajan Ramesh	1,500,000	1,000,000	(1,500,000)	-	1,000,000	-	1,000,000
Samantha Tough	-	1,000,000	-	-	1,000,000	500,000	500,000
	3,400,000	**4,000,000**	**(2,900,000)**	**-**	**4,500,000**	**1,000,000**	**3,500,000**
Key Management Personnel							
Francesco Fragasso	1,005,000	700,000	(50,000)	-	1,655,000	656,875	998,125
Anthony Hargrave	793,594	750,000	(31,250)	-	1,512,344	606,719	905,625
Spencer Smith	865,000	700,000	(140,000)	-	1,425,000	593,750	831,250
Richard Cisterna	-	-	-	-	-	-	-
	2,663,594	**2,150,000**	**(221,250)**	**-**	**4,592,344**	**1,857,344**	**2,735,000**
Total	**7,963,594**	**8,650,000**	**(5,021,250)**	**-**	**11,592,344**	**2,857,344**	**8,735,000**

Remuneration report (Audited) (continued)

(b) Details of remuneration (continued)

Issue of options (continued)

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)

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 2021. 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. Some options are also a subject to meeting performance criteria established by the Board.

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)

2021	Grant date	No. of options granted	No. of options vested	Fair value per option at grant date	Exercise price	Expiry date	Value of options at grant date
				US$	AU$		US$
Executive Directors							
Richard Irving	25 June 2021	1,500,000	-	0.0171	0.29	30 June 2022	25,628
	25 June 2021	1,000,000	-	0.0601	0.23	25 August 2025	60,096
Non-Executive Directors							
Paul Donnelly	25 June 2021	1,000,000	-	0.0601	0.23	25 August 2025	60,096
Ross Haghighat	25 June 2021	1,000,000	-	0.0601	0.23	25 August 2025	60,096
Rengarajan Ramesh	25 June 2021	1,000,000	-	0.0601	0.23	25 August 2025	60,096
Samantha Tough	25 June 2021	1,000,000	500,000	0.0534	0.23	25 June 2025	53,404
Key Management Personnel							
Francesco Fragasso	6 April 2021	12,500	-	0.0751	0.23	1 October 2024	938
	6 April 2021	187,500	25,000	0.0863	0.23	31 May 2025	16,189
	16 August 2021	500,000	-	0.0849	0.21	18 August 2025	42,442
Anthony Hargrave	6 April 2021	46,875	-	0.0751	0.23	1 October 2024	3,519
	6 April 2021	703,125	93,750	0.0863	0.23	31 May 2025	60,710
Spencer Smith	6 April 2021	12,500	-	0.0751	0.23	1 October 2024	938
	6 April 2021	187,500	25,000	0.0863	0.23	31 May 2025	16,189
	16 August 2021	500,000	-	0.0849	0.21	18 August 2025	42,442
Richard Cisterna	-	-	-	-	-	-	-

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)

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
Agreement commenced:	13 November 2020
Term of agreement:	Open
Details:	In the role of Chairman and CEO, Mr Irving received base salary of US$400,000 per annum up to 31 July 2021 and US$425,000 per annum from 1 August 2021. In addition Mr Irving is entitled to performance based bonus based on the Board of directors discretion. 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$96,000 (US$72,114) per annum plus Chair of Remuneration and Nomination Committee fees of AU$16,000 (US$12,019) 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$96,000 (US$72,114) per annum plus Member of the Audit and Risk Committee fees of AU$12,000 (US$9,014) per annum and Member of the Remuneration and Nomination Committee fees of AU$12,000 (US$9,014) per annum. Remuneration is reviewed annually by the Remuneration and Nomination Committee.

Name:	Paul Donnelly
Title:	Non-Executive Director
Agreement commenced:	20 July 2018
Term of agreement:	Open
Details:	Non-Executive Director fees of AU$96,000 (US$72,114) per annum plus Chair of the Audit and Risk Committee fees of AU$16,000 (US$12,019) per annum and Lead Independent Director fee amounting to AU$9,600 (US$7,211) per annum. Remuneration is reviewed annually by the Remuneration and Nomination Committee.

Name:	Samantha Tough
Title:	Non-Executive Director
Agreement commenced:	01 July 2021
Term of agreement:	Open
Details:	Ms. Tough was appointed Non-Executive Director and Member of the Audit and Risk Committee on 01 July 2021. She receives Non-Executive Director fees of AU$96,000 per annum (US$72,114) plus Member of Audit and Risk Committee fees of AU$12,000 (US$9,014) 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 per annum up to 31 July 2021 and $425,000 per annum from 1 August 2021 (base salary)
Bonuses and deferred remuneration:	Performance based bonus based on the Board of directors discretion
Other Benefits:	Health insurance for Mr Irving and his family

Employment Based Option Remuneration:

Number of Options Granted	Grant Date	Exercise Price	Vesting Period
1,000,000	25 June 2021	AU$0.23	Options are exercisable in equal annual installments at the end of each consecutive twelve (12) months period over four (4) years period, commencing on 25 July 2021.

Performance Based Option Remuneration:

Number of Options Granted	Grant Date	Exercise Price	Vesting Period
1,500,000	25 June 2021	AU$0.29	Vesting 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:	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$289,636 (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 vest and become exercisable in equal installments 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 vest and become exercisable in equal installments at the end of each consecutive three (3) months period over four (4) years, commencing on 26 February 2020.
200,000	6 April 2021	AU$0.23	Options vest and become exercisable in equal installments at the end of each consecutive three (3) months period over four (4) years, commencing on 6 April 2021.

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 installments at the end of each consecutive twelve (12) months period over four (4) years period, commencing on 26 March 2018. Vesting of these options is subject to meeting performance criteria established by the Board.

Remuneration report (Audited) (continued)

Service agreements (continued)

Trigger Event Based Option Remuneration:

Number of Options Granted	**Grant Date**	**Exercise Price**	**Vesting Period**
500,000	11 August 2021	AU$0.21	Options vest and become exercisable upon the Company meeting specific goals with an expiry date of 18 August 2025.

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$325,000 (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 vest and become exercisable in equal installments 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 vest and become exercisable in equal installments at the end of each consecutive three (3) months period over four (4) years, commencing on 26 February 2020.
750,000	6 April 2021	AU$0.23	Options vest and become exercisable in equal installments at the end of each consecutive three (3) months period over four (4) years, commencing on 6 April 2021.

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 installments on 31 January 2020, 31 January 2021 and 31 January 2022 with the remaining 12.5% on 31 July 2022. Vesting is 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. The Initial term will automatically be extended for successive periods of 1 year until the Company or the Executive gives ninety (90) days written notice of non-renewal or unless terminated.

Details of remuneration:

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

Employment Based Option Remuneration:

Number of Options Granted	Grant Date	Exercise Price	Vesting Period
350,000	14 July 2017	AU$0.84	Options vest and become exercisable in equal installments 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 vest and become exercisable in ten equal installments at the end of each consecutive three (3) month period, commencing on 30 April 2019
300,000	26 February 2020	AU$0.44	Options vest and become exercisable in equal installments at the end of each consecutive three (3) month period over four (4) years, commencing on 26 February 2020.
200,000	6 April 2021	AU$0.23	Options vest and become exercisable in equal installments at the end of each consecutive three (3) month period over four (4) years, commencing on 6 April 2021.

Remuneration report (Audited) (continued)

Service agreements (continued)

Trigger Event Based Option Remuneration:

Number of Options Granted	**Grant Date**	**Exercise Price**	**Vesting Period**
500,000	11 August 2021	AU$0.21	Options vest and become exercisable upon the Company meeting specific goals with an expiry date of 18 August 2025.

Name: Richard Cisterna
Title: Chief Strategy Officer
Agreement commenced: 13 December 2021
Term of agreement: At will with 60 days' notice by either party

Details of remuneration:

Cash salary and fees: US$250,000 (base salary)
Bonuses and deferred remuneration: Performance based bonus up to 40% of base salary
Other Benefits: Health insurance for Mr Cisterna and his family

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 2021 are summarised below:

	2021 $'000	2020 $'000	2019 $'000 (*)
Financial results			
Revenue	103,315	97,139	59,848
Loss before income tax from continuing operations	(8,962)	(8,378)	(29,355)
Loss from discontinued operations	(5,926)	(12,419)	(238)
Loss for the year	(15,083)	(19,859)	(31,585)

* 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 2021 $'000	31 December 2020 $'000	31 December 2019 $'000
Market factors			
Share price	AU$0.15	AU$0.23	AU$0.43

	2021 $	2020 $	2019 $
Financial factors			
Loss per share from continuing operations	(0.02)	(0.01)	(0.06)

