



Fluence Strongly Positioned for Growth and Sustainable EBITDA Profitability in 2020

Business Update for Quarter Ended 31 December 2019 (Q4 2019)

- Q4 2019 gross bookings of US\$25.4 million, with total backlog at 31 December 2019 at US\$265.0 million
- Strong quarterly sales were underpinned by FY 2019 Smart Products Solutions revenue of US\$26.5 million, exceeding the revised guidance
 - Two significant follow-on orders in China, and US\$5.0 million Smart Products Solution in Argentina
- Increased recurring revenue backlog by signing operation and maintenance agreement in Caribbean
- Continued reduction in overhead costs by at least US\$5.0 million annually or 12% YoY (unaudited)
- Successfully raised A\$38.3 million gross proceeds via a private placement and SPP
- Achieved Financial Close (on 7 January 2020) for the Ivory Coast water treatment plant project, which underpins expectation of sustainable EBITDA profitability in FY 2020
- Strongly positioned for growth in FY 2020, with FY 2020 guidance for Smart Products Solutions revenue of at least US \$32.0 million (up 20% YoY), recurring revenue of US \$9.0 million (up 30% YoY) and sustained EBITDA profitability

New York, Melbourne, 31 January 2020

Fluence Corporation Limited (ASX: FLC) is pleased to present this business update alongside its Appendix 4C (Quarterly cashflow report) for the quarter ended 31 December 2019 (Q4 2019).

Reflecting on Q4 2019 and the outlook for FY 2020, Fluence Managing Director & CEO Henry Charrabé, said:

“The final quarter of 2019 was a very busy period for Fluence, delivering on our Smart Products Solutions’ key growth objectives, and exceeding our revised guidance for FY 2019 revenue from this market segment. We further strengthened our engagement and received follow-on orders from two of our China partners, Aerospace Kaitian Environmental Technology and Hubei ITEST.

“Our pre-engineered solutions continue to gain traction in China, with Q4 2019 Smart Products Solutions revenue increasing to US\$7.8 million. We see considerable further opportunities for our technology in China, and the strong support we received from existing and new institutional investors in our capital raise in October underpins further investment in our assembly capabilities to drive continued growth in that geography.

“Additionally, we received our first MABR order from a customer in New Mexico, USA as our pre-engineered Smart Products were able to meet the high levels of water recycling standards in the United States. We were also able to book our first service contract for our NIROBOX™ installation in Barbuda, further increasing our recurring revenue backlog and expanding our service capabilities.

“On 7 January 2020, our Ivory Coast Project achieved the important milestone of Financial Close when the customer executed its financing agreements, to which Fluence was not a party. Revenue of at least EUR 18 million that was expected to be recognised in Q4 2019 has moved into FY 2020 due to the timing of the signing of the financial agreements.

“While the delay in achieving Financial Close of the Ivory Coast Project deferred the timing of Fluence achieving sustainable EBITDA profitability by one fiscal quarter, it has now underpinned our ability to deliver strong

growth in revenue and earnings in FY 2020. Our focus this year will be on executing the Ivory Coast Project to budget, increasing sales of Smart Products Solutions, particularly in China, and securing further recurring revenue contracts. With visibility on US\$265 million of backlog, the outlook for FY 2020 is positive and we expect to:

- Grow Smart Products Solutions revenue by more than 20% YoY to at least US\$32.0 million [compared to 2017: US\$10.0 million, 2018: US\$22.0 million and 2019: US\$26.5 million]
- Grow recurring revenue by 30% YoY to US\$9.0 million [2019: US\$7.0 million]
- Achieve sustained EBITDA profitability.

“Fluence and its businesses are focused on key environmental and sustainability pillars in alignment to the Sustainable Development Goals of the United Nations. The installed base of Fluence’s innovative solutions such as Aspiral™, SUBRE and NIROBOX™, save 19 GWh [giga watt per hour] (equivalent to 13,500 tons of CO₂) annually compared to conventional technologies. In addition, Fluence’s waste-to-energy installations around the world produce biogas from biomass and generate 121 GWh, which is equivalent to saving more than 85,700 tons of CO₂ emission annually compared to fossil-fuelled power generation.

“Pollution through the generation of excess nitrogen and phosphorus is one of the world’s most widespread and costly environmental challenges. Fluence’s installed base of MABR systems remove over 500 tons of such nutrients annually and through our reuse solutions, we recycle more than 8.6 billion litres of water annually.

