

Fluence Corporation Limited

Appendix 4D

Interim Half-year Report

Half-year 30 June 2018

Results for announcement to the market

Current reporting period - half year ended 30 June 2018
Previous - half year ended 30 June 2017

				\$'000
Revenue for ordinary activities	Up	8,979.0%	to	32,775
Loss from ordinary activities after tax attributable to members	Up	336.9%	to	(53,075) ^(*)
Net loss for the period attributable to members	Up	336.2%	to	(52,993) ^(*)

Dividends (distributions)

	Amount per security	Franked amount per security
Final dividend	-	-
Previous corresponding period	-	-

Net tangible asset per security

As at 30 June 2018	0.09
As at 31 December 2017	0.11
Record date for determining entitlements to dividend	N/A

Explanation of the above information:

Refer to the Directors' Report - Review of Operations.

(*) including non-cash items of \$46,899,000 comprising goodwill impairment loss, foreign exchange gain, depreciation and amortisation, share based compensation, bad debt and other provisions. For further details regarding the goodwill impairment loss, refer to page 6 of the Directors' Report and note 7 in the Financial Statements.

To be read in conjunction with the 31 December 2017 Annual Report

Fluence Corporation Limited

ABN 52 127 734 196

Interim Report for the half-year 30 June 2018

Fluence Corporation Limited ABN 52 127 734 196

Interim Report - 30 June 2018

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This Interim Financial Report does not include all the notes of the type normally included in an Annual Financial Report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 31 December 2017 and any public announcements made by Fluence Corporation Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

**Fluence Corporation Limited
Directors' Report
30 June 2018**

Directors' Report

The Directors present their report, together with the financial statements for the half-year ended 30 June 2018, on Fluence Corporation Limited (the "Company" or "Group").

Directors

The following persons were Directors of Fluence Corporation Limited during the reporting period and up to the date of this report, unless otherwise stated:

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

Review of operations

The operations for the six months ended 30 June 2018 are those of Fluence Corporation Limited.

Key First Half 2018 Highlights: continuing to deliver on the Company's growth strategy.

Full year 2018 guidance reaffirmed.

- Revenue expected between US\$105 million to US\$115 million.
- Gross profit expected between US\$22 million to US\$25 million.

Contract revenue backlog of US\$84.0 million at 30 June 2018.

- US\$49.2 million anticipated to convert into revenue in 2018, in addition to US\$32.8 million revenue generated in the first half of 2018.
- Further revenues anticipated to come in 2018 from the current sales pipeline and new sales activities.

Accelerating progress achieved in relation to China growth strategy.

- First sales from three newly signed local Chinese partners: Glory Land (Beijing) Science & Technology Co., Ltd, Hunan Aerospace Kaitian Environmental Technology Company Ltd., and Hubei ITEST.

China Progress

	2018 YTD
Commercial contracts won	10
Partners secured	22
Provinces covered	14
Plants and reference sites operating	9
Plants in construction	5

Review of operations (continued)

Major projects progressing

- San Quintin, Mexico project construction expected to commence in Q3 2018
- PDVSA project in Venezuela on track for revenue recognition in 2018
- Bahamas project signed and three NIROBOX™ units delivered, increasing recurring revenues
- Additional NIROBOX™ unit sold to a resort in Barbuda in July
- Additional NIROBOX™ unit sold to a resort in the Philippines in July
- First commercial sale of Aspiral™ Smart Packaged Wastewater Treatment Plant in the Philippines at a residential development in Manila
- First Aspiral™ Smart Packaged Wastewater Treatment Plant sold in the USA, to WaterFleet, LLC in August.

Progress in key regions during First Half 2018

Caribbean

In July, Fluence secured two NIROBOX™ smart-packaged seawater desalination projects in the Caribbean. The first, a Build - Own - Operate - Transfer (BOOT) project for RAV Bahamas' resort in Bimini, Bahamas, will provide Fluence a source of recurring revenue. The other project, for a resort in Barbuda, West Indies, is another example of the value proposition of Fluence's smart-packed NIROBOX™ seawater desalination solutions for this geography and industry. Fluence expects to continue leveraging opportunities for its decentralised solutions in this region due to their low cost, low maintenance, small footprint and fast implementation time.

Latin America

Our team in Latin America continues their solid performance and Fluence is proud to be one of the leaders for all water and wastewater related challenges in the region.

Fluence reached financial close for a seawater desalination project for the State Water Commission of Baja California, to provide water for the town of San Quintin in Mexico. The construction phase for the US\$48 million project is expected to start and first disbursement to be received in Q3 2018 assuming no additional local legislative delays and completion of remaining qualifying conditions. The Company expects the plant to be fully operational within 20 months of project commencement, after which water sales are expected to generate US\$10 million of recurring annual billings from a 30-year operating and maintenance agreement. The San Quintin project is a significant milestone for Fluence as it is the first non-recourse finance project arranged by the Company.

Fluence completed delivery and commissioning of its first two NIROBOX™ BW (brackish water) units in South America for the Municipality of Berazategui, in the province of Buenos Aires, Argentina. These water treatment units each produce 1,500 m³/day of potable drinking water to residents, who previously only had access to highly polluted well water.

Work is ongoing for the Portugesa project in Venezuela under the umbrella of the previously disclosed PDVSA contract. This project involves a wastewater treatment solution for ethanol plants and will continue throughout the year with estimated contract revenue in 2018 of US\$26.2 million, of which US\$10.4 million was recognised in H1 2018 and the remaining US\$15.8 million is expected to be recognised in the second half of this year.

June marked the inauguration of the Company's new, 100% owned US\$3.2 million production plant in Mar del Plata, Argentina, providing Fluence with 2,500 m² of production space that is equipped to assemble the full range of water, wastewater and reuse treatment solutions that Fluence offers in the Latin and South American markets.