[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
31 May 2017	25 May 2025	$0.93	8,992,938
14 July 2017	25 May 2025	$0.84	350,000
26 March 2018	25 May 2022	$0.48	1,090,625
28 June 2018	27 August 2022	$0.46	402,344
31 July 2018	31 July 2022	$1.20	750,000
31 July 2018	31 July 2022	$1.50	750,000
10 April 2019	3 June 2022	$0.46	72,000
10 April 2019	3 December 2022	$0.46	54,000
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
10 March 2020	3 June 2022	$0.44	70,000
10 March 2020	3 December 2022	$0.44	74,000
10 March 2020	1 March 2023	$0.44	12,000
10 March 2020	30 May 2023	$0.44	112,000
10 March 2020	29 August 2023	$0.44	169,250
10 March 2020	29 November 2023	$0.44	34,000
10 March 2020	1 March 2024	$0.44	56,000
19 March 2020	1 March 2024	$0.44	1,490,000
24 September 2020	30 May 2024	$0.23	3,750
24 September 2020	31 May 2024	$0.23	250
24 September 2020	29 August 2024	$0.23	44,000
7 December 2020	29 August 2024	$0.26	172,000
6 April 2021	1 October 2024	$0.23	143,750
6 April 2021	31 May 2025	$0.23	2,636,250
25 June 2021	30 June 2022	$0.29	1,500,000
25 June 2021	25 June 2025	$0.23	1,000,000
25 June 2021	25 August 2025	$0.23	4,000,000
16 August 2021	18 August 2025	$0.21	1,000,000
			26,949,157

On 6 April 2021, a tranche of 250,000 options was granted with an expiry date of 30 August 2024. These options were forfeited on 26 October 2021 (171,875 options) and 24 December 2021 (78,125 options), not included in the table above as they were forfeited in the same year as issued.

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 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 40.

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 of the Board
31 March 2022
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 2021, 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 2022

Fluence Corporation Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2021

	Notes	Consolidated entity 31 December 2021 $'000	Consolidated entity 31 December 2020 $'000
Revenues			
Operating revenue	4	103,193	89,846
Other income		122	221
		103,315	**90,067**
Expenses			
Cost of sales		(81,500)	(62,491)
Research and development expenses	4	(3,673)	(3,170)
Sales and marketing expenses	4	(5,540)	(5,573)
General and administration expenses	4	(15,205)	(17,737)
Other losses	4	(3,669)	(6,138)
Finance costs - net	4	(2,690)	(1,649)
Loss before income tax		**(8,962)**	**(6,691)**
Income tax (expense)/benefit	6	(195)	761
Loss from continuing operations after tax		**(9,157)**	**(5,930)**
Loss from discontinued operations	**3**	**(5,926)**	**(13,929)**
Loss for the year		**(15,083)**	**(19,859)**
Loss for the year is attributable to:			
Owners of Fluence Corporation Limited		(14,702)	(17,016)
Non-controlling interests		(381)	(2,843)
		(15,083)	**(19,859)**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations, net of tax		217	2,932
Total comprehensive income for the year		**(14,866)**	**(16,927)**
Total comprehensive income for the year is attributable to:			
Continuing operations		(8,705)	(97)
Discontinued operations		(5,780)	(13,987)
Owners of Fluence Corporation Limited		**(14,485)**	**(14,084)**
Continuing operations		(194)	(2,685)
Discontinued operations		(187)	(158)
Non-controlling interests		**(381)**	**(2,843)**
		(14,866)	**(16,927)**

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 2021
(continued)

	Notes	Consolidated entity 31 December 2021 $	31 December 2020 $
Losses per share from continuing operations attributable to the ordinary equity holders of the Group:			
Basic and diluted loss per share	7	(0.014)	(0.005)
Losses per share from discontinued operations attributable to the ordinary equity holders of the Group:			
Basic and diluted loss per share	7	(0.009)	(0.022)
Losses per share attributable to the ordinary equity holders of the Group:			
Basic and diluted loss per share	7	(0.023)	(0.027)

(*) 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 2021

	Notes	Consolidated entity 31 December 2021 $'000	Consolidated entity 31 December 2020 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	40,849	31,038
Other financial assets	8	11,502	15,474
Trade and other receivables	9	31,674	38,486
Inventories	10	13,387	12,810
Prepayments		9,299	7,823
Concession arrangement assets	11	231	353
Other assets	13	188	605
Assets directly associated with assets classified as held for sale	3	8,493	-
Total current assets		**115,623**	**106,589**
Non-current assets			
Investments accounted for using the equity method	14	547	415
Deferred tax assets	6	-	610
Property, plant and equipment	15	12,005	12,981
Intangible assets	16	1,709	1,834
Concession arrangement assets	11	2,881	8,750
Long-term deposits	12	14,281	23,368
Other assets	13	2,090	215
Total non-current assets		**33,513**	**48,173**
Total assets		**149,136**	**154,762**
LIABILITIES			
Current liabilities			
Trade and other payables	17	42,019	39,451
Borrowings and lease liability	18	2,918	3,287
Current tax liabilities		30	175
Provisions	19	4,290	6,594
Deferred revenue	20	31,984	32,045
Liabilities directly associated with assets classified as held for sale	3	11,656	-
Total current liabilities		**92,897**	**81,552**
Non-current liabilities			
Other liabilities	17	1,964	2,812
Borrowings and lease liability	18	34,263	25,160
Deferred tax liabilities	6	794	928
Provisions	19	390	711
Deferred revenue	20	2,838	13,127
Total non-current liabilities		**40,249**	**42,738**
Total liabilities		**133,146**	**124,290**
Net assets		**15,990**	**30,472**
EQUITY			
Contributed equity	21	212,279	212,161
Foreign currency translation reserve	23	(11,721)	(11,938)
Accumulated losses		(182,673)	(167,971)
		17,885	32,252
Non-controlling interests	22	(1,895)	(1,780)
Total equity		**15,990**	**30,472**

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 2021

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 2020		**211,840**	**(14,870)**	**(150,955)**	**46,015**	**1,063**	**47,078**
Profit/(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**
Balance at 1 January 2021		**212,161**	**(11,938)**	**(167,971)**	**32,252**	**(1,780)**	**30,472**
Profit/(Loss) for the period		-	-	(14,702)	(14,702)	(381)	(15,083)
Other comprehensive income		-	217	-	217	-	217
Total comprehensive income for the year		**-**	**217**	**(14,702)**	**(14,485)**	**(381)**	**(14,866)**
Transactions with owners in their capacity as owners:							
Issue of options	5	446	-	-	446	-	446
Transactions with non-controlling interests	22	(328)	-	-	(328)	266	(62)
Balance at 31 December 2021		**212,279**	**(11,721)**	**(182,673)**	**17,885**	**(1,895)**	**15,990**

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 2021

	Notes	Consolidated entity 31 December 2021 $'000	Consolidated entity 31 December 2020 $'000
Cash flows from operating activities			
Receipt from customers		110,542	122,440
Payments to suppliers and employees		(112,544)	(98,975)
Receipt from restricted cash		108	106
Interest received		91	148
Interest and other costs of finance paid		(2,773)	(1,396)
Income taxes paid		(263)	(76)
Net cash (outflow)/inflow from operating activities	8	**(4,839)**	**22,247**
Cash flows from investing activities			
Payment for purchases of plant and equipment		(1,419)	(1,168)
Funds transferred (to)/from term deposit, net		8,737	(27,897)
Proceeds from sale of property, plant and equipment		36	225
Payments for construction of concession assets		-	(466)
Net cash inflow/(outflow) from investing activities		**7,354**	**(29,306)**
Cash flows from financing activities			
Proceeds from borrowings		10,709	18,593
Lease payments		(1,815)	(1,633)
Net cash inflow from financing activities		**8,894**	**16,960**
Net increase in cash and cash equivalents		11,409	9,901
Cash and cash equivalents at the beginning of the financial year		31,038	21,908
Effects of exchange rate changes on cash and cash equivalents		(1,084)	(771)
Cash and cash equivalents at end of year	**8**	**41,363**	**31,038**

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 2021 was authorised for issue in accordance with a resolution of the Directors on the 31st of March 2022.

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 judgments, 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 judgments. 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.

Judgments 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 2021, the consolidated entity incurred an operating loss after tax of $15,083,000 (2020: $19,859,000) and had cash outflow from operating activities of $4,839,000 (2020: cash inflow of $22,247,000), and total net cash inflows of $11,409,000 (2020: $9,901,000). The Group had cash and cash equivalents of $40,849,000 and other financial assets of $11,502,000 at 31 December 2021 (2020: $31,038,000 and $15,474,000 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 forecast for the 12 months ended 31 December 2022 and 15 months ended 31 March 2023 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$133 million for FY 2022 and further, which includes the Ivory Coast Project and other projects. Contracted revenues from the Ivory Coast Project are US$94 million for financial years 2022 and 2023.
- 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 allows for a drawdown on the Upwell Facility. The resulting net cash flows from major projects will provide further working capital to the consolidated entity.

Management continue to strategise to manage and mitigate the ongoing impact of COVID-19 and have taken steps to monitor projects performance, cash flows and operations accordingly.

(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 2020.

(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.

(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.

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.

1 Summary of significant accounting policies (continued)

(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 for 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.

(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.