“We continued to strengthen our position as a leader in the global decentralized water and wastewater segment over Q4 2019. Reaching the important milestone of becoming sustainably EBITDA positive while also transitioning the Company to focus on our pre-engineered Smart Products Solutions, puts us in a strong position to deliver on the high expectations we have for Fluence in 2020 and beyond.”

Q4 2019 Business Update

Smart Products Solutions

Revenue for pre-engineered Smart Products Solutions in Q4 2019 was US\$11.1 million (double Q3 2019). FY 2019 revenue for pre-engineered Smart Products Solutions was US\$26.5 million, representing 21% Y/Y growth, and exceeding our guidance of US\$26.0 million for this product segment.

We anticipate strong ongoing growth in this segment in FY 2020 supported by the volume commitments of ITEST MABR orders, and recent additional orders from Aerospace Kaitian Environmental Technology and Liaoning Huahong New Energy.

The support from existing and new institutional shareholders in the October capital raising will fund an increase to our assembly capability in the newly established factories in Yiyang and Panjin. The factories will provide capacity for potential future orders in the next two years of 40,000 m³/day and 52,500 m³/day respectively.

Given our strong presence now in China, we expect to be in a position to sign further similar volume/bulk agreements with our partners in China.

Fluence is monitoring the outbreak of the new coronavirus in China, particularly as it relates to the well-being of our staff. At the moment, we are not aware of any negative implications for our staff or our 2020 business forecasts as a result of the outbreak. We will continue to closely monitor the situation.

As water scarcity and water security become greater risks for municipal, industrial and commercial entities, we are seeing strong fundamentals for our water treatment solutions. We are exploring partnership and sales channel opportunities for NIROBOX™ and expect to use some of the proceeds from our recent capital raising to fund working capital investment required under these agreements.

Recurring Revenue and Aftermarket Sales

Total aftermarket and services revenue of US\$7.0 million was recognized in FY 2019.

Our project in Bimini, Bahamas is now fully operational and provides water to our customer with a capacity of 3,000 m³/day. This project is expected to deliver annual recurring revenue of US\$1.7 million for the next 15 years.

Development work on our Peru BOOT project has begun and should allow Fluence to begin site construction in the first half of 2020 and commence commercial operations in the second half of 2020. Once completed, the project is expected to generate annual recurring revenue of at least US\$3 million for 10 years.

Securing the service contract for the NIROBOX™ installation in Barbuda further increases our recurring revenue backlog and strengthens our position to service our installed base around the world.

Custom Engineered Solutions and Other Products

Ivory Coast

Financial close on the €165.0 million Ivory Coast Project occurred on 7 January 2020. With planning work on the Project now largely completed, Fluence can fully focus on moving towards construction commencement of this important turnkey water treatment plant.

Achievement of financial close allows Fluence to immediately recognize no less than US\$20.0 million (€18 million) of revenue for work that has already largely been completed. As a result of achieving financial close in January, revenue related to Ivory Coast will be recognized in Q1 2020, underpinning Fluence's ability to be sustainably EBITDA positive from Q1 2020 onward.

San Quintin, Mexico

Fluence enjoys a strong relationship with the customer, the State Water Commission of Baja California (CEA) and the local municipality. CEA requested a change in the project schedule, which Fluence has been working to accommodate and additionally following the recent elections in Mexico, the new administration undertook a review of all local projects. CEA is now in the process of finalizing reauthorization and any potential contractual amendments. The Company expects to receive guidance from CEA in Q1 2020, which will then enable construction to commence thereafter.

The delay in commencement of San Quintin construction, and the deferral of Ivory Coast revenue into 2020, negatively impacted Custom Engineered Solutions revenue for 2019. This deferral in revenue recognition resulted in recognizing approximately 40% lower revenue in 2019 as compared to 2018.

Generate Capital Term Loan

The due diligence process for the planned Generate Capital corporate term loan that was disclosed in prior Business Updates is ongoing. The first use of this facility was anticipated to be to fund Fluence's equity contribution for the San Quintin project. With that project currently delayed as described above, the completion of Generate Capital due diligence processes will be completed once there is a resolution with respect to the San Quintin project.

Q4 2019 Cash Flows

The Appendix 4C quarterly cashflow report for Q4 2019 is attached.

Cash and Cash Equivalents were US\$21.9 million at 31 December 2019 (including funds from the October 2019 capital raising). In addition, the Company held \$5 million in short term deposits. Net Cash Used from Operating Activities in Q4 2019 was US\$9.3 million, approximately US\$3.3 million higher than forecast in the 30 September 2019 Appendix 4C due to deferrals in revenue receipts from major projects as described above. Revenue in Q4 was US\$23.4 million. Operating expenses were in line with the estimate previously provided.

