Fluence Corporation Limited
Appendix 4D
Interim Half-year Report
Half-year 30 June 2019

Results for announcement to the market

Current reporting period - half year ended 30 June 2019
Previous - half year ended 30 June 2018

				$'000
Revenue from ordinary activities	Down	(27.5)%	to	23,779
Loss from ordinary activities after tax attributable to members	Down	(67.0)%	to	(17,506)
Net loss after tax (from ordinary activities) for the period attributable to owners of Fluence Corporation Limited	Down	(72.2)%	to	(17,586)

Dividends (distributions)

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

Net tangible asset per security	
As at 30 June 2019	0.05
As at 31 December 2018	0.08
Record date for determining entitlements to dividend	N/A

Explanation of the above information:

Refer to the Directors' Report - Review of Operations.

To be read in conjunction with the 31 December 2018 Annual Report

Fluence Corporation Limited

ABN 52 127 734 196

Interim Report
for the half-year 30 June 2019

Fluence Corporation Limited ABN 52 127 734 196
Interim Report - 30 June 2019

Contents

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 2018 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*.

Directors' Report

The Directors present their report, together with the financial statements for the half-year ended 30 June 2019, 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, Non-Executive Chairman
Mr Henry Charrabe, Managing Director and Chief Executive Officer (CEO)
Mr Peter Marks, Non-Executive Director
Mr Ross Haghighat, Non-Executive Director
Dr Ramesh Rengarajan, Non-Executive Director
Mr Paul Donnelly, Non-Executive Director
Mr Arnon Goldfarb, Non-Executive Director

Review of operations

The operations for the six months ended 30 June 2019 are those of Fluence Corporation Limited.

Key First Half 2019 Highlights: bookings momentum and positive outlook for MABR products

Strong momentum for MABR products.
- Largest individual order of 40 AspiralTM units in China from ITEST.
- Commercial launch of SUBRE and first commercial orders secured in Jamaica.
- First commercial SUBRE order secured in China early in the second half of 2019.
- 64 cumulative MABR project wins in China.
- Expect 2019 revenue from MABR products of approximately US$20 million, an increase from US$3 million in 2018.

Record contracted backlog of US$278 million at 30 June 2019 driven by strong order inflow.
- Awarded landmark €165 million Ivory Coast contract, representing the largest project in the Company's history.
- Egyptian joint venture awarded a US$20 million supply agreement in New Mansoura, Egypt, representing the second significant contract won in the country.
- Received a US$10 million order from a repeat customer for Brazil’s largest seawater desalination project.

Full year 2019 guidance modified.
- Sustainable EBITDA profitability still expected to occur by Q4 2019.
- Secured annual recurring revenue still expected to continue to increase in 2019.
- Smart Product Solutions revenue now expected to be US$26 million, representing 18% growth over 2018.

Progress in recurring revenue strategy.
- Closed a US$50 million project finance facility with Generate Capital to finance construction of recurring revenue projects and completed the first drawdown of US$2 million.
- Bimini project in the Bahamas in the final stages of commissioning and expected to start selling water shortly.
- San Quintin project is expected to resume construction in Q4 2019.

Review of operations (continued)

Progress in key regions during First Half 2019

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% in 2022. 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

After entering the China market in 2017 with the opening of the Changzhou MABR manufacturing facility, Fluence has cumulatively been awarded 64 MABR projects representing total capacity of approximately 16,000 m3/day.

Fluence has six (6) commercial Aspiral™ plants in China currently operational (excluding demonstration units), 18 projects in the process of commissioning, 39 projects under construction and one (1) project awaiting to commence construction. These sites serve as important reference points for the efficacy of Fluence's advanced MABR technology to serve this opportunity.

During Q1, Fluence received a follow-on order from Hubei ITEST for 40 Aspiral™ units, representing the largest individual order for MABR products. The units will be deployed at toll stations, parking lots and service areas across the highway system in Hubei Province and will treat wastewater to Class 1A standards. This represents the third order under the existing partnership agreement with Hubei ITEST and builds on the December 2018 order for 35 units.

After period end in August, Fluence received its first commercial SUBRE order in China from local partner Liaoning Huahong New Energy Co., Ltd. The 3,000 m3/day SUBRE system is expected to be installed in a greenfield wastewater treatment plant being constructed by the Panjin City Government by the end of 2019 and will be comprised of 28 SUBRE units, each of which contains 3 of Fluence's proprietary MABR modules. The technical requirements of this system were especially challenging with ambient operating temperatures dropping as low as minus 20°C, but Fluence's team of engineers were able to deliver a solution for these extreme winter temperatures. This project will serve as an important reference for potential customers in the surrounding Liaoning, Jilin, and Heilongjiang provinces that experience similar weather extremes.

