

Fluence Corporation Limited

Appendix 4D

Interim Half-year Report

Half-year 30 June 2020

Results for announcement to the market - subject to finalisation of the auditor's review

Current reporting period - half year ended 30 June 2020
Previous - half year ended 30 June 2019

				USD \$'000 Unreviewed*
Revenue from ordinary activities	Up	141.3%	to	57,373
Income from ordinary activities after tax attributable to members	Up	109.9%	to	1,736
Net income after tax (from ordinary activities) for the period attributable to owners of Fluence Corporation Limited	Up	111.6%	to	2,041

Dividends (distributions)

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

Net tangible asset per security

As at 30 June 2020	0.06
As at 31 December 2019	0.05
Record date for determining entitlements to dividend	N/A

* The Company will utilise the recently announced ASIC relief titled "ASIC Corporations (Extended Reporting and Lodgement Deadlines-Listed Entities) Instrument 2020/451" dated 15 May 2020 ("ASIC Relief") and the corresponding ASX Class Waiver issued on 16 June 2020 titled "Extended Reporting and Lodgement Deadlines" under listing rule 18.1 to lodge its Half Year Accounts subject to audit review, and extend the deadline for lodgement of the audit reviewed Half Year Accounts from 75 days to 106 days.

Explanation of the above information:

Refer to the Directors' Report - Review of Operations.

To be read in conjunction with the Interim Report for the half year ended 30 June 2020 and the 31 December 2019 Annual Report

Fluence Corporation Limited

ABN 52 127 734 196

Interim Report

for the half-year ended 30 June 2020

**(subject to finalisation of the auditor's
review)**

Fluence Corporation Limited

Interim Report 30 June 2020

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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 2019 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*. This report remains subject to finalisation of the audit review. Refer ASX Appendix 4D footnote for details of the extension of time for lodgement of the audit reviewed Interim Financial Report.

Directors' Report

The Directors present their report, together with the financial statements for the six months ended 30 June 2020 (H1 2020) of Fluence Corporation Limited ("Fluence", the "Company" or the "Group") subject to finalisation of the auditor's review. Please note that unless otherwise stated, all dollar figures are in US Dollars.

Directors

The following persons held office as Directors of Fluence Corporation Limited during the financial year:

Mr Richard Irving, Non-Executive Chairman
Mr Henry Charrabé, Managing Director and Chief Executive Officer (CEO)
Mr Paul Donnelly, Non-Executive Director
Mr Arnon Goldfarb, Non-Executive Director
Mr Ross Haghghat, Non-Executive Director
Dr Ramesh Rengarajan, Non-Executive Director
Mr Peter Marks, Non-Executive Director (resigned 31 March 2020)

Review of operations

H1 2020 saw Fluence continue its strategy of growing sales in Smart Products Solutions and increasing its recurring revenue base. While the Company experienced difficult trading conditions due to the global COVID-19 pandemic, and an overall slowing of momentum in its markets as a result, Fluence still managed to achieve several key milestones:

- Total Operating Revenue up 142% to \$57.6 million (H1 2019: \$23.8 million)
- Recurring revenue of \$3.9 million (H1 2019: \$3.3 million)
- Overhead costs down 16% to \$9.2 million (H1 2019 \$11.0 million)
- Generated positive operating cashflow over Q2 2020
- Achieved financial close of the Ivory Coast Project
- Grew Smart Products Solutions' sales outside of China - in Cambodia, Ethiopia, Argentina, Ghana, Jamaica, USA, and Vietnam
- Delivered a total of 28 MABR products in China, while continuing to grow sales via strategic partnership

Fluence has continued its strategy of shifting from Custom Engineered Solutions (CES) to become a global leader in decentralised Smart Products Solutions (SPS) and recurring revenue offering higher margins.