1 Summary of significant accounting policies (continued)

(i) Employee benefits (continued)

(i) Wages and salaries (continued)

- The portion of long service leave that has not vested at the reporting date is included in the non-current provision for employee benefits.

(ii) Share-based payments

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

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

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 canceled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

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

(j) Investment in associates and joint ventures

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

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

1 Summary of significant accounting policies (continued)

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

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

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

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date.

The Statement of Profit or Loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in 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.

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.

1 Summary of significant accounting policies (continued)

(l) Cash and cash equivalents

Cash and short-term deposits in the Consolidated Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

(m) Other financial assets

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.

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(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.

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 the initial recognition of the financial assets.

(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 to the carrying amount. These are included in profit or loss.

1 Summary of significant accounting policies (continued)

(p) Inventories

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

(q) Foreign currency translation

(i) Functional currency

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

(ii) Presentation currency

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

(iii) Translation and balances

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

(iv) Group companies

The results of foreign subsidiaries and the parent entity are translated to US Dollars at the exchange rate at the date of the transaction. Assets and liabilities of foreign subsidiaries and the Australian parent are translated to US Dollars at exchange rates prevailing 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.

1 Summary of significant accounting policies (continued)

(r) Income tax (continued)

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

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

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

(s) Goods and Services Tax (GST)

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

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

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

(t) Intangible assets

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

(i) Research and development

Research costs are expensed as incurred.

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

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

1 Summary of significant accounting policies (continued)

(t) Intangible assets (continued)

(i) Research and development (continued)

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

Amortisation commences when the assets are ready for use.

(ii) Concession intangible 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.

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

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

(v) Trade and other payables

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

(w) Contributed equity

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

(x) Provisions

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

1 Summary of significant accounting policies (continued)

(y) Earnings per share

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

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

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

(z) Concession financial asset

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

(aa) Significant accounting estimates and assumptions

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

(i) Fair value of financial liability

The Group assessed the fair value of the financial milestone payments and government grant liabilities, which incorporate a number of key estimates and assumptions. For further details, please refer to Note 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 judgment 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 share options granted to directors, employees and consultants as remuneration as an expense on a pro-rata basis over the vesting period in profit or loss with a corresponding adjustment to equity.

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

1 Summary of significant accounting policies (continued)

(aa) Significant accounting estimates and assumptions (continued)

(iii) Share-based payment transactions (continued)

Estimating the fair value of share-based payment transactions requires the determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires the 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 judgment is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

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

(v) Impairment

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.

(vi) Revenue recognition over time

The value of work performed using the 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 advanced payments of approximately $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 $45 million.

1 Summary of significant accounting policies (continued)

(aa) Significant accounting estimates and assumptions (continued)

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

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.

(viii) **San Quintin project**

The Group has classified the operations in Mexico as a discontinued operation. Following the decision not to proceed with the contract in 2020, project-related assets in Mexico have been written down to a carrying value of nil. A bond of $3.1 million, deposited with a third party under the terms of the original contract, continues to be recorded as a non-current asset at 31 December 2021 within Fluence Corporation LLC (the US parent of the Mexican operation).

The assessment of the recoverability of the $3.1m deposit is subject to Management's best estimate and has been made with regards to the available information and in consultation with Fluence's Legal Counsel and external experts.

A mutual termination agreement is in the process of being finalised with the customer and management are confident of a formal resolution within the next 12 months. Based on the available information the Group is confident that the bond will be recovered.

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;
- 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.

2021	**Operating Units $'000**	**Product and Innovation $'000**	**Intersegment Elimination $'000**	**Total $'000**
Segment revenue				
Contract revenue	97,582	-	-	97,582
Service revenue	5,570	640	(599)	5,611
Other income	122	-	-	122
	103,274	**640**	**(599)**	**103,315**

2 Segment information (continued)

2021	**Operating Units $'000**	**Product and Innovation $'000**	**Intersegment Elimination $'000**	**Total $'000**
Segment expense				
Segment depreciation and amortisation	(1,590)	(694)	-	(2,284)
Share of profits of associates	83	-	-	83
Write off of inventories	(148)	-	-	(148)
Loss after tax from discontinued operations	(5,926)	-	-	(5,926)
Segment expense	(98,896)	(2,661)	599	(100,958)
Unallocated expenses - corporate	-	-	-	(9,165)
	(106,477)	**(3,355)**	**599**	**(118,398)**
Segment results	**(3,203)**	**(2,715)**	**-**	**(15,083)**
Assets				
Investments in associates	547	-	-	547
Assets directly associated with assets classified as held for sale	8,493	-	-	8,493
Segment assets	116,186	5,075	(1,433)	119,828
Unallocated assets - corporate	-	-	-	20,268
	125,226	**5,075**	**(1,433)**	**149,136**
Liabilities				
Liabilities directly associated with assets classified as held for sale	(11,656)	-	-	(11,656)
Segment liabilities	(84,712)	(5,971)	1,433	(89,250)
Unallocated liabilities - corporate	-	-	-	(32,240)
	(96,368)	**(5,971)**	**1,433**	**(133,146)**
Acquisitions of non-current assets	1,164	38	-	1,202

Contract revenue from Operating Units segment includes Ivory Coast revenue of $56.3 million for FY 2021 (FY 2020: $36.5 million).

2020	**Operating Units $'000**	**Product and Innovation $'000**	**Intersegment Elimination $'000**	**Total $'000**
Segment revenue				
Contract revenue	82,782	-	-	82,782
Service revenue	6,830	1,442	(1,208)	7,064
Other income	221	-	-	221
	89,833	**1,442**	**(1,208)**	**90,067**

2 Segment information (continued)

2020	**Operating Units $'000**	**Product and Innovation $'000**	**Intersegment Elimination $'000**	**Total $'000**
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)
Loss after tax from discontinued operations	(13,929)	-	-	(13,929)
Segment expense	(81,671)	(1,554)	1,208	(82,017)
Unallocated expenses - corporate	-	-	-	(11,089)
	(97,464)	**(2,581)**	**1,208**	**(109,926)**
Segment result	**(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	972	77	-	1,049

Unallocated expenses

	Consolidated entity 31 December 2021 $'000	31 December 2020 $'000
Other corporate expenses	(9,165)	(11,089)

Unallocated assets

	Consolidated entity 31 December 2021 $'000	31 December 2020 $'000
Cash and cash equivalents	14,779	9,924
Other assets	5,489	5,195
	20,268	**15,119**

2 Segment information (continued)

Unallocated liabilities

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Trade and other payables	(748)	(1,089)
Borrowings	(30,459)	(20,446)
Other liabilities	(1,033)	(3,244)
	(32,240)	**(24,779)**

Intersegment transactions

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

3 Discontinued operations and assets classified as held for sale

(a) Discontinued operations and assets classified as held for sale

(i) Description

During the year ended 31 December 2021, the Company classified its operations in Italy and Peru as Held for Sale and operations in Mexico as discontinued operations. The operations in Italy and Peru have met the conditions of AASB 5, management is committed to a plan to sell, the asset is available for immediate sale, an active program to locate a buyer is initiated, the sale is highly probable within 12 months, the asset is being actively marketed for sale, and actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

(ii) Financial performance and cash flow information

The financial performance and cash flow information presented are for the year ended 31 December 2021 and the year ended 31 December 2020.

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Fluence Italy		
Revenue	8,671	7,260
Cost of sales	(7,355)	(6,755)
Research and development expenses	(129)	(146)
Sales and marketing expenses	(442)	(520)
General and administrative expenses	(1,370)	(1,428)
Other gains/losses - net	(1,365)	(30)
Finance costs - net	(30)	4
Loss before income tax	**(2,020)**	**(1,615)**
Income tax benefit/(expense)	(38)	172
Loss after income tax from discontinued operations	**(2,058)**	**(1,443)**

3 Discontinued operations and assets classified as held for sale (continued)

(a) Discontinued operations and assets classified as held for sale (continued)

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

	Consolidated entity 31 December 2021 $'000	Consolidated entity 31 December 2020 $'000
Net cash outflow from operating activities	(719)	(579)
Net cash outflow from investing activities	(44)	(20)
Net cash inflow from financing activities	867	478
Effects of exchange rate changes on cash and cash equivalents	(76)	75
Net increase/(decrease) in cash and cash equivalents from discontinued operations	**28**	**(46)**

According to the AASB 5 "Non-current assets held for sale and discontinued operations" presentation requirements for intragroup transactions, Fluence Italy revenue for the year ended 31 December 2021 excludes the revenue earned from the Group in the amount of $5,454,000 and the related costs in the amount of $4,959,000. Fluence Italy revenue for the year ended 31 December 2020 excludes the revenue earned from the Group in the amount of $1,947,000 and the related costs in the amount of $437,000.

If the intragroup transactions were reported as Fluence Italy's financial performance, Fluence Italy would have a net loss after income tax of $1,563,000 for the year ended 31 December 2021 and a net profit after income tax of $67,000 for the year ended 31 December 2020.