Review of operations (continued)

Caribbean

We are in the final stages of commissioning the recurring revenue project in Bimini, Bahamas, announced in 2018. This is the first Build, Own, Operate and Transfer (BOOT) project that will be retained on Fluence's balance sheet and will generate revenue of approximately US$1.7 million annually from the sale of water to RAV Bahamas under a 15-year off-take agreement. The project consists of three (3) of Fluence's smart-packed NIROBOX™ seawater desalination units to provide high quality potable water to a hotel, golf course, residential community and local municipality. Fluence was able to secure this project win by offering a lower price and higher quality of water than the existing supplier. We are encouraged by the economic development taking place in Bimini and the potential future impact on the island's water needs. Fluence expects to continue leveraging opportunities for its decentralised solutions in this region due to their low operating cost, low maintenance, small footprint and fast implementation time.

In conjunction with the commercial launch of the SUBRE product in March, Fluence announced two orders in Jamaica with local partner Engineering and Technology Associates, INC. to serve two new housing developments in the Kingston and Spanish Town areas owned by the National Water Commission. Both projects are expected to be commissioned in 2019.

Africa

In February, Fluence was awarded a landmark €165 million commercial agreement with the Federal Government of Ivory Coast for the turnkey supply of a 150,000 m3/day surface-water treatment plant. The plant will treat water from Lagune Aghien, Ivory Coast's largest freshwater reserve near the country's largest city of Abidjan. The reserve is dense with algae and other contaminants, creating an urgent need for reliable, potable water for the 4.7 million inhabitants of Abidjan.

The scope of work under the contract includes water intake, water treatment, bulk water piping, water towers and infrastructure. The plant will include cutting-edge integration of proven technologies: smart intake, various separation and membrane systems, advanced oxidation, biological filtration and sludge treatment. The advanced multiple barrier design (ensuring water quality according to World Health Organisation standards) is an environmentally sound water treatment process that allows the flexibility to optimise operating costs in various feed qualities. The design combines Fluence's suite of water treatment technologies and leverages the company's deep understanding of water biology and chemistry, different treatment methodologies, and experienced technical staff.

Fluence is in the process of arranging third party finance for the Government of Ivory Coast via a loan from Israel Discount Bank. The project has the support of the state of Israel through its Export Credit Agency (ASHRA). Execution of the loan agreement is expected by the end of Q3 2019, which will start the 24-month construction period. Subject to financial close by the end of Q3 and project commencement, Fluence expects to recognise revenue up to US$20 million in 2019, US$80 million in 2020, and the remainder of the contract value in 2021.

To support the working capital needs of the project, Fluence has executed a term sheet with Generate Capital for a corporate term loan that is expected to be finalised in 2019.

Latin America

Following successful discussions with our minority partners in the San Quintin, Mexico project, Fluence expects to increase its ownership in the project from 51% to 94%. The minority partners have been unable to meet their equity capital commitments, which has delayed the project's first disbursement from the project finance facility and negatively impacted H1 revenue by approximately US$7 million. We expect to commence construction on the project in Q4.

Review of operations (continued)

The company signed a US$10 million contract for Brazil's largest seawater desalination plant in May. The scope of work covers the design, engineering and construction of a 12,000 m3/day seawater desalination plant to provide process water to one of the world's largest steel producers. We are pleased by the repeat order from a prominent global customer. Work began on the project in Q2 and is expected to be completed by Q4 2020.

In February, Fluence received the first Aspiral™ order in Latin America from a long-time repeat customer. The project has a value of US$1.7 million and combines water and wastewater treatment capabilities. Located at the Buenos Aires, Argentina production plant of an international beverage producer, the project will treat 1,500 m3/day of freshwater and 60 m3/day of wastewater. Fluence was selected for this project due to the low energy consumption of the project and high levels of nutrient removal.

During the first half of 2019, there has been continued economic and currency volatility in Argentina, where the majority of the company's business in South America is located. As of 1 January 2019, Fluence switched functional currency in Argentina to the U.S. Dollar to limit any forward volatility. Coupled with denominating most contracts in U.S. Dollars in the region, the currency volatility has had minimal impact on the financial results of the business this year. In view of the economic slowdown in Argentina, a number of Argentina personnel have been redeployed to the Company's growing Brazil office.