Review of operations (continued)

Notable highlights included:

Smart Products Solutions (SPS)

China

- Continued strong relationship with Hubei ITEST, delivering 3 units during H1 2020
 - Delivery of Aspiral™ was slightly lower than expected as COVID-19 and floods restricted execution work
- Partnerships with Kaitian Environmental Technology (Kaitian) and Liaoning Huahong New Energy (Liaoning), started to deliver results
 - Combining the Kaitian, Liaoning and ITEST orders may result in future cumulative orders of more than 150,000m³/day capacity over H2 2020 and 2021
- New contract awarded to deliver an Aspiral™ L3 unit to treat an initial 35m³/day of high concentrated wastewater in Inner Mongolia with China Rail
- Sale of the first Aspiral™ System to Three Gorges Group for the Great Protection of Yangtze River (Three Gorges) and general contractor China Tiesiju Civil Engineering Group (CREC4)

Other Markets

- Secured largest MABR order to-date with SUBRE contract in Cambodia for the city of Sihanoukville with a value in excess of \$7 million
- New contract awarded to deliver an effluent treatment plant for a meat processing facility in Gorina, Argentina, which will become the largest anaerobic digester ever built in Argentina
- Signed a contract to build SUBRE solutions in Kingston, Jamaica
- Repeat order for Nirobox™ Mega in Vietnam

Recurring Revenue and Aftermarket

- Development work continued on the Build Own Operate Transfer (BOOT) project in Peru, which while delayed due to COVID-19, is expected to be completed in 2021, generating US\$3.0 million of revenue per annum for 10 years following completion
- The recurring revenue and after-market segment continues to grow. Fluence saw growth in aftermarket sales as a result of COVID-19 as new water treatment projects were delayed, increasing demand for maintenance and operating contracts

Custom Engineered Solutions (CES)

- Fluence achieved financial close on the Ivory Coast Project on 7 January 2020, with Fluence recognising \$34.0 million in revenue from the project
 - While the Company did expect all remaining conditions precedent and cash receipt during H1 2020, COVID-19 and other factors have caused additional delays
 - The Federal Government of Ivory Coast and Fluence remain committed to getting the project underway
- Negotiations with local authorities regarding the San Quintin project in Mexico have continued
- Work on the 12,000m³/day seawater desalination plant in Brazil has progressed well and is expected to be completed in Q4 2020. The contract is worth US\$10.0 million and will be the largest desalination plant in Brazil
- Construction work on the seawater desalination plant in New Mansoura, together with The International Co. for Water Services & Infrastructure (IWSI), a Fluence partner and Hassan Allam EPC, is progressing as well

Review of operations (continued)

In depth review of operations

Operating in markets with attractive fundamentals

The spread of the COVID-19 pandemic (the “Coronavirus”), H1 2020 presented Fluence, and most businesses around the world, with extraordinary challenges. Markets have been, and continue to be, difficult, and Fluence has seen a noticeable slowdown in execution of existing contracts and new projects being launched. The Company however continues to see significant opportunities in the decentralised water and wastewater treatment market.

Fluence continues to focus on delivering products in a timely and efficient manner by utilizing a largely reliable and uninterrupted supply chain for manufacturing. We are also witnessing the benefits of being geographically diversified with several supply sources available in different countries.

As we are going through these challenging times, we will continue to focus on the well-being of our staff, the timely delivery of our solutions to our customers and partners, while also monitoring the constantly changing environment so that we are ready to adjust as may be deemed necessary in the future.

Centralised treatment plants present major challenges to address global water scarcity issues, as they tend to favour high density, landlocked, existing infrastructure, and cannot meet the demands for clean water in fast growing areas. Moreover, current centralised water treatment plants cannot be expanded easily, upgrades are costly and do not deliver efficient and lower energy consumption compared to plants built by Fluence.

As countries open up, and economic stimulus projects are implemented, Fluence believes there will be significant opportunities with countries focusing on infrastructure projects to provide clean water and treat wastewater in many developing regions. Fluence’s key differentiators, offering alternative decentralised solutions with low working capital requirements and quick construction times, are expected to support its ability to respond to these opportunities.