In August 2018, Fluence received a US\$3.5 million contract to design and build a complex water treatment plant for a prominent power plant in Buenos Aires, Argentina. The system will treat water from aquifers and process water from the power plant's operations. Fluence's water treatment plant, which will support the power plant's capacity expansion, is expected to be delivered, installed and operational onsite by June 2019.

On 1 July 2018, Argentina was declared a hyperinflationary economy. A significant proportion of the Company's customer contracts are denominated in USD. Steps have been taken to reduce foreign currency risks.

Review of operations (continued)

Building pipeline of opportunities in Africa

Fluence is continuing to negotiate with an African nation to design and construct a 150,000 m³/day advanced water treatment plant to provide high-quality drinking water for more than one million people following the signing of an exclusive MOU in Q3 2017. This project is anticipated to be financed through a government-backed export credit financing institution and will be operational within a two-year period following contract finalisation.

Two smart-packaged MABR-based Aspiral™ (formerly known as C-MABR) plants have been shipped to Ethiopia and are currently awaiting the finalisation of the civil construction by Fluence's local partners, indicating another new geography is well suited for the validated, smart-packaged wastewater treatment solution.

China opportunity materialising, with developing awareness through new partners and sales in new provinces

In the current five-year plan, the Chinese Government is targeting and providing finance for an increase in rural wastewater treatment to reach Class 1A effluent discharge from only 10% at the start of the Plan, to 70%. Therefore, China remains a significant long-term market opportunity and an important strategic market for Fluence.

Based on available market information, the Company believes that its MABR-based solutions offer the lowest cost, lowest energy, and fastest to deploy options available to treat rural wastewater to Class 1A compliant levels.

China plant summary

Fluence has six (6) smart-packaged Aspiral™ demonstration units and three (3) Aspiral™ plants in China currently operational, 22 distinct partnerships covering districts and regions in fourteen (14) provinces, ten (10) commercial contracts signed and an additional five (5) Aspiral™ installations under construction. These sites serve as important reference points for the efficacy of Fluence's advanced MABR technology to serve this opportunity.

During Q1, Fluence was awarded a contract with one of its local partners, Jiangsu Jinzi Environment Company (Jinzi). The C-MABR for a 1,000 m³/day wastewater treatment plant for the local government of Zhenfeng County in Guizhou province follows an order for six C-MABR plants pursuant to the framework agreement between Fluence and Jinzi in November 2017.

In May, Fluence secured a contract from the Changping District government for the First Aspiral™ Plant in Beijing area with new local partner Glory Land (Beijing) Science & Technology Co., Ltd. The contract is for an Aspiral™ S1 smart-packaged MABR-based solution that will be used to treat domestic wastewater from an innovative underground treatment installation. The unit will treat 20 m³/day (5,000 GPD) to effluent standards, which exceed Class 1A quality and is scheduled to be commissioned as soon as October 2018.

In June, Fluence secured a further contract from the Yiyang City government for the deployment of an Aspiral™ L4 smart-packaged MABR-based solution for use in a municipal wastewater treatment plant to treat 200 m³/day (50,000 GPD). This contract was won through Fluence's new local partner Kaitian Environmental Technology Company Ltd based in Hunan Province and whose parent company is Hunan AeroSpace Company Limited, a state-owned company.

Later in June, Fluence executed a tripartite framework agreement with the Yiyang City Government and local partner Hunan Aerospace Kaitian Environmental Technology Company Ltd for the deployment of three (3) Aspiral™ smart-packaged MABR-based L4 units to be deployed across three districts in Yiyang City. It is expected that this project will allow Fluence to leverage further opportunities through this partner in this region.

After period end in July, Fluence completed its first sale through new local Chinese partner, Hubei ITEST. The contract is for a 200 m³/day wastewater treatment plant for a highway service area in Xiaogan, Hubei Province, in China. This Aspiral™ installation is Fluence's second in Hubei Province, following successful commissioning of the first in June 2017. According to the terms of the agreement, following successful testing of this plant, the sale is expected to pave the way for additional Aspiral™ sales in the remaining service areas along the highways in Hubei Province, for which Hubei ITEST is responsible.

Review of operations (continued)

South East Asia

During the half, Fluence provided a Nirobox SW unit to a new resort facility in the Philippines producing 1,000 m³/day of desalinated, potable water from seawater for consumption. The unit was installed and operating within one week of receiving the order. In July 2018, Fluence sold another NIROBOX™ 500 to a resort and waterpark facility in Cebu, Philippines.

With municipalities for many similar resorts failing to provide water at competitive rates, there are a significant number of additional private customer groups to target within the region.

In August 2018, Fluence secured its first commercial sale of the Aspiral™ system in the Philippines, consisting of two smart packaged wastewater treatment units. The system will be custom-designed to treat 400 m³/day of specific effluent at the residential development in Manila, with commissioning expected within three months. Fluence is already negotiating additional opportunities with the same customer.

Having now established a presence in the Philippines, Fluence will look to expand its reach in the region and explore similar opportunities in Malaysia, Indonesia and Thailand.

Foundations in place for growth in the USA

The market for water reuse in the US is expected to grow over the next two decades due to policy change, population growth and climate related challenges in water scarce regions such as California.

In April 2018, Fluence was awarded a contract to deliver a water treatment reuse system to Rosenblad Design Group, as part of a larger project being installed in California. Fluence's zero liquid discharge solution utilises ultrafiltration and reverse osmosis equipment to treat brine for reuse. This system is expected to be delivered, installed and operational by the end of 2018.