	Consolidated entity 31 December 2021 $'000	Consolidated entity 31 December 2020 $'000
GCM Peru		
Revenue	40	39
Cost of sales	(40)	(91)
General and administrative expenses	(72)	(55)
Impairment expense	(3,274)	-
Other gains - net	(196)	35
Loss before income tax	**(3,542)**	**(72)**
Income tax benefit	11	5
Loss after income tax from discontinued operations	**(3,531)**	**(67)**
Net cash outflow from operating activities	(47)	(73)
Net cash outflow from investing activities	(42)	(52)
Net cash inflow from financing activities	80	79
Effects of exchange rate changes on cash and cash equivalents	(12)	(5)
Net decrease in cash and cash equivalents from discontinued operations	**(21)**	**(51)**

3 Discontinued operations and assets classified as held for sale (continued)

(a) Discontinued operations and assets classified as held for sale (continued)

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

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Fluence Mexico		
Revenue	-	417
Cost of sales	(486)	(373)
General and administrative expenses	(99)	(248)
Impairment expense	-	(11,903)
Other gains/(losses) - net	251	(69)
Finance costs	(68)	(126)
Loss before income tax	**(402)**	**(12,302)**
Income tax benefit/(expense)	65	(117)
Loss after income tax from discontinued operations	**(337)**	**(12,419)**
Net cash inflow/(outflow) from operating activities	(120)	18
Net cash outflow from investing activities	(7)	(413)
Net cash inflow from financing activities	49	305
Effects of exchange rate changes on cash and cash equivalents	18	57
Net decrease in cash and cash equivalents from discontinued operations	**(60)**	**(33)**

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Impairment expense		
Concession arrangements asset	(1,739)	(12,037)
Intangible assets	-	(4,012)
Unbilled receivables	(1,535)	-
GST receivable	-	(475)
Reversal of accruals	-	4,621
	(3,274)	**(11,903)**

3 Discontinued operations and assets classified as held for sale (continued)

(a) Discontinued operations and assets classified as held for sale (continued)

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

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Loss after income tax expense from discontinued operations		
Fluence Italy	(2,058)	(1,443)
GCM Peru	(3,531)	(67)
Fluence Mexico	(337)	(12,419)
	(5,926)	**(13,929)**

(b) Carrying amounts of assets and liabilities disposed

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Fluence Mexico		
Carrying amounts of assets and liabilities disposed		
Cash and cash equivalents	166	226
Trade receivables	12	4
Prepayments	9	59
Other current assets	6	8
Property, plant and equipment	4	6
Total assets disposed	**197**	**303**
Trade and other payables	(361)	(193)
Current tax liabilities	(33)	(92)
Deferred revenue	(1)	-
Other non-current liabilities	(322)	(262)
Total liabilities disposed	**(717)**	**(547)**
Net assets / (liabilities)	**(520)**	**(244)**

3 Discontinued operations and assets classified as held for sale (continued)

(c) Assets and liabilities directly associated with assets classified as held for sale

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Fluence Italy		
Disposal group held for sale		
Cash and cash equivalents	514	486
Trade receivables	5,310	8,817
Inventories	496	491
Prepayments	795	349
Deferred tax assets	163	178
Property, plant and equipment	578	769
Long-term deposits	6	14
Other long-term assets	69	1,011
Total assets directly associated with assets classified as held for sale	**7,931**	**12,115**
Trade and other payables	(7,167)	(4,325)
Borrowings	(551)	(483)
Current tax liabilities	(5)	(67)
Provisions	(237)	(272)
Deferred revenue	(2,772)	(3,921)
Long-term borrowings	(301)	(458)
Deferred tax liabilities	(101)	(49)
Employee benefits	(522)	(479)
Other non-current liabilities	-	(585)
Total liabilities directly associated with assets classified as held for sale	**(11,656)**	**(10,639)**
Net assets / (liabilities)	**(3,725)**	**1,476**

According to the AASB 5 "Non-current assets held for sale and discontinued operations" presentation requirements for intragroup transactions, Fluence Italy Trade receivables balance for the year ended 31 December 2021 excludes the amount receivable from the Group of $4,516,000. Fluence Italy Trade receivables balance for the year ended 31 December 2020 included the amount receivable from the Group of $2,917,000 and the Trade and other payables balances included the amount of $1,176,000 payable to the Group.

If the intragroup receivable balance for the year ended 31 December 2021 was included in Fluence Italy assets, the net assets would be positive $791,000. The intragroup receivable balance is expected to be repaid prior to the closing of the Fluence Italy sale.

3 Discontinued operations and assets classified as held for sale (continued)

(c) Assets and liabilities directly associated with assets classified as held for sale (continued)

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
GCM Peru		
Disposal group held for sale		
Cash and cash equivalents	-	21
Trade receivables	67	65
Concession arrangement assets - Short-term	-	145
Deferred tax assets	44	33
Property, plant and equipment	99	99
Concession arrangement assets - Long-term	352	3,898
Total assets directly associated with assets classified as held for sale	**562**	**4,261**
Trade and other payables	-	(1,969)
Current tax liabilities	-	(1)
Total liabilities directly associated with assets classified as held for sale	**-**	**(1,970)**
Net assets	**562**	**2,291**

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Assets directly associated with assets classified as held for sale		
Fluence Italy	7,931	12,115
GCM Peru	562	4,261
	8,493	**16,376**

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Liabilities directly associated with assets classified as held for sale		
Fluence Italy	11,656	10,639
GCM Peru	-	1,970
	11,656	**12,609**

Prior year comparatives within the note have not been restated in the statement of financial position as at 31 December 2020.

4 Operating revenue and expenses

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Operating revenue		
Contract revenue		
Smart product solutions	37,620	29,431
Customer engineering solutions	59,962	53,260
Service concession arrangements revenue	-	91
	97,582	**82,782**
Service revenue		
Revenues on services	1,152	2,461
Revenue on parts	3,088	3,035
Recurring revenue from concession assets	1,371	1,568
	5,611	**7,064**
	103,193	**89,846**

Revenue has been disaggregated based on contract revenue (inclusive of smart product solutions and customer engineering solutions) and service revenue. They comprise distinct revenue streams, customers and margins.

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Research and development		
Salaries and other employee related expenses	(2,232)	(1,881)
Depreciation	(643)	(929)
Materials	(317)	(361)
Professional fees	(225)	(178)
Travel and entertainment	(33)	(13)
Other	(223)	192
	(3,673)	**(3,170)**

4 Operating revenue and expenses (continued)

	Consolidated entity 31 December 2021 $'000	Consolidated entity 31 December 2020 $'000
Sales and marketing		
Salaries and other employee related expenses	(3,573)	(3,726)
Professional fees	(535)	(411)
Marketing activities	(406)	(556)
Travel and entertainment	(380)	(413)
Depreciation	(49)	(54)
Other	(597)	(413)
	(5,540)	**(5,573)**

	Consolidated entity 31 December 2021 $'000	Consolidated entity 31 December 2020 $'000
General and administration		
Salaries and other employee related expenses	(8,557)	(9,626)
Professional fees	(2,058)	(3,006)
Depreciation	(1,324)	(1,271)
Insurance	(1,131)	(1,090)
Director expense	(506)	(1,388)
Office expenses	(340)	(320)
Bank charges	(277)	(364)
Travel and entertainment	(222)	(270)
Maintenance	(123)	(114)
Other	(667)	(288)
	(15,205)	**(17,737)**

	Consolidated entity 31 December 2021 $'000	Consolidated entity 31 December 2020 $'000
Other gains/(loss) - net		
Foreign exchange loss	(4,866)	(5,542)
Withholding taxes	(248)	(32)
(Bad debts)/reversal of provision	(247)	23
Inventory reserve	(148)	(32)
Gain on disposal of property, plant and equipment	31	70
Gain from investments accounted for using the equity method	83	55
COVID-19 relief	785	-
Reversal of provisions	975	104
Other	(34)	(784)
	(3,669)	**(6,138)**

4 Operating revenue and expenses (continued)

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Finance income/(costs) - net		
Interest income	248	213
Interest expense	(2,875)	(1,710)
Project financing and other	(63)	(152)
	(2,690)	**(1,649)**

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Aggregate expenses		
Aggregate depreciation and amortisation expenses	2,495	3,089
Aggregate employee benefits expense	20,167	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 2021:

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			**79,026,872**	**(13,773,161)**	**46,140,339**	**(30,646,387)**	**34,607,324**
Options vested during the year					3,164,260		
4 January 2021	1 March 2024	0.44	-	-	-	(4,000)	(4,000)
11 January 2021	10 January 2021	0.84	-	-	-	(25,000)	(25,000)
28 January 2021	3 December 2021	0.46	-	-	-	(375)	(375)
28 January 2021	3 December 2022	0.44	-	-	-	(375)	(375)
29 January 2021	10 September 2021	0.81	-	-	-	(3,000)	(3,000)
1 February 2021	10 September 2021	0.81	-	-	-	(4,000)	(4,000)
9 February 2021	9 February 2021	1.00	-	-	-	(290,000)	(290,000)
26 February 2021	29 November 2023	0.44	-	-	-	(8,250)	(8,250)
4 March 2021	4 March 2021	0.82	-	-	-	(1,000,000)	(1,000,000)
4 March 2021	27 August 2022	0.46	-	-	-	(31,250)	(31,250)
12 March 2021	29 August 2024	0.23	-	-	-	(12,000)	(12,000)
29 March 2021	3 December 2021	0.46	-	-	-	(1,625)	(1,625)
29 March 2021	3 December 2022	0.44	-	-	-	(1,625)	(1,625)
1 April 2021	10 September 2021	0.81	-	-	-	(49,000)	(49,000)
6 April 2021	30 August 2024	0.23	250,000	-	-	(250,000)	-
6 April 2021	1 October 2024	0.23	118,750	-	-	-	118,750
6 April 2021	31 May 2025	0.23	2,661,250	-	-	-	2,661,250
9 April 2021	1 March 2024	0.44	-	-	-	(12,000)	(12,000)
21 April 2021	3 December 2022	0.44	-	-	-	(2,000)	(2,000)
21 April 2021	3 December 2022	0.46	-	-	-	(2,000)	(2,000)
29 April 2021	29 November 2023	0.44	-	-	-	(3,750)	(3,750)
3 May 2021	3 May 2021	0.86	-	-	-	(150,000)	(150,000)
12 May 2021	29 November 2023	0.44	-	-	-	(20,000)	(20,000)
18 May 2021	18 May 2021	0.40	-	-	-	(1,000,000)	(1,000,000)
3 June 2021	3 June 2021	0.44	-	-	-	(20,000)	(20,000)
3 June 2021	3 June 2021	0.46	-	-	-	(20,000)	(20,000)

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
25 June 2021	30 June 2022	0.29	1,500,000	-	-	-	1,500,000
25 June 2021	25 June 2025	0.23	1,000,000	-	-	-	1,000,000
25 June 2021	25 August 2025	0.23	4,000,000	-	-	-	4,000,000
30 June 2021	29 August 2023	0.44	-	-	-	(12,000)	(12,000)
6 July 2021	6 July 2021	0.97	-	-	-	(100,000)	(100,000)
9 July 2021	3 December 2022	0.44	-	-	-	(4,375)	(4,375)
9 July 2021	3 December 2022	0.46	-	-	-	(1,875)	(1,875)
12 July 2021	30 May 2023	0.44	-	-	-	(20,000)	(20,000)
13 July 2021	13 July 2021	0.84	-	-	-	(1,500,000)	(1,500,000)
13 July 2021	13 July 2021	1.20	-	-	-	(3,850,000)	(3,850,000)
13 July 2021	13 July 2021	1.50	-	-	-	(3,850,000)	(3,850,000)
30 July 2021	3 June 2022	0.44	-	-	-	(6,000)	(6,000)
30 July 2021	3 June 2022	0.46	-	-	-	(6,000)	(6,000)
6 August 2021	3 December 2022	0.44	-	-	-	(9,625)	(9,625)
6 August 2021	3 December 2022	0.46	-	-	-	(4,125)	(4,125)
16 August 2021	18 August 2025	0.21	1,000,000	-	-	-	1,000,000
10 September 2021	10 September 2021	0.44	-	-	-	(100,000)	(100,000)
10 September 2021	10 September 2021	0.81	-	-	-	(3,853,167)	(3,853,167)
30 September 2021	30 September 2021	0.39	-	-	-	(858,000)	(858,000)
26 October 2021	30 August 2024	0.23	-	-	-	(171,875)	(171,875)
12 November 2021	13 November 2021	0.86	-	-	-	(840,000)	(840,000)
19 November 2021	29 August 2023	0.44	-	-	-	(6,750)	(6,750)
24 December 2021	30 August 2024	0.23	-	-	-	(78,125)	(78,125)
29 December 2021	29 November 2023	0.44	-	-	-	(6,000)	(6,000)
Closing balance			**89,556,872**	**(13,773,161)**	**49,304,599**	**(48,834,554)**	**26,949,157**

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, $
6 April 2021	30 August 2024	0.25	0.23	Nil	0.223	0.0799
6 April 2021	1 October 2024	0.25	0.23	Nil	0.248	0.0751
6 April 2021	31 May 2025	0.25	0.23	Nil	0.441	0.0864
25 June 2021	25 June 2025	0.19	0.23	Nil	0.672	0.0534
25 June 2021	25 August 2025	0.19	0.23	Nil	0.706	0.0601
25 June 2021	30 June 2022	0.19	0.29	Nil	0.620	0.0171
16 August 2021	18 August 2025	0.19	0.21	Nil	0.400	0.0848

The weighted average remaining contractual life of options outstanding at year-end was 2.81 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 $0.0838. These values were calculated using the binomial lattice, based on the Cox, Ross Rubinstein (1979) method applying the following inputs:

Weighted average exercise price: $0.44
Expected share price volatility: 65%

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 2021 $'000	31 December 2020 $'000
Consultant share based payments	29	49
Employee share based payments	159	(646)
Director share based payments	258	918
	446	**321**

(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:

5 People costs (continued)

(c) Key Management Personnel Disclosures (continued)

Compensation (continued)

	Consolidated entity	
	31 December 2021 $	31 December 2020 $
Short-term employee benefits	2,068,085	3,679,915
Share based payments	323,415	1,033,316
	2,391,500	**4,713,231**

The above Key Management Personnel disclosures represent the remuneration of Key Management Personnel defined in the Remuneration Report and paid or payable for the 12 months ended 31 December 2021 and 31 December 2020.

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

6 Income tax

(a) Income tax expense

The components of tax expense comprise:

		Consolidated entity	
	Notes	31 December 2021 $'000	31 December 2020 $'000
Current tax			
Current tax		213	(124)
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		(403)	(248)
(Increase)/decrease in deferred tax liabilities		33	1,113
		(157)	**821**
Income tax expense is attributable to:			
Loss from continuing operations		(195)	938
Loss from discontinued operations	3	38	(117)
Aggregate income tax expense		**(157)**	**821**

6 Income tax (continued)

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

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Loss from continuing operations before income tax	(8,962)	(8,378)
Loss from discontinued operations before income tax	(5,926)	(12,302)
	(14,888)	**(20,680)**
Prima facie tax on profit from ordinary activities	(4,466)	(6,204)
Tax losses carried forward	4,466	6,204
Tax expense - Fluence Italy S.R.L.	(38)	172
Tax expense - Fluence Israel Ltd	(57)	(291)
Tax expense - Fluence Argentina	(38)	1,065
Tax expense - other	(24)	(125)
Income tax expense	**(157)**	**821**

(c) Deferred tax balances

The components of deferred tax asset and liability comprise:

(i) Deferred tax assets

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
The balance comprises temporary differences attributable to:		
Tax losses	110	406
Unrealised foreign exchange gain/loss	-	3
Accrued licence fee	-	100
Annual leave provision	-	12
Other	97	89
	207	**610**

6 Income tax (continued)

(c) Deferred tax balances (continued)

(ii) Deferred tax liabilities

	Consolidated entity 31 December 2021 $'000	Consolidated entity 31 December 2020 $'000
The balance comprises temporary differences attributable to:		
WIP	87	581
Fixed assets	-	22
Other	808	325
	895	**928**

	Notes	Consolidated entity 31 December 2021 $'000	Consolidated entity 31 December 2020 $'000
Deferred tax asset is attributable to:			
Deferred tax asset		207	610
Less deferred tax asset classified as discontinued operations	3	(207)	-
Aggregate deferred tax asset		**-**	**610**
Deferred tax liability is attributable to:			
Deferred tax liability		895	928
Less deferred tax liability classified as discontinued operations	3	(101)	-
Aggregate deferred tax liability		**794**	**928**

(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 2021 was $47,277,000 (2020: $44,596,000).