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 February, the Códiga Resource Recovery Center at Stanford University released independent test results validating compliance of Fluence's MABR technology with California's Title 22 water recycling legislation. An Aspiral™ S1 model demonstration unit was successfully deployed in early 2018 at the University and operated for approximately one year before the confirming results were released. In addition, the system achieved Total Nitrogen concentrations below 10mg/L despite the influent having a concentration of nitrogen and phosphorous higher than typical municipal wastewater.

In May, Fluence received the first order for a NIROBOX™ desalination solution in the USA. The NIROBOX SW XL will be delivered to the Laguna Development Corporation and will be located on the Laguna Pueblo near Albuquerque, New Mexico. The seawater desalination unit will treat brine produced by an existing reverse osmosis unit and produce potable water for consumption by businesses near Rio Puerco on Laguna Pueblo Lands. The unit is designed to treat up to 250,000 gallons of water per day. The NIROBOX™ technology has direct application to hundreds of smaller communities across the Southwest that have limited fresh water supplies, but often access to extensive brackish ground water resources.

Middle East

In March, Fluence's Egyptian joint venture The International Co. for Water Services & Infrastructure (IWSI) and Hassan Allam EPC were awarded a US$74 million contract to design and construct a 40,000 m3/day seawater desalination plant with the capability of expansion to 80,000 m3/day. Fluence, through IWSI, will act as the technology provider, designing the process and supplying the pre-treatment, reverse osmosis skids, post-treatment equipment and the start-up and commissioning of the plant for a total contract share of US$20 million. Once completed, the project will serve New Mansoura city, which is currently under construction along Egypt's northern coast on the Mediterranean Sea. The city will have a population of approximately 250,000 people when its first phase is inaugurated. This was the second significant project win for Fluence in Egypt.

Review of operations (continued)

Product innovation and marketing

Following the successful release of Aspiral™ in 2018, Fluence released its SUBRE submerged MABR solution in March 2019. With configurations for both retrofit upgrades or new greenfield plants, SUBRE migrates the MABR technology to large-scale, conventional wastewater treatment plants. The retrofit product is designed to upgrade existing basins with capacities of 2,000-100,000 m3/day by accommodating higher inflows, providing intensified nutria removal and lowering energy consumption without requiring any additional footprint. The greenfield solution is custom-built to the customer's specifications without extensive infrastructure, with a small footprint and energy requirements, and in challenging or remote locations.

Additionally, through presentations at industry forums and conferences, Fluence's team continues to be acknowledged 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.

Review of financial results

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

The revenue from ordinary activities for the six months ended 30 June 2019 was $23,784,000 (2018: $32,805,000) and the loss from ordinary activities after tax was $17,506,000 (2018: $53,075,000).

Cost of sales for the six months ended 30 June 2019 decreased to $20,381,000 (2018: $25,685,000).

Research and development expenses for the six months ended 30 June 2019 increased to $2,943,000 (2018: $2,833,000). 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 $16,246,000 from $51,067,000 to $34,821,000 during the six months ended 30 June 2019.

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

No matter or circumstance has occurred subsequent to period 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 periods.

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.

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 7.

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 J. Charrabé
Managing Director and CEO

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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 2019, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the 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 2019

Fluence Corporation Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half-year 30 June 2019

	Notes	Consolidated entity 30 June 2019 $'000	30 June 2018 $'000
Revenues			
Operating revenue	5	23,779	32,775
Other income		5	30
		23,784	32,805
Expenses			
Cost of sales		(20,381)	(25,685)
Research and development expenses		(2,943)	(2,833)
Sales and marketing expenses		(5,333)	(5,293)
General and administration expenses		(10,977)	(12,507)
Goodwill impairment		-	(56,293)
Other gains/(loss) - net	6	307	13,231
Finance income/(costs) - net		(266)	3,180
Loss before income tax		(15,809)	(53,395)
Income tax benefit/(expense)		(1,697)	320
Loss for the period		(17,506)	(53,075)
Loss for the year is attributable to:			
Owners of Fluence Corporation Limited		(17,668)	(52,993)
Non-controlling interests		162	(82)
		(17,506)	(53,075)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations, net of tax		82	(10,208)
Total comprehensive income for the period		(17,424)	(63,283)
Total comprehensive income for the period is attributable to:			
Owners of Fluence Corporation Limited		(17,586)	(63,201)
Non-controlling interests		162	(82)
		(17,424)	(63,283)
Losses per share from continuing operations attributable to the ordinary equity holders of the Group:			
Basic loss per share ($)	8	(0.03)	(0.13)
Diluted loss per share ($)	8	(0.03)	(0.13)