The Aspiral™ S1 model demonstration unit at the Códiga Resource Recovery Center at Stanford University in California, which was successfully deployed in early 2018, continues to perform to, or exceed, expectations. Testing to date by Fluence's engineers onsite has exceeded performance expectations for the effluent standards required by California's strict Title 22 legislation. As planned, Fluence handed over the operation of the plant to the Códiga Research Centre's staff in July and expects positive reports from them over the next nine months while they are testing and verifying the accurate performance of the system. This unit together with the MABR plant in the US Virgin Islands, which has been operating since November 2016, serve as demonstration and reference sites to support further USA sales.

In August 2018, Fluence announced its first commercial sale of Aspiral™ in the USA, a key strategic milestone for the Company. The L+ Ultrafiltration plant designed for client WaterFleet, LLC will treat the sewage of an LNG worksite, and will be commissioned by January 2019. The plant will treat 33,000 gallons per day of wastewater, with the treated effluent then being reused for dust suppression on the sites roads. Fluence is confident that the project can lead to additional opportunities in the municipal and industrial decentralised wastewater treatment market in the USA.

SUBRE deployment in Israel

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

Fluence is currently quoting SUBRE projects for potential clients in the US and China and continues to focus on the full commercialisation of the product in the first half of 2019. The Company's China manufacturing plant will be ready for SUBRE production by the end of 2018.

Review of operations (continued)

Progress in Europe

In June, Fluence was awarded its first wastewater and waste-to-energy system designed specifically for use in the steel industry. The US\$4.5 million contract includes the design and construction of these systems at ArcelorMittal's steel mill in Ghent, Belgium. Advanced anaerobic digestion technology will be used to achieve the client's desired effluent. By adding waste-to-energy treatment to the system, the biogas produced will be used to power the steel mill's operations, which will in turn lower the overall operating costs.

The Fluence systems are expected to be delivered, installed and operational onsite within 18 months. ArcelorMittal is the world's largest crude steel producer, accounting for 90 million tons of steel per year. The successful completion of this project will showcase Fluence's capabilities for similar steel mill applications around the world.

Product innovation and marketing

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

During Q2, Fluence presented its products and technologies at the Singapore International Water Week, the Sea Food Sustainability Summit in Barcelona, IDA International Water Reuse and Recycling Conference in Valencia, CaribDA 2018 Biennial Conference & Exposition in Curaçao, IFAT 2018 in Munich, and the 2018 Arizona Water Conference. This investment of time and resources provides visibility of the Fluence solutions amongst key decision makers and potential industry partners.

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

Strengthened management team

During the first half year 2018, Fluence made several key appointments to its management team.

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

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

Fluence also announced the promotion of Anthony (Tony) Hargrave, B.Sc., MBA, from VP Global Operations to Chief Operating Officer, effective 29 July 2018. Tony has an engineering background, as well as an MBA and almost 30 years of experience in the water and wastewater industry internationally, particularly across Asia. Tony has lived and worked in China, India, Europe and the USA. Having joined Fluence in May, Tony replaces Philippe Laval, who joined RWL Water in 2014 as VP of Global Sales, and later Chief Operating Officer before becoming Fluence's COO at the time of the merger in 2017. Fluence appreciates Philippe's contributions to many key projects and notes that he continues to be available to assist the Company on a consulting basis.

Fluence Corporation Limited
Directors' Report
30 June 2018
(continued)

Review of operations (continued)

Fluence is also pleased to welcome Paul Donnelly, who joined Fluence's Board of Directors as a Non-Executive Director in July, following the retirement of Robert Wale in May. Paul brings extensive global capital markets experience gained over 23 years with Macquarie Group, with particular skills in infrastructure project finance, that will support the company's future growth.

Review of financial results

Following the merger with RWL Water LLC on 14 July 2017, the Consolidated entity for the six months ended 30 June 2018 which is inclusive of RWL Water LLC is significantly larger than the Consolidated Entity for the six months ended 30 June 2017. Therefore, comparisons with financial results for the first half of 2017 are not particularly meaningful.

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

The revenue from ordinary activities for the six months ended 30 June 2018 was \$32,775,000 (2017: \$361,000) and the loss from ordinary activities after tax was \$53,075,000 (2017: \$12,149,000).

The loss from ordinary activities included non-cash items amounting to \$46,899,000. The non-cash items comprised of goodwill impairment loss (\$56,293,000), foreign exchange gain of \$12,658,000, depreciation and amortisation (\$1,270,000), share based compensation (\$1,643,000), bad debt and other provisions (\$351,000).

Cost of sales for the six months ended 30 June 2018 increased to \$25,685,000 (2017: \$2,165,000). This reflected the cost of producing a few demonstration units produced in Israel to support marketing activities in China and the USA as well as scaling up production capacity in Israel and China.

Research and development expenses for the six months ended 30 June 2018 increased to \$2,833,000 (2017: \$2,014,000). This reflected an increase in the R&D team in line with budget and product development costs for the China MABR, SUBRE and other wastewater treatment technologies.

The Group's net assets decreased by \$61,945,000 from \$103,601,000 to \$41,656,000 during the six months to 30 June 2018, principally due to the write off of goodwill on acquisition.

The acquisition of RWL Water which completed on 14 July 2017 gave rise to goodwill of \$56 million. The calculation of the goodwill reflected the share price as at the date of acquisition and the tangible assets of RWL Water. The share price at the date of acquisition was \$0.7744 and had averaged \$0.674 based upon the VWAP over the prior 90 days. Following the acquisition and completion of the integration of the two businesses, a review of the combined businesses was undertaken. This review highlighted the difficulties in attributing individual values to business units. Moreover, the activities of the business units have changed substantially since the acquisition in terms of scope and scale. Therefore, the Directors have written off all the goodwill on acquisition. This will be a one-off accounting entry and has no impact on the cash flow or operations of the Group.

Significant changes in the state of affairs

During the six months period, there was no significant change in the state of affairs of the company.