7 Loss per share

(a) Loss per share from continuing operations

	Consolidated entity 31 December 2021 $'000	Consolidated entity 31 December 2020 $'000
Loss per share from continuing operations		
Loss profit after income tax	(9,157)	(5,930)
Non-controlling interest	194	2,685
Loss after income tax from continuing operations attributable to the ordinary equity holders of the Group	**(8,963)**	**(3,245)**

7 Loss per share (continued)

(a) Loss per share from continuing operations (continued)

	Consolidated entity	
	31 December 2021 $	31 December 2020 $
Basic loss per share	(0.014)	(0.005)
Diluted loss per share	(0.014)	(0.005)

(b) Loss per share from discontinued operations

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Loss per share from discontinued operations		
Loss after income tax	(5,926)	(13,929)
Non-controlling interest	187	158
Loss after income tax from discontinued operations attributable to the ordinary equity holders of the Group	**(5,739)**	**(13,771)**

	Consolidated entity	
	31 December 2021 $	31 December 2020 $
Basic loss per share	(0.009)	(0.022)
Diluted loss per share	(0.009)	(0.022)

(c) Loss per share

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Loss per share		
Loss after income tax	(15,083)	(19,859)
Non-controlling interest	381	2,843
Loss after income tax attributable to the ordinary equity holders of the Group	**(14,702)**	**(17,016)**

	Consolidated entity	
	31 December 2021 $	31 December 2020 $
Basic loss per share	(0.023)	(0.027)
Diluted loss per share	(0.023)	(0.027)

7 Loss per share (continued)

(d) Weighted average number of shares

	Consolidated entity 2021 Number	Consolidated entity 2020 Number
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings/(loss) per share	624,854,034	624,854,034

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

(a) Cash and cash equivalents

	Notes	Consolidated entity 31 December 2021 $'000	Consolidated entity 31 December 2020 $'000
Cash and cash equivalents		40,849	31,038
Cash and cash equivalents classified as held for sale	3	514	-
		41,363	**31,038**

(b) Other financial assets

	Consolidated entity 31 December 2021 $'000	Consolidated entity 31 December 2020 $'000
Restricted cash	106	109
Short term deposits	11,396	15,365
	11,502	**15,474**

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 2021 $'000	Consolidated entity 31 December 2020 $'000
Loss after income tax	(15,083)	(19,859)
Adjustment for:		
Depreciation and amortisation expenses	2,495	3,108
Share based payments expense	446	321
Loss from discontinued operations	5,926	11,903
Decrease/(increase) in bad debt provision	247	(30)
Warranty provision	170	150

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

(c) Cash flow information (continued)

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Inventory reserve	148	32
Gain on disposal of property, plant and equipment	(31)	(70)
Share of profits of associates and joint ventures	(83)	(55)
Provision for losses	-	309
Increase/(decrease) in employee benefits provision	(2)	195
Decrease in restructuring provision	(568)	(428)
Finance costs - net	(2,690)	522
Foreign exchange differences	4,866	5,546
Decrease in restricted cash	-	318
Increase in trade and other receivables	(6,720)	(2,213)
Increase in inventory	(1,212)	(1,139)
Increase in prepaid expenses	(4,106)	(1,865)
(Increase)/decrease in net tax asset	408	(771)
Increase in other current and non-current assets	(60)	(327)
Increase/(decrease) in trade and other payables	7,817	(776)
Increase in deferred revenues	3,193	27,376
Cash generated from/(used in) operations	**(4,839)**	**22,247**

9 Trade and other receivables

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Current receivables		
Contract receivables	20,024	23,013
Contract unbilled receivables	11,303	15,478
Provision for impairment - contract receivables	(2,118)	(2,079)
	29,209	**36,412**
Other current receivables		
GST and other taxes receivable	1,181	1,207
Income tax receivable	807	816
Other receivables	477	51
	2,465	**2,074**
Total current receivables	**31,674**	**38,486**
Non-current receivables		
Long-term receivables	1,200	1,300
Provision for impairment - long-term receivables	(1,200)	(1,300)
Total non-current receivables	**-**	**-**

9 Trade and other receivables (continued)

	Notes	Consolidated entity 31 December 2021 $'000	31 December 2020 $'000
Additional information on contract debtors			
Total contract debtors		29,209	36,412
Total contract liabilities	17	(25,315)	(17,779)
		3,894	**18,633**

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 they have been invoiced to the customer.

10 Inventories

	Consolidated entity 31 December 2021 $'000	31 December 2020 $'000
Raw materials - at cost	5,494	7,450
Work in progress - at cost	4,301	1,937
Finished goods - at lower of cost or net realisable value	3,592	3,423
	13,387	**12,810**

11 Concession asset

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 was 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 2021, the Group has recognised revenue of $1.4 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 wished to move forward with this project. A mutual termination is the most likely potential outcome. The impairment of assets associated with this project was recorded in 2020 and amounted to $11.9 million. For more information refer to Note 3.

11 Concession asset (continued)

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 2019. In 2021 the Board decided it no longer wished to move forward with this project and the project was listed for sale. The impairment of assets associated with this project was recorded in 2021 and amounted to $3.3 million. For more information refer to Note 3.

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Concession assets		
Current concession asset	231	353
Non-current concession asset	2,881	8,750
	3,112	**9,103**

12 Long-term deposits

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Long-term deposits		
Collections from customers deposited for a period of more than twelve months	14,281	23,368
	14,281	**23,368**

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 2021 $'000	31 December 2020 $'000
Current assets		
Government benefits	-	422
Other	188	183
	188	**605**

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Non-current assets		
Prepaid contract costs	1,731	215
Debt issuance costs	291	-
Other	68	215
	2,090	**215**

14 Investments accounted for using the equity method

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of relationship	Measurement method	Carrying Amount 31 December 2021 $'000	Carrying Amount 31 December 2020 $'000
E.T.G.R Water Infrastructure Management	Israel	50%	Associate	Equity method	547	415

The Group holds 50% interest in E.T.G.R Water Infrastructure Management partnership. This investment contributed a gain of $83,000 to Fluence Corporation Limited (2020: $55,000), which is included in 'Other gains/(losses)' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Summarised below is the financial information of E.T.G.R Water Infrastructure Management as of 31 December 2021 and 31 December 2020.

	31 December 2021 $'000	31 December 2020 $'000
Cash and cash equivalents	502	211
Trade and other receivables	156	157
Other assets	466	568
Total assets	**1,124**	**936**
Trade and other payables	35	43
Total liabilities	**35**	**43**
Net assets	**1,089**	**893**

	31 December 2021 $'000	31 December 2020 $'000
Revenues	452	439
Cost of sales	(271)	(311)
Other expenses	(15)	(18)
Net income for the year	**166**	**110**

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 2021								
Cost or fair value	120	3,723	5,693	1,395	3,812	883	10,958	26,584
Accumulated 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**
Year ended 31 December 2021								
Opening net book amount	120	2,718	1,997	402	1,113	238	6,393	12,981
Disposals	-	-	-	-	-	(5)	-	(5)
Additions	-	707	24	19	408	261	462	1,881
Assets included in a disposal group classified as held for sale and other disposals	(98)	-	(70)	(16)	(82)	(2)	(600)	(868)
Depreciation charge	-	(122)	(432)	(99)	(268)	(134)	(1,426)	(2,481)
Exchange differences	-	91	35	16	1	49	305	497
Closing net book amount	**22**	**3,394**	**1,554**	**322**	**1,172**	**407**	**5,134**	**12,005**
At 31 December 2021								
Cost	22	4,434	5,283	1,346	3,809	1,098	10,506	26,498
Accumulation depreciation	-	(1,040)	(3,729)	(1,024)	(2,637)	(691)	(5,372)	(14,493)
Net book amount	**22**	**3,394**	**1,554**	**322**	**1,172**	**407**	**5,134**	**12,005**

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 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 or fair value	120	3,723	5,693	1,395	3,812	883	10,958	26,584
Accumulated 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**

16 Intangible assets

Consolidated entity	**Capitalised development costs $'000**	**Capitalised concession asset $'000**	**Total $'000**
Year ended 31 December 2021			
Opening net book amount	1,834	-	1,834
Amortisation charge	(183)	-	(183)
Currency translation differences	58	-	58
Closing net book amount	**1,709**	**-**	**1,709**
Year ended 31 December 2020			
Opening net book amount	1,876	4,122	5,998
Additions	-	104	104
Impairment loss	-	(4,012)	(4,012)
Amortisation charge	(171)	-	(171)
Currency translation differences	129	(214)	(85)
Closing net book amount	**1,834**	**-**	**1,834**

17 Trade and other payables and other liabilities

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Current		
Trade payables	5,396	12,750
Accrued payroll liabilities	1,980	3,072
Accrued project expenses	25,315	17,779
Government grants *(i)*	1,906	1,168
Other accruals	7,422	4,682
	42,019	**39,451**
Non-current		
Government grants *(i)*	1,927	2,518
Other liabilities	37	294
	1,964	**2,812**

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% 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 2021 and 31 December 2020, the Group recognised a liability to the IIA in the amount of $3,722,000 and $3,506,000 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 2021 and 31 December 2020, the Group recognised a liability to the MNI in the amount of $111,000 and $180,000 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 and lease liability

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Borrowings and lease liability		
Current borrowings and interest payable	1,549	1,878
Current lease liability	1,369	1,409
	2,918	**3,287**
Non-current borrowings	30,085	19,825
Non-current lease liability	4,178	5,335
	34,263	**25,160**

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. In December 2021 facility increased by US$10.3 million. 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 2021 $'000	Consolidated entity 31 December 2020 $'000
Current		
Employee benefits	1,160	1,485
Warranty provision	1,922	1,822
Provision for onerous contracts	260	334
Restructuring provision	-	1,672
Other provisions	948	1,281
	4,290	**6,594**
Non-current		
Employee benefits	390	711
	390	**711**