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 2019

	Notes	Consolidated entity 30 June 2019 $'000	31 December 2018 $'000
ASSETS			
Current assets			
Cash and cash equivalents		15,600	38,741
Other financial assets		919	2,417
Trade and other receivables		25,549	33,514
Inventories		18,611	18,866
Prepayments		6,400	4,049
Assets classified as held for sale	9	878	-
Other assets		17	67
Total current assets		**67,974**	**97,654**
Non-current assets			
Other receivables		-	10
Investments accounted for using the equity method		466	484
Deferred tax assets		665	1,208
Property, plant and equipment		13,827	14,846
Intangible assets	10	5,932	5,603
Concession arrangements asset	11	20,787	18,830
Other assets		3,157	3,159
Total non-current assets		**44,834**	**44,140**
Total assets		**112,808**	**141,794**
LIABILITIES			
Current liabilities			
Trade and other payables		41,206	48,845
Borrowings		212	368
Current tax liabilities		111	853
Provisions		3,560	4,092
Deferred revenue		20,412	25,898
Total current liabilities		**65,501**	**80,056**
Non-current liabilities			
Other liability		7,690	9,301
Deferred tax liabilities		2,193	532
Borrowings	12	2,030	-
Provisions		573	838
Total non-current liabilities		**12,486**	**10,671**
Total liabilities		**77,987**	**90,727**
Net assets		**34,821**	**51,067**
EQUITY			
Contributed equity	13	186,304	185,126
Other reserves		(15,670)	(15,752)
Accumulated losses		(137,189)	(119,521)
		33,445	49,853
Non-controlling interests		1,376	1,214
Total equity		**34,821**	**51,067**

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

Fluence Corporation Limited
Consolidated Statement of Changes in Equity
For the half-year 30 June 2019

Consolidated entity	Notes	Contributed equity $'000	Other reserves $'000	Accumulated losses $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 January 2018		156,898	(1,376)	(52,075)	103,447	154	103,601
Adjustment on adoption of AASB 15		-	-	(407)	(407)	-	(407)
Adjustment on adoption of AASB 16		-	-	(328)	(328)	-	(328)
Adjustment on adoption of AASB 129		-	-	(2,954)	(2,954)	-	(2,954)
Restated total equity at the beginning of the financial period		**156,898**	**(1,376)**	**(55,764)**	**99,758**	**154**	**99,912**
Loss for the period		-	-	(52,993)	(52,993)	(82)	(53,075)
Other comprehensive income		-	(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:							
Issue of options		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)**	**(108,757)**	**38,201**	**94**	**38,295**
Balance at 1 January 2019		185,126	(15,752)	(119,521)	49,853	1,214	51,067
Loss for the period		-	-	(17,668)	(17,668)	162	(17,506)
Other comprehensive income		-	82	-	82	-	82
Total comprehensive income for the period		**-**	**82**	**(17,668)**	**(17,586)**	**162**	**(17,424)**
Transactions with owners in their capacity as owners:							
Issue of ordinary shares, net of transaction costs	13	22	-	-	22	-	22
Issue of options		1,156	-	-	1,156	-	1,156
		1,178	-	-	1,178	-	1,178
Balance at 30 June 2019		**186,304**	**(15,670)**	**(137,189)**	**33,445**	**1,376**	**34,821**

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 2019

	Consolidated entity	
	30 June 2019 $'000	30 June 2018 $'000
Cash flows from operating activities		
Receipt from customers	26,708	22,819
Payments to suppliers and employees	(49,656)	(52,325)
Receipt from restricted cash	821	99
Interest received	106	2,413
Interest and other costs of finance paid	(323)	(115)
Income taxes paid	(228)	(160)
Net cash (outflow) from operating activities	(22,572)	(27,269)
Cash flows from investing activities		
Payments for property, plant and equipment	(347)	(2,118)
Payments for construction of concession assets	(1,383)	-
Proceeds from sale of property, plant and equipment	-	24
Proceeds from disposal of short-term deposits	733	942
Acquisition of non-controlling interest in a subsidiary	(300)	(1,803)
Net cash (outflow) from investing activities	(1,297)	(2,955)
Cash flows from financing activities		
Proceeds from / (repayment of) borrowings	1,904	(6)
Finance lease payments	(951)	(743)
Final payment to redeem a note from original vendor of Emefcy Ltd (Israel)	-	(1,000)
Contributions from non-controlling interests	-	72
Net cash inflow/(outflow) from financing activities	953	(1,677)
Net (decrease) in cash and cash equivalents	(22,916)	(31,901)
Cash and cash equivalents at the beginning of the financial year	38,741	75,153
Effects of exchange rate changes on cash and cash equivalents	(225)	(2,692)
Cash and cash equivalents at end of period	15,600	40,560

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

1 General information and basis of preparation

These Interim Financial Statements (the Interim Financial Statements) of the Group are for the six months ended 30 June 2019 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 2018 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 interim financial statements have been approved and authorised for issue by the board of directors on 27 August 2019.