Significant events after balance date

After a sustained period of economic uncertainty, Argentina has continued to experience a series of negative economic outcomes in 2018. Increasing inflation rates, and the substantial devaluation in the value of the peso, have led to the country being classified as a hyperinflationary economy effective 1 July 2018. The Group holds the majority of its funds in Argentina in USD denominated accounts. The Group will continue to assess the impact of the hyperinflationary economy in Argentina on its financial results and assets derived from its operations in Argentina based on the requirements of IAS 29 *Financial Reporting in Hyperinflationary Economies*.

Fluence Corporation Limited
Directors' Report
30 June 2018
(continued)

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.

Fluence Corporation Limited
Directors' Report
30 June 2018
(continued)

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 9.

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors.



Henry Charrabe
Managing Director and CEO
30 August 2018

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

As lead auditor for the review of Fluence Corporation Limited for the half-year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

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

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



David Garvey
Partner

BDO East Coast Partnership

Melbourne, 30 August 2018

Fluence Corporation Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half-year 30 June 2018

		Consolidated entity	
		30 June	30 June
		2018	2017
	Notes	\$'000	\$'000
Revenue from continuing operations			
Operating revenue	3	32,775	361
Other income		30	4
Expenses			
Cost of sales		(25,685)	(2,165)
Research and development expenses		(2,833)	(2,014)
Sales and marketing expenses		(5,293)	(956)
General and administration expenses		(12,507)	(6,002)
Goodwill impairment	7	(56,293)	-
Other gains/(loss) - net	4	13,231	(1,369)
Finance income/(costs) - net		3,180	(8)
Loss before income tax		<u>(53,395)</u>	<u>(12,149)</u>
Income tax expense		320	-
Loss for the period		<u>(53,075)</u>	<u>(12,149)</u>
Loss for the year is attributable to:			
Owners of Fluence Corporation Limited		(52,993)	(12,149)
Non-controlling interests		(82)	-
		<u>(53,075)</u>	<u>(12,149)</u>
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(10,208)	1,727
Adjustment on adoption of AASB 16 Leases		(328)	-
Total comprehensive income for the period		<u>(63,611)</u>	<u>(10,422)</u>
Total comprehensive income for the period is attributable to:			
Owners of Fluence Corporation Limited		(63,529)	(10,422)
Non-controlling interests		(82)	-
		<u>(63,611)</u>	<u>(10,422)</u>
Losses per share for profit from continuing operations attributable to the ordinary equity holders of the Group:			
Basic loss per share	6	(0.13)	(0.05)
Diluted loss per share	6	(0.13)	(0.05)

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 30 June 2018

	Consolidated entity	
	30 June 2018	31 December 2017
Notes	\$'000	\$'000
ASSETS		
Current assets		
Cash and cash equivalents	40,560	75,153
Other financial assets	4,169	4,786
Trade and other receivables	23,517	26,684
Inventories	22,513	18,538
Prepayments	6,731	3,876
Other assets	522	2,873
Total current assets	98,012	131,910
Non-current assets		
Other receivables	146	260
Investments accounted for using the equity method	509	495
Deferred tax assets	1,595	1,921
Property, plant and equipment	13,679	7,114
Intangible assets	5,848	60,167
Other assets	2,794	2,790
Total non-current assets	24,571	72,747
Total assets	122,583	204,657
LIABILITIES		
Current liabilities		
Trade and other payables	26,781	27,811
Borrowings	1,085	1,145
Current tax liabilities	75	72
Provisions	17,913	27,711
Deferred revenue	24,047	38,173
Other financial liabilities	-	1,000
Total current liabilities	69,901	95,912
Non-current liabilities		
Other payables	8,696	2,595
Deferred tax liabilities	1,536	1,671
Provisions	794	878
Total non-current liabilities	11,026	5,144
Total liabilities	80,927	101,056
Net assets	41,656	103,601
EQUITY		
Contributed equity	158,542	156,898
Other reserves	(11,584)	(1,376)
Accumulated losses	(105,396)	(52,075)
	41,562	103,447
Non-controlling interests	94	154
Total equity	41,656	103,601

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

Fluence Corporation Limited
Consolidated Statement of Changes in Equity
For the half-year 30 June 2018

Consolidated entity	Contributed equity \$'000	Other reserves \$'000	Accumulated losses \$'000	Total \$'000	Non- controlling interests \$'000	Total equity \$'000
Balance at 1 January 2017	53,129	(655)	(28,411)	24,063	-	24,063
Loss for the period	-	-	(12,149)	(12,149)	-	(12,149)
Exchange differences on translation of foreign operations	-	1,727	-	1,727	-	1,727
Total comprehensive income for the period	-	1,727	(12,149)	(10,422)	-	(10,422)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs and tax	764	-	-	764	-	764
Share-based payments	1,477	-	-	1,477	-	1,477
	2,241	-	-	2,241	-	2,241
Balance at 30 June 2017	55,370	1,072	(40,560)	15,882	-	15,882
Balance at 1 January 2018	156,898	(1,376)	(52,075)	103,447	154	103,601
Adjustment on adoption of AASB 16	-	-	(328)	(328)	-	(328)
Restated total equity at the beginning of the financial period	156,898	(1,376)	(52,403)	103,119	154	103,273
Loss for the period	-	-	(52,993)	(52,993)	(82)	(53,075)
Exchange differences on translation of foreign operations	-	(10,208)	-	(10,208)	-	(10,208)
Total comprehensive income for the period	-	(10,208)	(52,993)	(63,201)	(82)	(63,283)
Transactions with owners in their capacity as owners:						
Share-based payments	1,644	-	-	1,644	-	1,644
Transactions with non-controlling interests	-	-	-	-	22	22
	1,644	-	-	1,644	22	1,666
Balance at 30 June 2018	158,542	(11,584)	(105,396)	41,562	94	41,656