Fluence continues to focus on key environmental and sustainability pillars in alignment with the Sustainable Development Goals of the United Nations. The installed base of Fluence’s innovative solutions such as *Aspiral*[™], *SUBRE* and *NIROBOX*[™], collectively save 23.5 GWh [giga watt hours], equivalent to 17,000 tons of CO₂ emissions annually, compared to conventional technologies. In addition, Fluence’s waste-to-energy installations around the world produce biogas from biomass and generate 147 GWh, which is equivalent to saving more than 103,500 tons of CO₂ emissions annually, compared to fossil-fuelled power generation.

(i) Smart Products Solutions

Smart Products Solutions revenue grew 89% to \$10.6 million (H1 2019: \$5.6 million).

MABR - *Aspiral*[™] / *SUBRE*

During the first six months of 2020, Fluence delivered 28 of Smart Products Solutions in China, continuing its growth, signing several new contracts through its channel partners. As a result of COVID-19 restrictions and flooding during H1 2020, Fluence experienced a slowdown in deliveries as construction and installation was impacted. From mid-February 2020, Fluence started to change its operating structure and activities to ensure the safety and well-being of both its employees, customers, and partners in China.

Fluence’s growth in China has been aided by the current five-year plan outlined by the Chinese Government, targeting the financing for development and improvement of China’s rural wastewater treatment quality. The new five-year plan (the 14th such document) is currently being drafted and is expected to be reviewed by the Chinese Central Committee and National Congress in October 2020. Fluence expects that the plan will continue to focus on delivering further environmental improvements and balancing the welfare gaps between rural communities and the cities.

Review of operations (continued)



The 16 provinces and districts in China highlighted are covered by current strategic partnerships

Fluence and Hubei ITEST have developed a strong relationship, with Hubei ITEST having committed to large orders in 2018 and 2019 and continuing to make orders during the early stages of 2020. During the six months ended 30 June 2020, Fluence has delivered to Hubei ITEST 3 MABR solutions in China and 10 more orders of MABR solutions from ITEST comprise of 61 new units.

Among the key contract wins during the half, was entering a new market segment with a project involving the Chinese Railway System in Inner Mongolia. Utilising Fluence's proprietary MABR technology, this Smart Products Solution consists of an Aspiral™ L3 unit to treat an initial 35m³/day of highly concentrated wastewater. The wastewater is unusually high in nitrogen, and once treated, will meet standards equivalent to China's Class 1A effluent requirement.

Fluence received its first major SUBRE order in the Asia Pacific region, the largest MABR order outside of China during the half year. The Kingdom of Cambodia's Sihanoukville Port for the Ministry of Land Management, Urban Planning and Construction placed an order for three separate SUBRE greenfield projects totalling 15,000m³/day. Fluence won this contract due to its decentralised system which is highly energy efficient, reliable and delivers high effluent quality, combined with its expedited delivery time frame to the city of Sihanoukville which is experiencing rapid population growth.

During the half year, Fluence also won a contract to provide the effluent treatment plant for a meat processing facility in Gorina, Argentina. The plant will process 5,000m³/day. Once completed, the plant will be producing clean water, and also 14,000m³/day of biogas, which will feed a 1.5MW cogeneration unit, helping to provide electricity for the meat processing facility. This plant will be the second, and largest to date, anaerobic digester built in Argentina, both of which have been built by Fluence.

Fluence is pleased with its continued growth in Africa, having secured two additional Smart Products Solutions contracts, demonstrating the growing trend towards local, decentralised freshwater and wastewater treatment systems in the region. The two contracts were:

- ARSI University in Ethiopia: providing Aspiral™ units, which include Fluence's proprietary MABR technology and
- Ghana Rural Water Authority: partnering with Sky Links to provide 11 pre-engineered and standardised surface water treatment systems in various villages.