2 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 half year ended 30 June 2019, the consolidated entity incurred an operating loss of $17,506,000 (2018: $53,075,000) and had cash outflows from operating activities of $22,572,000 (2018: $27,269,000), and total net cash outflows of $22,916,000 (2018: $31,901,000). The Group had cash and cash equivalents of $15,600,000 at 30 June 2019.

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 requires additional finance to fund its ongoing operations for a period of 12 months from the date the financial report was authorised for issue.

To address future funding requirements of the consolidated entity the consolidated entity is in advanced negotiations with Generate Capital to secure a term loan facility for up to $40 million with funds earmarked for specific projects as well as short term working capital needs. Securing the loan is subject to customary conditions, including completion of due diligence and execution of definitive documents. The directors are confident that they will be able to finalise all aspects of the debt financing facility with Generate Capital which will provide the consolidated entity with sufficient funding to meet its planned project expenditures and overhead expenditures.

In addition, other important risk mitigating factors for the consolidated entity include:

- As at 30 June 2019, the Group had a substantial contracted sales backlog of US$278 million. Based on finalising the term loan facility with Generate Capital and applying the proceeds towards strong cash flow generation projects, the Group expects to produce significant increased revenues - particularly from the Ivory Coast project - over the next 12 months and beyond. The resulting net cash flows from major projects will provide further working capital to the consolidated entity.

- In the event that the Generate Capital term loan facility is not available in whole or in part, management has prepared contingency plans including undertaking other finance raising activities, divesting surplus assets and reducing or deferring expenses to generate additional liquidity as well as reducing overall cash burn. These contingency plans include further restructuring of corporate overheads and operational expenses in line with the consolidated entity’s cash resources.

- In addition to the above, the Board is confident further equity could be raised if necessary and has demonstrated a good track record of capital raisings since the Group’s admission to the ASX in 2015.

2 Going concern (continued)

The requirement to raise additional finance or equity to fund operations creates a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern. However, the directors' are confident the Group will raise additional finance or equity to fund operations and implement other risk mitigating factors disclosed above.

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

3 Significant accounting policies

During 2018 the Argentine Peso ('Peso') devalued from 18.61 per United States Dollar ('Dollar') on 1 January 2018 to 37.45 per Dollar at 31 December 2018. The devaluation of the Peso led the Argentinian government to declare a hyperinflation economy in the country on 1 July 2018.

In 2019 as the Peso continued to devalue, the Group reassessed the functional currency of its Argentinian entity ('FLC Argentina') and concluded that the FLC Argentina's functional currency should be Dollars. The main factors for this change were the tendency of FLC Argentina to sign and settle sale contracts denominated in the Dollar rather than the Peso, the transitioning into a more global approach in terms of procurement of equipment and holding most of its cash balances in Dollars. The Group identified 1 January 2019 as the date of transition.

Other than the items mentioned above, the Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in the Consolidated entity's last annual financial statements for the year ended 31 December 2018.

The accounting policies have been applied consistently throughout the Consolidated entity for the purposes of preparation of these Interim Financial Statements. The principal accounting policies adopted are consistent with those of the previous accounting period and corresponding interim reporting period, unless stated otherwise.

4 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 assess performance and determine 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.

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.

4 Segment information (continued)

2019	**Operating Units $'000**	**Product and Innovation $'000**	**Intersegment Elimination $'000**	**Total $'000**
Segment revenue				
Operating revenue and other income	23,356	1,070	(642)	23,784
	23,356	1,070	(642)	23,784
Segment expense				
Segment depreciation and amortisation expense	(934)	(447)	-	(1,381)
Share of profits of associates	40	-	-	40
Segment expense	(30,740)	(4,678)	820	(34,598)
Unallocated expenses - corporate	-	-	-	(5,351)
	(31,634)	(5,125)	820	(41,290)
Net result	(8,278)	(4,055)	178	(17,506)
Assets				
Investments in associates	466	-	-	466
Segment assets	98,541	8,288	(1,051)	105,778
Unallocated assets - corporate	-	-	-	6,564
	99,007	8,288	(1,051)	112,808
Liabilities				
Segment liabilities	(69,311)	(8,855)	2,323	(75,843)
Unallocated liabilities - corporate	-	-	-	(2,144)
	(69,311)	(8,855)	2,323	(77,987)
Acquisitions of non-current assets	1,030	72	-	1,102

2019	**The Americas $'000**	**Rest of the World $'000**	**Total $'000**
Other information			
External sales revenue by geographical segment	10,540	13,244	23,784
Property, plant and equipment by geographical segment	5,479	8,348	13,827

Profit or Loss items are for the 6 months ended 30 June 2019 and Balance Sheet items are as of 30 June 2019.