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 half-year 30 June 2018

	Consolidated entity	
	30 June 2018 \$'000	30 June 2017 \$'000
Cash flows from operating activities		
Receipt from customers	22,819	316
Payments to suppliers and employees	(52,325)	(8,388)
Interest received	2,413	4
Interest and other costs of finance paid	(115)	(5)
Income taxes paid	(160)	-
Other	99	(144)
Net cash (outflow) from operating activities	<u>(27,269)</u>	<u>(8,217)</u>
Cash flows from investing activities		
Payments for property, plant and equipment	(2,118)	(615)
Proceeds from sale of property, plant and equipment	24	-
Proceeds from disposal of short-term deposits	942	-
Acquisition of non-controlling interest in a subsidiary	(1,803)	-
Funds transferred to term deposit	-	(11)
Net cash (outflow) from investing activities	<u>(2,955)</u>	<u>(626)</u>
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities	-	769
Repayment of borrowings	(6)	-
Finance lease payments	(743)	-
Grants from governmental institutions	-	58
Transactions costs related to issue of ordinary shares	-	(5)
Final payment to redeem a note from original vendor of Emefcy Ltd (Israel)	(1,000)	-
Contributions from non-controlling interests	72	-
Net cash (outflow) inflow from financing activities	<u>(1,677)</u>	<u>822</u>
Net (decrease) in cash and cash equivalents	(31,901)	(8,021)
Cash and cash equivalents at the beginning of the financial year	75,153	22,871
Effects of exchange rate changes on cash and cash equivalents	(2,692)	233
Cash and cash equivalents at end of period	<u>40,560</u>	<u>15,083</u>

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

1 Significant accounting policies

(a) General information and basis of preparation

These Interim Financial Statements of the Group are for the six months ended 30 June 2018 and are presented in United States Dollars, which is the Group's presentation currency. These general purpose Interim Financial Statements have been prepared in accordance with the requirements of AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. They do not include all of the information required in annual financial statements in accordance with Australian Accounting Standards and should be read in conjunction with the financial statements of the Group for the year ended 31 December 2017 and any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the *Corporations Act 2001*. The Group has applied new accounting standards and their impact is disclosed in Note 1(c).

The Interim Financial Statements have been approved and authorised for issue by the board of directors on 31 August 2018.

(b) Going concern

The Group incurred an operating loss of \$53,075,000 (2017: \$12,149,000) and had cash outflows from operating activities of \$27,269,000 (2017: \$8,217,000) for the period ended 30 June 2018. The operating loss included a one-off, non-cash impairment expense associated with the write-off of goodwill of \$56,293,000.

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business for the following reasons:

- At 30 June 2018, the Group had net current assets of \$28,111,000 (31 December 2017: \$35,998,000);
- The Group recognises cash and cash equivalents on hand of \$40,560,000 at 30 June 2018 (31 December 2017: 75,153,000);
- Cash flow forecasts prepared by the Board indicated that the company currently has sufficient cash reserves and working capital to fund its planned activities for a period beyond 12 months from the date of signing of financial report;

Based on the above, the Directors believe the consolidated entity will continue as a going concern and that it is appropriate to adopt that basis of accounting in the preparation of the financial report.

(c) Change in accounting standards

New and amended accounting standards relevant to the Group that are effective for the period are as follows:

AASB 15: Revenue from Contracts with Customers

In the current year, the Group has applied AASB 15: *Revenue from Contracts with Customers* (as amended in April 2016) which has come into effect 1 January 2018.

AASB 15 establishes a comprehensive framework for determining the timing and quantum of revenue recognised. It replaces existing guidance, including AASB 118: *Revenue* and AASB 111: *Construction Contracts*. The core principal of AASB 15 is that an entity shall recognise revenue when control of a good or service transfers to a customer.

Revenue was previously recognised when it is probable that work performed will result in revenue, in comparison, under the new standard, revenue is recognised when it is highly probable that a significant reversal of revenue will not occur.

1 Significant accounting policies (continued)

(c) Change in accounting standards (continued)

The Group has operations across geographical locations which are subject to different legal and contractual frameworks. Significant judgments and estimates are used in determining the impact of AASB 15, such as the assessment of the probability of customer approval of variations and acceptance of performance, estimation of project completion date and termination options. In making this assessment we have considered, for applicable contracts, the individual status of legal proceedings, including arbitration and litigation.

Management assessed the contracted terms and the way in which the Group operates its construction, goods and services contracts results in revenue predominantly being derived from projects containing one performance obligation or various performance obligations when one performance obligation is the majority of the contract's scope and other performance obligations are insignificant.

Construction / service revenue

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

Revenue is recognised on the measured output of each process based on appraisals that are agreed with the customer on a regular basis.

Revenue earned is typically invoiced on achievement of milestones or to match major capital outlay.

Certain construction projects receive payment prior to work being performed in which case revenue is deferred on the balance sheet.

Goods revenue

Goods revenue is recognised on a one-time basis when the control of the goods transfers to the customer.

Based on the above assessment, the Directors believe AASB 15 has not had a material impact on revenue recognition for the Group.

AASB 9: Financial instruments

In the current year, the Group has applied AASB 9: *Financial instruments* which has come into effect 1 January 2018. The standard replaces AASB 139 *Financial Instruments: Recognition and Measurement*.

AASB 9 includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting. AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a timelier basis. AASB 9 requires measuring all financial assets and liabilities at FV at initial recognition. Whereas subsequent initial recognition was: amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL).

Classification and measurement of financial instruments

The Group identified the following financial instruments: cash equivalents, restricted cash, short-term investments, trade receivables, equity investment, borrowings and other financial liabilities. Management has assessed the existing financial assets and liabilities and confirmed that the Group's current accounting treatment is in line with the requirements of AASB 9.