Review of operations (continued)

NIROBOX™

Contract win with repeat customer Vucico in Vietnam for Nirobox™ Mega.

(ii) Recurring Revenue and Aftermarket

As a result of COVID-19 and travel/movement restrictions globally, Fluence has seen increased orders for maintenance contracts. Several projects have been delayed or put on hold, leading to communities and operators of current facilities seeing increased usage and demand, leading to a greater need for aftermarket services and maintenance of systems.

Development work at the Peru BOOT project was completed during H1 2020. However, construction of the project has been delayed as Peru was in COVID-19 lockdown from March through June 2020. Commencement of commercial operations will therefore be delayed, and this is now expected to occur in 2021. Upon completion, the project is expected to generate recurring revenue of at least US\$3 million per annum over 10 years.

(iii) Custom Engineered Solutions (CES) and Other Products

Fluence achieved financial closure of the landmark €165 million commercial agreement with the Federal Government of Ivory Coast on 7 January 2020. The plant which will supply 150,000 m³/day of fresh drinking water to the city of Abidjan is a key project for Fluence and the Ivory Coast Government.

The plant will treat water from Lagune Aghien, Ivory Coast's largest freshwater reserve near Abidjan, which is dense with algae and other contaminants, to help meet the fresh water needs of the country's largest city. With 4.7 million people, Abidjan is in urgent need of reliable, clean water due to its growing population and housing development.

Unfortunately, due to COVID-19 and other factors, meeting the conditions precedent for first disbursements of funds in H1 2020 was delayed. Fluence and the Ivory Coast Government remain strong supporters of the project and are eager for construction to begin as soon as all conditions precedent are met.

In regard to the San Quintin, Mexico project, Fluence and the State Water Commission of Baja California ("CEA") held regular meetings via video conference over H1 2020 regarding CEA's requested changes to the project schedule and other contractual amendments. As at the date of this report, the parties are continuing to actively negotiate. The Board and management of Fluence have set targets for return on capital and will only pursue projects that meet such criteria and increase shareholder value. Further details are set out in Note 11 to the accounts.

In March 2019, Fluence's Egyptian joint venture partnership, The International Co. for Water Services & Infrastructure (IWSI), together with Hassan Allam EPC, was awarded a \$74 million contract to design and construct a 40,000 m³/day seawater desalination plant in New Mansoura. Fluence is providing the technology, design processes and supplying the pre-treatment, reverse osmosis skids, post-treatment equipment, and the start-up and commissioning. Fluence's share of this contract is approximately \$20 million.

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 2020 was \$57,558,000 (2019: \$23,784,000) and the income from ordinary activities after tax was \$1,736,000 (2019: loss of \$17,506,000).

Cost of sales for the six months ended 30 June 2020 increased to \$38,829,000 (2019: \$20,381,000).

Research and development expenses for the six months ended 30 June 2020 decreased to \$1,659,000 (2019: \$2,943,000). This is in line with budget and product development costs for the China MABR, SUBRE and other wastewater treatment technologies.

Fluence Corporation Limited
Directors' Report
30 June 2020
(continued)

Review of financial results (continued)

The Group's net assets increased by \$587,000 to \$47,665,000 on 30 June 2020 from \$47,078,000 in the corresponding period.

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

On 29 July 2020, the Group entered into a loan agreement with an affiliate of Upwell LLC to provide an initial \$20 million non-dilutive finance facility (the "Facility"). The Facility can be upsized to as much as \$50 million at Fluence's request and at Upwell's discretion.

The Facility replaces the Company's current project loan facility with Generate Capital and comprises a general working capital facility together with project sub-facilities

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 to which the Legislative Instrument applies.

Fluence Corporation Limited
Directors' Report
30 June 2020
(continued)

Auditor's Independence Declaration

This report is subject to finalisation of the auditor's review. The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is expected to be provided with the final audit reviewed accounts.