Based on current contracts, the Company expects US\$22.0 million of cash receipts from customers during Q1 2020 and cash payments of US \$27.8 million, resulting in an expected net operating cash outflow for Q1 2020 of US\$5.8 million. This cash flow does not include the first disbursement from Ivory Coast Project, which is expected in Q2 2020.

FY 2019 Revenues

Owing in part to the deferral of significant Ivory Coast revenue from Q4 2019 to Q1 2020 and delays in the commencement of the San Quintin project, revenue for 2019 will be approximately US\$60 million, of which Smart Products Solutions revenues were US\$26.5 million and exceeded revised guidance.

Fluence has further reduced its overhead costs compared to FY 2018, with at least (unaudited) annual savings of \$5.0 million (12% reduction YoY). This reflects the Company's continued shift towards pre-engineered Smart Products Solutions, which requires lower headcount and other overhead.

Positive Outlook for FY 2020

Fluence's plan for 2020 is to continue executing its strategy to be a leader in the global decentralized water, wastewater and reuse treatment markets. Our focus is to deliver the Ivory Coast Project to budget, increase sales of Smart Products Solutions (particularly in China) and secure further recurring revenue contracts.

Fluence provides the following outlook for FY 2020:

- Smart Products Solutions revenue is expected to grow to at least US\$32.0 million, a more than 20% increase from FY 2019 (FY 2017: US\$10.0 million, FY 2018: US\$22.0 million and FY 2019: US\$26.5 million)
- Recurring revenue is expected to continue to grow by 30% to US\$9.0 million (FY 2019: US\$7.0 million)
- Expect to be sustainably EBITDA positive in FY 2020.

Quarterly Update – Conference Call

Henry Charrabé (Managing Director & CEO) and Francesco Fragasso (CFO) will host an investor conference call regarding the Company's quarterly update on Monday, February 3rd at 9:30 am Australia AEDT / Sunday, February 2nd at 5:30 pm US EST. Call details below:

For those wishing to dial into the call, please register for the call through the following link: to <https://s1.c-conf.com/DiamondPass/10003486-invite.html>

Alternatively, at the time of the call, dial your respective local number below and provide the conference ID 10003486 to the operator:

AUSTRALIA TOLL/INTERNATIONAL	+61 2 9007 3187
AUSTRALIA TOLL-FREE	1 800 870 643
US TOLL-FREE	(855) 881 1339
US TOLL	(914) 202 3258

A link to the live webcast will be accessible on the Company's "Investor Relations" page at <https://www.fluencecorp.com/investor-news/>. Questions will need to be submitted electronically through the webcast interface. For those wishing to access the webcast please register in advance: <https://services.choruscall.com.au/webcast/fluence-200203.html>

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This announcement is authorised for lodgement on ASX by Henry Charrabé, Managing Director & CEO, Fluence Corporation Limited.

About Fluence Corporation Limited (ASX: FLC)

Fluence is a leader in the decentralized water, wastewater and reuse treatment markets, with its pre-engineered, standardized Smart Products Solutions, including Aspiral™, NIROBOX™ and SUBRE. Fluence offers an integrated range of services across the complete water cycle, from early stage evaluation, through design and delivery to ongoing support and optimization of water related assets, as well as Build Own Operate Transfer (BOOT) and other recurring revenue solutions. With established operations in North America, South America, the Middle East, Europe and China, Fluence has experience operating in over 70 countries worldwide and enables businesses and communities worldwide to maximize their water resources.

Further information can be found at <https://www.fluencecorp.com/>.

Forward looking statements

"This quarterly business update contains "forward-looking" statements. Forward looking words, such as "expect", "anticipate", "should", "could", "may", "predict", "plan", "will", "believe", "forecast", "estimate", "target" and other similar expressions are intended to identify forward-looking statements. Forward-looking statements, opinions and estimates provided in this update are based on estimates and assumptions related to future business, contractual, economic, market, political and other conditions that, while Fluence considers them to be reasonable, are inherently subject to significant uncertainties, contingencies and (potentially) delays.

Many known and unknown factors could cause actual events or results to differ materially from estimated or anticipated events or results reflected in such forward-looking statements. Such factors include, but are not limited to operating, competition and development risks, economic and political risks, and a number of other risks and also include unanticipated and unusual events, many of which are beyond Fluence's ability to control or predict.