1 Significant accounting policies (continued)

(c) Change in accounting standards (continued)

Revised recognition and derecognition requirements for financial instruments

AASB 9 impairment model replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

Expected losses are required to be measured through a loss allowance at an amount equal to:

1. 12-months expected credit losses - losses that result from the default events on the financial instruments that are possible within 12 months after the reporting date;
2. Lifetime expected credit losses - losses that result from all possible default events over the life of the financial instrument.

A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. The presumption is that the credit risk has increased significantly when contractual payments are more than 30 days past due.

Management has assessed the existing classification and measurement approach and concluded that the Group's accounting treatment is in line with the AASB 9 requirements.

Requirements for hedge accounting

AASB 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. Under the new model more hedging strategies that are used for risk management may qualify for hedge accounting.

To qualify for hedge accounting AASB 9 includes the following requirements:

1. An entity should formally designate and document the hedging relationship at the inception of the hedge;
2. There must be an economic relationship between the hedging instrument and the hedged item;
3. Credit risk should not dominate value changes;
4. Designated hedge ratio which is consistent with risk management strategy.

There are three types of hedge relationships:

1. Fair value hedge - a hedge of the exposure to changes in the fair value of a recognised asset or liability, or a firm commitment.
2. Cash flow hedge - a hedge of the exposure to variability in cash flows of a recognized asset or liability, a firm commitment or a highly probable forecast transaction.
3. Net investment hedge - a hedge of the foreign currency risk on a net investment in a foreign operation.

Management has assessed the all potential hedge activities in the Group and concluded that the no hedge accounting should be implemented.

AASB 16: Leases

In the current year, the Group has applied AASB 16: *Leases*. AASB 16 was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019. The Group decided to early adopt the new standard since 1 January 2018. The standard replaces AASB 117: *Leases*.

The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, an unchanged approach from AASB 117.

1 Significant accounting policies (continued)

(c) Change in accounting standards (continued)

Upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations or similar.

After lease commencement, a lessee shall measure the right-of-use asset using a cost model. Under the cost model a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

The Group elected to not restate comparative information but recognise the cumulative effect of initially applying AASB 16 as an adjustment to opening equity at the date of initial application.

The opening equity adjustments due to the application of AASB 16 is analysed by the financial statement line item below.

Impact on assets, liabilities and equity at 1 January 2018:

	As reported 31 December 2017 \$'000	AASB 16 transition adjustment \$'000	Opening balance 1 January 2018 \$'000
Property, plant and equipment	-	7,122	7,122
Other non-current payables	-	7,450	7,450
Accumulated losses	-	328	328

(d) Business Combination

The acquisition of RWL Water Group at 31 July 2017 was originally accounted for on a provisional basis. The measurement period ended at 31 July 2018.

2 Segment information

The Group identified two primary reporting segments based on the internal reports that are reviewed by the Managing Director and Chief Executive Officer (who is identified as the Chief Operating Decision Maker (CODM)). The internal reports reviewed by the CODM are assessing performance and determining the allocation of resources.

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

2 Segment information (continued)

The Group's operating segments are:

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

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

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

	Operating Units \$'000	Production and Innovation \$'000	Intersegment Elimination \$'000	Total \$'000
2018				
Segment revenue				
Operating revenue and other income	32,960	341	(496)	32,805
Unallocated revenue - corporate	-	-	-	-
	<u>32,960</u>	<u>341</u>	<u>(496)</u>	<u>32,805</u>
Segment expense				
Segment depreciation and amortisation expense	(755)	(421)	-	(1,176)
Goodwill impairment	(56,293)	-	-	(56,293)
Segment expense	(17,756)	(5,037)	1,137	(21,656)
Unallocated expenses - corporate	-	-	-	(6,755)
	<u>(74,804)</u>	<u>(5,458)</u>	<u>1,137</u>	<u>(85,880)</u>
Net result	<u>(41,844)</u>	<u>(5,117)</u>	<u>641</u>	<u>(53,075)</u>
Assets				
Segment assets	109,833	10,693	(10,718)	109,808
Unallocated assets - corporate	-	-	-	12,775
	<u>109,833</u>	<u>10,693</u>	<u>(10,718)</u>	<u>122,583</u>
Liabilities				
Segment liabilities	(72,831)	(6,508)	1,730	(77,609)
Unallocated liabilities - corporate	-	-	-	(3,318)
	<u>(72,831)</u>	<u>(6,508)</u>	<u>1,730</u>	<u>(80,927)</u>

	The Americas \$'000	Rest of the World \$'000	Total \$'000
2018			
Other information			
External sales revenue by geographical segment	24,554	8,251	32,805
Property, plant and equipment by geographical segment	3,912	9,767	13,679

Fluence Corporation Limited
Notes to the Consolidated Financial Statements
30 June 2018
(continued)

2 Segment information (continued)

Profit or Loss items are for the 6 months ended 30 June 2018 and Balance Sheet items are as of 30 June 2018.

	Operating Units \$'000	Production and Innovation \$'000	Intersegment Elimination \$'000	Total \$'000
2017				
Segment revenue				
Operating revenue and other income	-	361	-	361
Unallocated revenue - corporate	-	-	-	4
	-	361	-	365
Segment expense				
Segment depreciation and amortisation expense	-	(162)	-	(162)
Segment expense	-	(5,494)	-	(5,494)
Unallocated expenses - corporate	-	-	-	(6,858)
	-	(5,656)	-	(12,514)
Net result	-	(5,295)	-	(12,149)
Assets				
Segment assets	164,172	6,687	(40)	170,819
Unallocated assets - corporate	-	-	-	33,838
Intersegment elimination	-	-	(40)	-
	164,172	6,687	(80)	204,657
Liabilities				
Segment liabilities	(90,635)	(3,930)	281	(94,284)
Unallocated liabilities - corporate	-	-	-	(6,772)
	(90,635)	(3,930)	281	(101,056)

	The Americas \$'000	Rest of the World \$'000	Total \$'000
2017			
Other information			
External sales revenue by geographical segment	-	365	365
Property, plant and equipment by geographical segment	3,022	4,092	7,114

Profit or Loss items are for the 6 months ended 30 June 2017 and Balance Sheet items are as of 31 December 2017.