2018	**Operating Units $'000**	**Production and Innovation $'000**	**Intersegment Elimination $'000**	**Total $'000**
Segment revenue				
Operating revenue and other income	32,960	341	(496)	32,805
	32,960	341	(496)	32,805

4 Segment information (continued)

2018	**Operating Units $'000**	**Production and Innovation $'000**	**Intersegment Elimination $'000**	**Total $'000**
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)
	(74,804)	(5,458)	1,137	(85,880)
Net result	(41,844)	(5,117)	641	(53,075)
Assets				
Investments in associates	484	-	-	484
Segment assets	115,475	9,006	(1,383)	123,098
Unallocated assets - corporate	-	-	-	18,212
	115,959	9,006	(1,383)	141,794
Liabilities				
Segment liabilities	(81,469)	(8,663)	3,004	(87,128)
Unallocated liabilities - corporate	-	-	-	(3,599)
	(81,469)	(8,663)	3,004	(90,727)
Other information				
Acquisitions of non-current assets	2,010	586	-	2,596

2018	**The Americas $'000**	**Rest of the World $'000**	**Total $'000**
Other information			
External sales revenue by geographical segment	24,554	8,251	32,805
Property, plant and equipment by geographical segment	5,514	9,332	14,846

Profit or Loss items are for the 6 months ended 30 June 2018 and Balance Sheet items are as of 31 December 2018.

(a) Unallocated expenses

	Consolidated entity 30 June 2019 $'000	30 June 2018 $'000
Other corporate expenses	(5,351)	(6,755)

(b) Unallocated assets

4 Segment information (continued)

(b) Unallocated assets (continued)

	Consolidated entity 30 June 2019 $'000	Consolidated entity 31 December 2018 $'000
Cash and cash equivalents	2,625	14,003
Other assets	3,939	4,209
	6,564	18,212

(c) Unallocated liabilities

	Consolidated entity 30 June 2019 $'000	Consolidated entity 31 December 2018 $'000
Trade and other payables	(747)	(2,126)
Other liabilities	(1,397)	(1,473)
	(2,144)	(3,599)

Intersegment transactions

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

5 Operating revenue

	Consolidated entity	
	30 June 2019 $'000	30 June 2018 $'000
Operating revenue		
Contract revenue		
Revenues on equipment sales	8,337	20,370
Revenues on EPC contracts	10,287	7,794
Service concession arrangements revenue	1,902	515
	20,526	28,679
Service revenue		
Revenues on services	2,078	1,954
Other	1,175	2,142
	3,253	4,096
	23,779	32,775

6 Other gains/(losses) - net

	Consolidated entity	
	30 June 2019 $'000	30 June 2018 $'000
Other gains / (losses) - net		
Foreign exchange gain	645	12,658
Change in provisions	-	(15)
Withholding taxes	(306)	(420)
Income/(loss) from investments accounted for using the equity method	40	18
Other	(72)	990
	307	13,231

7 People cost

Employee Option Plan

Set out below are summaries of options granted to Directors, Consultants and Employees under the Company's employee share option plan:

2019

Grant date	Expiry Date	Exercise Price	Granted	Exercised	Vested	Cancelled / Reversed	Balance at the end of the year
Opening balance			**70,602,872**	**(13,288,643)**	**15,970,089**	**(10,877,558)**	**46,436,671**
31/1/19	30/9/21	A$0.39	1,198,000	-	495,545	-	1,198,000
4/2/19	18/3/19	A$0.40	-	-	-	(1,940,000)	(1,940,000)
27/3/19	27/8/22	A$0.46	-	-	-	(3,906)	(3,906)
27/3/19	25/5/22	A$0.48	-	-	-	(40,625)	(40,625)
27/3/19	25/5/25	A$0.93	-	-	-	(799,481)	(799,481)
4/4/19	31/3/19	A$0.72	-	-	-	(3,000,000)	(3,000,000)
4/4/19	10/9/21	A$0.81	-	-	-	(124,000)	(124,000)
10/4/19	12/3/22	A$0.46	272,000	-	63,750	-	272,000
15/4/19	11/3/22	A$0.58	-	-	-	(100,000)	(100,000)
15/4/19	25/5/25	A$0.85	-	-	-	(347,389)	(347,389)
15/4/19	10/9/21	A$0.81	-	-	-	(57,000)	(57,000)
15/4/19	30/9/21	A$0.39	-	-	-	(16,250)	(16,250)
16/4/19	15/6/23	A$0.53	500,000	-	-	-	500,000
23/5/19	23/12/19	A$0.30	-	(47,938)	-	(84,946)	(132,884)
23/5/19	23/12/19	A$0.40	-	(19,620)	-	(113,264)	(132,884)
24/5/19	30/9/21	A$0.39	-	(1,546)	-	(7,204)	(8,750)
30/5/19	13/6/23	A$0.60	250,000	-	-	-	250,000
30/5/19	13/6/23	A$0.80	250,000	-	-	-	250,000
30/5/19	14/7/25	A$0.39	3,360,000	-	840,000	-	3,360,000
14/6/19	10/9/19	A$0.81	-	-	-	(35,000)	(35,000)
Closing balance			**76,432,872**	**(13,357,747)**	**17,369,384**	**(17,546,623)**	**45,528,502**