Consolidated entity	Employee benefits $'000	Warranty $'000	Onerous contracts $'000	Restructuring provision $'000	Other $'000	Total $'000
Current						
At 1 January 2021	1,485	1,822	334	1,672	1,281	6,594
Additions	317	731	-	-	48	1,096
Reversal	-	-	(74)	(568)	(381)	(1,023)
Utilised	(475)	(561)	-	(1,104)	-	(2,140)
Discontinued operations reclassification	(240)	(31)	-	-	-	(271)
Currency translation differences	73	(39)	-	-	-	34
Total	**1,160**	**1,922**	**260**	**-**	**948**	**4,290**
Non-current						
At 1 January 2021	711	-	-	-	-	711
Additions	156	-	-	-	-	156
Reversal	-	-	-	-	-	-
Discontinued operations reclassification	(479)	-	-	-	-	(479)
Currency translation differences	2	-	-	-	-	2
	390	**-**	**-**	**-**	**-**	**390**

20 Deferred revenue

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Current deferred revenue	31,984	32,045
Non-current deferred revenue	2,838	13,127
	34,822	**45,172**

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 2021 No.	31 December 2020 No.	31 December 2021 $'000	31 December 2020 $'000
Ordinary shares	624,854,034	624,854,034	203,728	204,056
Options	26,949,157	34,607,324	8,551	8,105
Share capital	**651,803,191**	**659,461,358**	**212,279**	**212,161**

(a) **Ordinary Shares - Fully Paid**		**Number of shares**	**$'000**
	Notes		
Opening balance 1 January 2020		624,854,034	204,056
		624,854,034	204,056
Balance 31 December 2020		624,854,034	204,056
		Number of shares	**$'000**
Opening balance 1 January 2021		624,854,034	204,056
Non-controlling interest buyout		-	(328)
Balance 31 December 2021		624,854,034	203,728

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

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

2021	**Number of options**
Opening balance	34,607,324
Unlisted options issued to employees	10,530,000
Cancelled, lapsed and forfeited options	(18,118,167)
Balance at 31 December 2021	26,949,157

(c) Summary of all unlisted options in existence

Date options granted	Expiry date	Issue price of shares (AU$)	Number under option
31 May 2017	25 May 2025	$0.93	8,992,938
14 July 2017	25 May 2025	$0.84	350,000
26 March 2018	25 May 2022	$0.48	1,090,625
28 June 2018	27 August 2022	$1.20	402,344
31 July 2018	31 July 2022	$1.50	750,000
31 July 2018	31 July 2022	$0.46	750,000
10 April 2019	3 June 2022	$0.46	72,000
10 April 2019	3 December 2022	$0.60	54,000
30 May 2019	30 May 2023	$0.80	250,000
30 May 2019	30 May 2023	$0.39	250,000
30 May 2019	14 July 2025	$0.44	1,470,000
10 March 2020	3 June 2022	$0.44	70,000
10 March 2020	3 December 2022	$0.44	74,000
10 March 2020	1 March 2023	$0.44	12,000
10 March 2020	30 May 2023	$0.44	112,000
10 March 2020	29 August 2023	$0.44	169,250
10 March 2020	29 November 2023	$0.44	34,000
10 March 2020	1 March 2024	$0.44	56,000
19 March 2020	1 March 2024	$0.44	1,490,000
24 September 2020	30 May 2024	$0.23	3,750
24 September 2020	31 May 2024	$0.23	250
24 September 2020	29 August 2024	$0.23	44,000
7 December 2020	29 August 2024	$0.26	172,000
6 April 2021	1 October 2024	$0.23	143,750
6 April 2021	31 May 2025	$0.23	2,636,250
25 June 2021	30 June 2022	$0.29	1,500,000
25 June 2021	25 June 2025	$0.23	1,000,000
25 June 2021	25 August 2025	$0.23	4,000,000
16 August 2021	18 August 2025	$0.21	1,000,000
			26,949,157

21 Contributed equity (continued)

(ii) Summary of all unlisted options in existence (continued)

On 6 April 2021, a tranche of 250,000 options was granted with an expiry date of 30 August 2024. These options were forfeited on 26 October 2021 (171,875 options) and 24 December 2021 (78,125 options), not included in the table above as they were forfeited in the same year as issued.

22 Non-controlling interests

	Consolidated entity 31 December 2021 $'000
Opening balance	(1,780)
Contributed equity	-
Loss for the year attributable to non-controlling interests	(381)
Transactions with NCI	266
Closing balance	**(1,895)**

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

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 non-controlling interest buyout the Group share increased by 6.8% and reached 76.8%. In September 2021 the Group bought back the remaining non-controlling interest and reached 100% of ownership.

(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 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, the Bahamas for 15 years.

23 Foreign currency translation reserve

	Consolidated entity	
	31 December 2021 $'000	31 December 2020 $'000
Foreign currency translation reserve	(11,721)	(11,938)

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 2021**

	ILS $'000	EUR $'000	AUD $'000	ARS $'000	CNY $'000	BRL $'000	AED $'000	EGP $'000
Assets	3,203	35,115	601	1,914	16,484	577	7	5,919
Liabilities	(11,118)	(10,346)	(35)	(602)	(7,373)	(3,171)	-	-
	(7,915)	**24,769**	**566**	**1,311**	**9,111**	**(2,594)**	**7**	**5,919**

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

The use of 10% was determined based on the analysis of the above currencies change, on an absolute value basis, between 31 December 2021 and 31 December 2020.

24 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

	2021 +10%/-10% $'000
Israeli New Shekel (ISL)	791/(791)
Euro (EUR)	2,477/(2,477)
Australian Dollar (AUD)	57/(57)
Argentine Peso (ARS)	131/(131)
Chinese Yuan (CNY)	911/(911)
Brazilian Real (BRL)	259/(259)
United Arab Emirates Dirham (AED)	1/(1)
Egyptian Pound (EGP)	592/(592)

(ii) Interest rate risk

The Group's fixed rate borrowings and receivables are carried at amortised cost. They are therefore not subject to interest rate risk as defined in AASB 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

(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.

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 2021	$'000	$'000	$'000
Trade receivables	7,721	10,185	17,906
Other receivables	36	441	477
	7,757	**10,626**	**18,383**

24 Financial risk management (continued)

(b) Credit risk (continued)

Contractual maturities of financial assets	**Less than 6 months**	**Greater than 6 months**	**Total contractual cash flows**
At 31 December 2020	$'000	$'000	$'000
Trade receivables	18,884	2,058	20,942
Other receivables	51	-	51
	18,935	**2,058**	**20,993**

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 the 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.

AASB 9 allows a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses (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 the initial recognition of the respective financial instrument.

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

Measuring movements in credit risk
The Group has developed a sophisticated approach to periodically reviewing each contract. The Group measures its credit risk through credit assessment criteria and uses 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, establishing credit limits, using 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 handle 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.

24 Financial risk management (continued)

(b) Credit risk (continued)

Impairment of financial assets (continued)

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

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

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

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

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.

24 Financial risk management (continued)

(c) Liquidity risk (continued)

Maturity profile (continued)

Contractual maturities of financial liabilities	**Less than 6 months**	**Greater than 6 months**	**Total contractual cash flows**
At 31 December 2021	$'000	$'000	$'000
Trade and other payables and other liabilities	29,591	14,392	43,983
Borrowings	192	31,442	31,634
Lease liabilities	684	4,863	5,547
	30,467	**50,697**	**81,164**
At 31 December 2020			
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**

Long-term 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. In 2021 the finance facility increased to US$30 million. 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 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).

25 Recognised fair value measurements (continued)

Fair value hierarchy (continued)

2021	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Recurring fair value measurements				
Government grant liability	-	-	3,833	3,833
	-	**-**	**3,833**	**3,833**

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

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% (2020: 18.2%)

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 2020	**4,562**
Adjustment to fair value of liability	(1,164)
Currency translation differences	288
Closing Balance at 31 December 2020	**3,686**
Adjustment to fair value of liability	20
Currency translation differences	127
Closing Balance at 31 December 2021	**3,833**

26 Remuneration of auditors

	Consolidated entity 2021 $	2020 $
Audit and other assurance services		
Audit and review of financial statements - BDO Audit Pty Ltd	180,500	189,000
Audit and review of financial statements - BDO related practices	193,425	195,000
	373,925	**384,000**
Other services		
BDO - Non-assurance services (i)	38,000	35,600
	38,000	**35,600**

26 Remuneration of auditors (continued)

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

27 Commitments and Contingent Liabilities

(a) Commitments

(i) As at 31 December 2021 the group provided bank guarantees for fulfillment of a lease commitment, for bid bonds and performance guarantees for its projects in the amount of $950,000 (2020: $1,029,000).

(ii) The Group has a government grant liability of $3,833,000 (2020: $3,686,000). For more details refer to Note 17 - Trade and other payables and other liabilities.

(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, is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The directors are of the opinion that the claims can be successfully resisted by the company.

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

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 years 2021 and 2020.