Fluence Corporation Limited
Notes to the Consolidated Financial Statements
30 June 2018
(continued)

2 Segment information (continued)

(a) *Unallocated revenue*

Consolidated entity
30 June 2018 30 June 2017
\$'000 \$'000

Unallocated revenue	-	4
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(b) *Unallocated expenses*

Consolidated entity
30 June 2018 30 June 2017
\$'000 \$'000

Other corporate expenses	(6,755)	(6,858)
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(c) *Unallocated assets*

Consolidated entity
30 June 31 December
2018 2017
\$'000 \$'000

Cash and cash equivalents	8,627	28,768
Other assets	4,148	5,070
	12,775	33,838

(d) *Unallocated liabilities*

Consolidated entity
30 June 31 December
2018 2017
\$'000 \$'000

Trade and other payables	(1,796)	(5,772)
Other liabilities	(1,522)	(1,000)
	(3,318)	(6,772)

Intersegment transactions

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

Fluence Corporation Limited
Notes to the Consolidated Financial Statements
30 June 2018
(continued)

3 Operating revenue

	Consolidated entity	
	30 June 2018 \$'000	30 June 2017 \$'000
Operating revenue		
Revenues on equipment sales	20,370	361
Revenues on EPC contracts	7,794	-
Revenues on services	1,954	-
Other	2,657	-
	32,775	361

EPC stands for Engineering, Procurement and Construction projects.

4 Other gains/(losses) - net

	Consolidated entity	
	30 June 2018 \$'000	30 June 2017 \$'000
Other gains / (losses) - net		
Foreign exchange gain / (loss)	12,658	(1,369)
Other	573	-
	13,231	(1,369)

Foreign exchange gains include an amount attributable to US dollar denominated cash assets held at Fluence Argentina which has a functional currency of Argentine peso. The devaluation of the Argentine peso has resulted in a significant foreign exchange gain of \$11,894,000.

5 People cost

Employee Option Plan

Set out below are summaries of options granted under the Company's option plan:

2018

Grant date	Expiry Date	Exercise Price	Granted	Exercised	Vested	Cancelled / Reversed	Balance at the end of the year
Opening balance			66,759,872	(9,788,644)	16,851,387	(4,192,946)	52,778,282
24-01-18	11-03-22	A\$0.58	180,000		180,000	-	180,000
18-04-18	25-05-22	A\$0.477	1,375,000	-	75,000	-	1,375,000
18-04-18	01-05-22	A\$0.531	100,000	-	100,000	-	100,000
Closing balance			68,414,872	(9,788,644)	17,206,387	(4,192,946)	54,433,282

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

5 People cost (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:

2018

Grant date	Expiry Date	Share price at grant date	Exercise Price	Dividend yield	Risk-free interest rate	Fair value at grant date
24-01-18	11-03-22	A\$0.481	A\$0.58	Nil	2.11%	A\$0.1732
18-04-18	25-05-22	A\$0.47	A\$0.477	Nil	2.26%	A\$0.1948
18-04-18	01-05-22	A\$0.47	A\$0.531	Nil	2.16%	A\$0.1788

The weighted average remaining contractual life of options outstanding at year-end was 4.167 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 \$0.1915. These values were calculated using the binomial lattice, based on the Cox, Ross Rubinstein (1979) method applying the following inputs:

Weighted average exercise price: \$0.4915
Expected share price volatility: 50%

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

Expenses arising from share-based payment transactions

	Consolidated entity	
	30 June 2018 \$'000	30 June 2017 \$'000
Share based payment expense		
Consultant share based payments	161	1,119
Employee share based payments	605	209
Director share based payments	878	149
	<u>1,644</u>	<u>1,477</u>

6 Loss per share

(a) Basic loss per share

	Consolidated entity	
	30 June 2018 \$	30 June 2017 \$
Loss attributable to the ordinary equity holders of the Group	<u>(0.13)</u>	<u>(0.05)</u>

Fluence Corporation Limited
Notes to the Consolidated Financial Statements
30 June 2018
(continued)

6 Loss per share (continued)

(b) Diluted loss per share

	Consolidated entity	
	30 June 2018 \$	30 June 2017 \$
Loss attributable to the ordinary equity holders of the Group	(0.13)	(0.05)

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

Loss attributable to the ordinary equity holders of the Group used in calculating loss per share:	(53,075,000)	(12,149,000)
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(d) Weighted average number of shares used as denominator

Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	415,126,094	257,195,781
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Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of Fluence Corporation Limited as the numerator, i.e. no adjustments to profits were necessary during the six months period to 30 June 2018 and 30 June 2017.

7 Intangible assets

(a) Intangible assets information

Consolidated entity	Goodwill \$'000	Capitalised development costs \$'000	Capitalised concession asset \$'000	Total \$'000
Year ended 31 December 2017				
Cost	56,293	2,548	1,666	60,507
Accumulation amortisation and impairment	-	(340)	-	(340)
Net book amount	56,293	2,208	1,666	60,167
Half Year ended 30 June 2018				
Opening net book amount	56,293	2,208	1,666	60,167
Additions	-	-	2,165	2,165
Impairment loss	(56,293)	-	-	(56,293)
Amortisation charge	-	(64)	-	(64)
Currency translation differences	-	(109)	(18)	(127)
Closing net book amount	-	2,035	3,813	5,848

7 Intangible assets (continued)

(b) Intangible assets impairment

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

Other intangibles assets are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which carrying amount exceeds its recoverable amount.