The opening balance has been adjusted to reflect the vesting of options issued in the prior period. Refer to note 13 "Contributed equity" for details.

***(i)* Fair value of options granted**

For the options granted during the current financial period, the valuation model inputs used to determine the fair value at the grant date are outlined below:

2019

Grant date	Expiry Date	Share price at grant date	Exercise Price	Dividend yield	Risk-free interest rate	Fair value at grant date
31/1/19	30/9/21	A$0.36	A$0.39	Nil	2.42%	A$0.1140
10/4/19	12/3/22	A$0.55	A$0.46	Nil	2.26%	A$0.2419
16/4/19	16/6/23	A$0.54	A$0.53	Nil	2.37%	A$0.2469
30/5/19	13/6/23	A$0.46	A$0.60	Nil	1.99%	A$0.1653
30/5/19	13/6/23	A$0.46	A$0.80	Nil	1.99%	A$0.1300
30/5/19	14/7/25	A$0.46	A$0.39	Nil	1.99%	A$0.2377

7 People cost (continued)

The weighted average remaining contractual life of options outstanding at year-end was 3.13 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 $0.2055. These values were calculated using the binomial lattice, based on the Cox, Ross Rubinstein (1979) method applying the following inputs:

Weighted average exercise price: $0.59
Expected share price volatility: 64.28%

Expenses arising from share-based payment transactions

	Consolidated entity	
	30 June 2019 $'000	30 June 2018 $'000
Share based payment expense		
Consultant share based payments	94	161
Employee share based payments	375	605
Director share based payments	687	878
	1,156	1,644

8 Loss per share

(a) Basic loss per share

	Consolidated entity	
	30 June 2019 $	30 June 2018 $
Loss attributable to the ordinary equity holders of the Group	(0.03)	(0.13)

(b) Diluted loss per share

	Consolidated entity	
	30 June 2019 $	30 June 2018 $
Loss attributable to the ordinary equity holders of the Group	(0.03)	(0.13)

8 Loss per share (continued)

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

	Consolidated entity	
	30 June 2019 $'000	30 June 2019 $'000
Loss attributable to the ordinary equity holders of the Group used in calculating loss per share:	(17,506)	(53,075)

(d) Weighted average number of shares used as denominator

	Consolidated entity	
	30 June 2019 Number	30 June 2018 Number
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	537,385,141	415,126,094

Both the basic and diluted earnings per share have been calculated using the loss attributable to shareholders of Fluence Corporation Limited as the numerator, i.e. no adjustments to losses were necessary during the six months period to 30 June 2019 and 30 June 2018.

9 Assets classified as held for sale

Prior to the acquisition of RWL Water by Fluence Corporation in 2017, Fluence Israel, the Group's Israeli subsidiary, operated out of Carmiel, Israel. Following the acquisition, Fluence Israel moved most of its activities to Caesarea, Israel where the subsidiary offices are located. As a result, during the six-month ended 30 June 2019, the Group decided to put its Carmiel building up for sale with the intention to lease it back for a transition period.

In August 2019, the Group signed the sale and lease back agreement with a buyer for the amount of $2,270,000.