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:

29 Parent entity financial information (continued)

Summary financial information (continued)

	31 December 2021 $'000 AUD	31 December 2020 $'000 AUD
Current assets	615	471
Total assets	**22,674**	**41,280**
Current liabilities	235	517
Total liabilities	**629**	**1,806**
Issued capital	255,099	254,749
Reserves	6,610	(6,663)
Accumulated losses	(239,664)	(208,612)
Total Equity	**22,045**	**39,474**
Loss for the period	(31,052)	(13,281)
Total comprehensive loss	**(31,052)**	**(13,281)**

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 the 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 2021 Fluence Corporation Limited had no contractual commitment and contingent liabilities.

30 Subsidiaries

Name	Place of incorporation	Ownership interest 2021	Ownership interest 2020
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			
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%

30 Subsidiaries (continued)

Name	Place of incorporation	Ownership interest 2021	Ownership interest 2020
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%
Fluence Water Singapore PTE Ltd.	Singapore	100%	-
Fluence Philippines, Inc.	Philippines	100%	-
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	100%	77%
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%	60%
FLC Water Bahamas Limited	Bahamas	100%	100%

31 Events occurring after the reporting period

On 14 March 2022, the Group appointed Thomas Pokorsky as CEO and Managing Director. Richard Irving will retain his position as Chairman of the Board.

No other 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.

Fluence Corporation Limited
Directors' Declaration
31 December 2021

In the Directors' opinion:

(a) the Financial Statements and notes set out on pages 41 to 97 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 2021 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 of the Board
31 March 2022
New York

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

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

INDEPENDENT AUDITOR'S REPORT

To the members of Fluence Corporation Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Fluence Corporation Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2021, 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 2021 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 point in time, as performance obligations are fulfilled. AASB 1059 *Service Concession Arrangements* is also applicable to Fluence'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. Revenue has been determined as a key audit matter due to the: • Complexity associated with accounting for individual contract terms and conditions and the timing of revenue recognition • Degree of estimation required over the course of a contract • 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).*	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 – Likelihood of risk events – Material new contracts – High value contracts which may also include more than one performance obligation • For the contracts selected the following procedures were performed, as appropriate: – Obtaining an understanding of the contract terms and conditions to evaluate whether they reflected Management's position including estimated 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 – Testing the determination of the revenue recognition for B.O.T. contracts in accordance with AASB 1059 and the associated margin and timeline in line with the terms of the concession arrangement – 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. • Assessing the appropriateness of the relevant disclosures in the financial statements.

Discontinued Operations and Assets Held for Sale

Key audit matter	***How the matter was addressed in our audit***
The Group has classified its operations in Italy and Peru as held for sale and its operations in Mexico as a discontinued operation. AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* outlines specific conditions to be met to satisfy the disclosure and presentation requirements associated with classifying operations as either 'held for sale' or 'discontinued'. These have been considered a key audit matter due to the judgement required, and material nature, of the operations at 31 December 2021. *The accounting policy and details for the discontinued operations are disclosed in Note 3 and details of the key accounting estimates and assumptions associated with the discontinued operations are disclosed in Note 1(aa).*	Our audit procedures included, but were not limited to: • Obtaining correspondence between Fluence Management and third parties including the: – Draft share purchase agreements and letters of intent – Mutual termination agreement in relation to Fluence's Mexico operations – Relevant legal correspondence • Reviewing Board minutes and enquiring with the Chief Financial Officer and Chief Legal Officer • Evaluating Management's position paper and assessing the judgements and assumptions for each operation to agree they meet the requirements of the Accounting Standards • Assessing for indicators of impairment in relation to the held for sale and discontinued operations including: – Reviewing the third-party correspondence to corroborate commercial discussions held to date – Evaluating the recoverability of carrying value of assets recognised including reviewing the contractual enforceability of the bond associated with the Mexican discontinued operation • 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 2021, 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 have 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 36 of the directors' report for the year ended 31 December 2021.

In our opinion, the Remuneration Report of Fluence Corporation Limited, for the year ended 31 December 2021, 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 2022

Fluence Corporation Limited
Shareholder information
31 December 2021

Following is a summary of shareholder information as at 14 March 2022.

A. Distribution of equity securities

Analysis of numbers of ordinary shareholders by size of holding:

Holdings Ranges	Holders	Total Units	%
1-1,000	536	123,657	0.020
1,001-5,000	1,070	3,113,563	0.500
5,001-10,000	576	4,589,579	0.730
10,001-100,000	1,464	52,463,923	8.400
100,001-999,999,999	331	564,563,312	90.350
Totals	**3,977**	**624,854,034**	**100.000**

Based on the Fluence closing share price on March 14, 2022 of A$0.205, there were 997 holders of less than a marketable parcel of ordinary shares, holding 941,616shares in aggregate.

All issued ordinary shares carry one vote per share.

B. Equity security holders

Twenty largest equity security holders

The names of the twenty largest registered holders of Fully Paid Ordinary Shareholders are listed below:

Name	Balance as at 14 March 2022	%
RSL INVESTMENTS CORPORATION	131,037,848	20.971%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <GSCO CUSTOMERS A/C>	71,012,637	11.365%
POND VENTURES NOMINEES 111 LIMITED	36,264,579	5.804%
CITICORP NOMINEES PTY LIMITED	31,751,675	5.081%
RSL CAPITAL LLC	31,046,683	4.969%
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	24,752,451	3.961%
PLAN B VENTURES I LLC	20,007,151	3.202%
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	19,274,236	3.085%
NATIONAL NOMINEES LIMITED <DB A/C>	18,575,369	2.973%
EMPLOYEE EQUITY ADMINISTRATION PTY LTD	14,166,593	2.267%
JAGEN PTY LTD	11,644,393	1.864%
MR HAO JING	9,100,000	1.456%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	8,578,645	1.373%
PYXIS HOLDINGS PTY LTD <THE MAPLETREE A/C>	7,225,000	1.156%
DR STUART LLOYD PHILLIPS & MRS FIONA JANE PHILLIPS <SL & FJ PHILLIPS S/F A/C>	7,202,500	1.153%
BOND STREET CUSTODIANS LIMITED <SALTER - D79836 A/C>	5,000,000	0.800%
MR RONEN ITZHAK SHECHTER	4,240,850	0.679%
BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	4,186,086	0.670%
HOSANDA CORPORATION PTY LIMITED	3,077,725	0.493%
MR XUANJUN LIU	2,584,457	0.414%
Total Securities of Top 20 Holdings	460,728,878	73.734%
Total Securities of remaining shareholders	164,125,156	26.266%
Total of Securities	**624,854,034**	100.00%

B. Equity security holders

(continued)

Options as at 31 December 2021 (not listed)

Class of options	Total number granted	Number of holders	Lowest exercise price	Highest exercise price	Earliest expiry date	Latest expiry date
Director Options	18,962,938	7*	$0.23	$1.50	30 June 2022	25 August 2025
Issued under the Company's ESOP	7,986,219	54	$0.21	$1.50	11 March 2022	18 August 2025
Total	26,949,157					

* Includes vested options for past Directors.
Options do not carry the right to vote.

C. Substantial holders

Substantial holders in the company, based on the latest notices received from them, are set out below:

	Number held	Percentage
RSL INVESTMENTS CORPORATION	165,408,542	26.47%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <GSCO CUSTOMERS A/C>	52,846,024	8.46%
POND VENTURES NOMINEES 111 LIMITED	37,264,579	5.96%
Total Number of Shares Held by Substantial Shareholders	**255,519,145**	**40.89%**

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Other classes of equity securities do not carry voting rights.

On-market buy-back

There is no current on-market buy-back

Shareholder enquiries

Shareholders with enquiries about their shareholdings should contact the share registry:

Boardroom Pty Ltd
Level 12, 225 George Street, Sydney, NSW, 2000, Australia
Telephone: 1300 737 760 (local), +61 2 9290 9600 (international)
Email: enquiries@boardroomlimited.com.au

Change of address, change of name, consolidation of shareholdings

Shareholders should contact the Share Registry to obtain details of the procedure required for any of these changes.

Annual report

Shareholders do not automatically receive a hard copy of the Company's Annual Report unless they notify the Share Registry in writing. An electronic copy of the Annual Report can be viewed on the company's website: www.fluencecorp.com

Corporate Governance Statement

Refer to the Company's Corporate Governance statement at: https://www.fluencecorp.com/investor-news/

Tax file numbers

It is important that Australian resident Shareholders, including children, have their tax file number or exemption details noted by the Share Registry.

CHESS (Clearing House Electronic Sub-register System)

Shareholders wishing to move to uncertified holdings under the Australian Securities Exchange CHESS system should contact their stockbroker.

Uncertified share register

Shareholding statements are issued at the end of each month that there is a transaction that alters the balance of an individual/company's holding.

Company Secretary

The name of the Company Secretary is Ms Melanie Leydin.

Registered office

The address of the registered office is Level 4, 96-100 Albert Road, South Melbourne VIC 3205, Australia.

Phone: +61 3 9692 7222

Stock exchange listing

Quotation has been granted for all the ordinary shares of the Group on all member exchanges of the Australia Securities Exchange Limited.