Intangibles have been allocated to three CGUs for impairment testing as follows:

- Israel Business Unit
- Italy Business Unit
- All other Business Units that includes the Group's operations mostly in Argentina, USA and UAE

The Directors have conducted an overall review of their Value in Use model at 30 June 2018 and have determined the goodwill to be fully impaired for all three CGUs. An impairment of \$56,293,000 has been recognised in the Financial Statements for the Half-year ended 30 June 2018.

Movement in Goodwill by CGU for the six months ended 30 June 2018:

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

8 Contributed equity

(a) Share capital

		30 June 2018 Shares	31 December 2017 Shares	30 June 2018 \$'000	31 December 2017 \$'000
Ordinary shares	8(b)	435,368,167	435,368,167	152,810	152,810
Options	8(c)	54,433,282	52,778,282	5,732	4,088
		<u>489,801,449</u>	<u>488,146,449</u>	<u>158,542</u>	<u>156,898</u>

Fluence Corporation Limited
Notes to the Consolidated Financial Statements
30 June 2018
(continued)

8 Contributed equity (continued)

(b) Ordinary shares

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

Balance 31 December 2017

	Number of shares	\$'000
Opening balance 1 January 2018	411,279,194	152,810
Shares issued for Milestone 2	3,988,973	-
	<hr/> 415,268,167	<hr/> 152,810
Shares to be issued - RWL Water LLC group acquisition (subject to holdback)	20,100,000	-
Balance 30 June 2018	<hr/> 435,368,167	<hr/> 152,810

(c) Options

	Number of options	\$'000
Opening balance 1 January 2017	18,742,946	1,858
Unlisted options issued to employees	19,978,336	1,221
Unlisted options issued to consultants	10,250,000	588
Unlisted options issued to directors	6,032,000	1,223
Exercise options	(2,225,000)	(802)
	<hr/> 52,778,282	<hr/> 4,088
Balance 31 December 2017	52,778,282	4,088
Opening balance 1 January 2018	52,778,282	4,088
Share-based payments for opening balance options	-	1,528
Unlisted options issued to employees	1,555,000	96
Unlisted options issued to consultants	100,000	20
	<hr/> 54,433,282	<hr/> 5,732
Balance 30 June 2018	54,433,282	5,732

9 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).

	Notes	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
30 June 2018					
<i>Assets</i>					
Cash equivalents		20,076	-	-	20,076
Short-term deposits		2,087	-	-	2,087
		<u>22,163</u>	-	-	<u>22,163</u>
<i>Financial liabilities</i>					
Borrowings		1,085	-	-	1,085
Government grant liability		-	-	2,553	2,553
Lease liability		-	-	6,758	6,758
		<u>1,085</u>	-	<u>9,311</u>	<u>10,396</u>
31 December 2017					
<i>Assets</i>					
Cash equivalents		33,262	-	-	33,262
Short-term deposits		3,112	-	-	3,112
		<u>36,374</u>	-	-	<u>36,374</u>
<i>Financial liabilities</i>					
Borrowings		1,145	-	-	1,145
Acquisition Milestone 2 payable		-	-	1,000	1,000
Government grant liability		-	-	2,402	2,402
		<u>1,145</u>	-	<u>3,402</u>	<u>4,547</u>

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 receivables and payables 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 that the grant liability is to be repaid from the royalty stream from future revenue discounted over time at a rate of 13.9% (2017: 13.9%)

Reconciliation of Level 3 fair value movements

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

9 Recognised fair value measurements (continued)

Reconciliation of Level 3 fair value movements (continued)

	Government grant \$'000	Lease liability \$'000
Opening balance at 1 January 2017	1,224	-
Payment	67	-
Adjustment to fair value of liability	1,111	-
Opening balance at 31 December 2017	2,402	-
Initial application of new standard	-	7,522
Payment	-	(821)
Adjustment to fair value of liability	153	123
Currency translation differences	(2)	(66)
Closing balance at 30 June 2018	2,553	6,758

10 Commitments and contingencies

- (a) As at 30 June 2018 and 31 December 2017, the Group provided bank guarantees for fulfilment of a lease commitment, for bid bonds and for performance guarantees for its projects in the amount of \$2,449,000 and \$4,226,000, respectively.
- (b) The Group has a government grant liability of \$2,553,000 (31 December 2017: \$2,402,000).

11 Events occurring after the reporting period

After a sustained period of economic uncertainty, Argentina has continued to experience a series of negative economic outcomes in 2018. Increasing inflation rates, and the substantial devaluation in the value of the peso, have led to the country being classified as a hyperinflationary economy effective 1 July 2018. The Group will continue to assess the impact of the hyperinflationary economy in Argentina on its financial results and assets derived from its operations in Argentina based on the requirements of IAS 29 *Financial Reporting in Hyperinflationary Economies*.

Fluence Corporation Limited
Directors' Declaration
30 June 2018

In accordance with a resolution of the Directors of Fluence Corporation Limited, the Directors of the Group declare that:

- (a) the Interim Financial Statements and notes, as set out on pages 10 to 27 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standard AASB 134: *Interim Financial Reporting*, and
 - (ii) giving a true and fair view of the Consolidated entity's financial position as at 30 June 2018 and of its performance for the half-year ended on that date.
- (b) In the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.



Henry Charrabe
Managing Director and CEO
30 August 2018

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Fluence Corporation Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Fluence Corporation Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2018 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.



A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO East Coast Partnership

A handwritten signature in blue ink. The signature is written in a cursive style and appears to read 'David Garvey'. Above the signature, the letters 'BDO' are written in a similar cursive style.

David Garvey
Partner

Melbourne, 31 August 2018