The asset net value in Group's book as of 30 June 2019 was as follows:

	30 June 2019 $'000
Building	1,596
Accumulated depreciation	(718)
Asset classified as held for sale	878

10 Intangible assets

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

Consolidated entity	Goodwill $'000	Capitalised development costs $'000	Capitalised concession asset $'000	Total $'000
Half Year ended 30 June 2019				
Opening net book amount	-	1,912	3,691	5,603
Additions	-	-	232	232
Amortisation charge	-	(83)	-	(83)
Currency translation differences	-	102	78	180
Closing net book amount	-	1,931	4,001	5,932

11 Concession arrangements asset

The Group has three service arrangements on hand as of 30 June 2019:

In January 2016 the Group entered into a service concession arrangement in Mexico to build and operate a desalination plant. As of 30 June 2019 the Group recognised an intangible asset and a financial asset received as consideration for providing construction services of $4,001,000 and $11,890,000 (31 December 2018: $3,691,000 and $11,074,000), respectively. The intangible asset represents the right to charge users a fee for use of the desalination plant. The financial asset represents an unconditional right to receive a specific amount of cash.

In July 2018 the Group entered into a service concession arrangement in the Bahamas to build a seawater desalination portable treatment plant. As of June 30, 2019 the Group recognised a concession asset of $3,416,000 (31 December 2018: $2,892,000).

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. As of 30 June 2019 the Group recognised a concession asset of $5,481,000 (31 December 2018: $4,864,000).

11 Concession arrangements asset (continued)

	Consolidated entity 30 June 2019	Consolidated entity 31 December 2018
Current concession asset	-	-
Non-current concession asset	20,787	18,830
	20,787	18,830

12 Borrowings

In 2018, the Group secured a $50,000,000 non-recourse debt facility for project financing of Build, Own, Operate and Transfer (BOOT) projects (the “Facility”). In March 2019, the Group has drawn down $2,030,000 (the “Proceeds”) from the Facility. The Proceeds are used to fund the Group’s first BOOT project in the Bahamas.

13 Contributed equity

(a) Share capital

	Notes	**30 June 2019 No. of Shares**	**31 December 2018 No. of Shares**	**30 June 2019 $’000**	**31 December 2018 $’000**
Ordinary shares	13(b)	537,444,400	537,375,296	179,069	179,047
Options	13(c)	45,528,502	46,436,671	7,235	6,079
		582,972,902	583,811,967	186,304	185,126

(b) Ordinary shares - fully paid

	Number of shares	**$’000**
Opening balance 1 January 2018	411,279,194	152,810
Shares issued for Milestone 2	3,988,973	-
Shares issued for RWL Water LLC group acquisition, previously subject to holdback	20,100,000	-
Private placement at AU$0.37 per share	89,455,295	23,987
Exercise of options	3,499,999	799
Shares issued pursuant to a Share Purchase plan announced on 26 October 2018 at AU$0.37 per share	9,051,835	2,428
	537,375,296	180,024
Transaction costs arising on share issue	-	(977)
Balance 31 December 2018	537,375,296	179,047

	Number of shares	**$'000**
Opening balance 1 January 2019	537,375,296	179,047
Exercise of options	69,104	22
Balance 30 June 2019	**537,444,400**	**179,069**

13 Contributed equity (continued)

(c) Options

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

	Number of options
Opening balance 1 January 2019	46,436,671
Unlisted options issued to employees	1,950,000
Unlisted options issued to consultants	20,000
Unlisted options issued to directors	3,860,000
Exercise options	(69,104)
Cancelled/lapsed options	(6,669,065)
Balance 30 June 2019	**45,528,502**

14 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).

30 June 2019	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial liabilities				
Government grant liability	-	-	5,093	5,093
	-	-	5,093	5,093

14 Recognised fair value measurements (continued)

Fair value hierarchy (continued)

31 December 2018	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial liabilities				
Government grant liability	-	-	4,834	4,834
	-	-	4,834	4,834

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% (2018: 13.9%).

Reconciliation of Level 3 fair value movements

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

	Government grant $'000
Opening balance at 1 January 2018	**2,402**
Payment	23
Adjustment to fair value of liability	2,448
Currency translation differences	(39)
Closing balance at 31 December 2018	**4,834**
Payment	-
Adjustment to fair value of liability	237
Currency translation differences	22
Closing balance at 30 June 2019	**5,093**

15 Commitments and contingencies

As at 30 June 2019 and 31 December 2018, the Group provided bank guarantees for fulfilment of a lease commitment, for bid bonds and for performance guarantees for its projects in the amount of $1,967,000 and $2,864,000, respectively.

16 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to period 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 periods.

Fluence Corporation Limited
Directors' Declaration
30 June 2019

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 8 to 24 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 2019 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 J. Charrabé
Managing Director and CEO

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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 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a statement of 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 2019 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*.

Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 2 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

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 2019 and its financial 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

BDO

David Garvey
Partner

Melbourne, 30 August 2019