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
31 August 2020

Fluence Corporation Limited
Directors' Report
30 June 2020
(continued)

The Auditor's Independence Declaration will be provided with the final reviewed half-year report that will be lodged upon finalisation of the auditor's review.

Fluence Corporation Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half-year 30 June 2020

		Consolidated entity	
		Unreviewed	
		30 June	30 June
		2020	2019
	Notes	\$'000	\$'000
Revenues			
Operating revenue	5	57,373	23,779
Other income		185	5
		57,558	23,784
Expenses			
Cost of sales		(38,829)	(20,381)
Research and development expenses		(1,659)	(2,943)
Sales and marketing expenses		(2,731)	(5,333)
General and administration expenses		(9,150)	(10,977)
Other (losses)/gains - net	6	(2,515)	307
Finance costs - net		(366)	(266)
Profit/(Loss) before income tax		2,308	(15,809)
Income tax expense		(572)	(1,697)
Profit/(Loss) for the period		1,736	(17,506)
Profit/(Loss) for the year is attributable to:			
Owners of Fluence Corporation Limited		2,041	(17,668)
Non-controlling interests		(305)	162
		1,736	(17,506)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations, net of tax		(1,076)	82
Total comprehensive income for the period		660	(17,424)
Total comprehensive income for the period is attributable to:			
Owners of Fluence Corporation Limited		965	(17,586)
Non-controlling interests		(305)	162
		660	(17,424)
Earnings/(Losses) per share from continuing operations attributable to the ordinary equity holders of the Group:			
Basic earnings/(loss) per share (\$)	9	0.003	(0.033)
Diluted earnings/(loss) per share (\$)	9	0.003	(0.033)

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 2020

		Consolidated entity	
		Unreviewed	
		30 June	31 December
		2020	2019
Notes		\$'000	\$'000
ASSETS			
Current assets			
	Cash and cash equivalents	20,154	21,908
	Other financial assets	335	5,416
8	Trade and other receivables	69,480	39,777
	Inventories	14,811	12,610
	Prepayments	4,919	7,021
11	Concession arrangement assets	267	512
	Other assets	507	357
	Total current assets	110,473	87,601
Non-current assets			
	Investments accounted for using the equity method	408	434
	Deferred tax assets	699	858
	Property, plant and equipment	12,272	14,162
10	Intangible assets	5,199	5,998
11	Concession arrangements asset	19,031	20,961
	Other assets	4,448	4,180
	Total non-current assets	42,057	46,593
	Total assets	152,530	134,194
LIABILITIES			
Current liabilities			
	Trade and other payables	56,212	43,826
12	Borrowings	1,717	877
	Current tax liabilities	41	38
	Provisions	7,499	6,264
	Deferred revenue	26,160	21,596
	Total current liabilities	91,629	72,601
Non-current liabilities			
	Other liability	8,004	9,812
12	Borrowings	2,030	2,030
	Deferred tax liabilities	2,579	2,041
	Provisions	623	632
	Total non-current liabilities	13,236	14,515
	Total liabilities	104,865	87,116
	Net assets	47,665	47,078
EQUITY			
13	Contributed equity	211,767	211,840
	Other reserves	(15,946)	(14,870)
	Accumulated losses	(148,914)	(150,955)
		46,907	46,015
	Non-controlling interests	758	1,063
	Total equity	47,665	47,078

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

Fluence Corporation Limited
Consolidated Statement of Changes in Equity - unreviewed
For the half-year 30 June 2020

Consolidated entity	Contributed equity \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Total \$'000	Non- controlling interests \$'000	Total equity \$'000
Balance at 1 January 2019	185,126	(15,752)	(119,521)	49,853	1,214	51,067
Profit/(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	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
Balance at 1 January 2020	211,840	(14,870)	(150,955)	46,015	1,063	47,078
Profit/(Loss) for the period	-	-	2,041	2,041	(305)	1,736
Other comprehensive income	-	(1,076)	-	(1,076)	-	(1,076)
Total comprehensive income for the period	-	(1,076)	2,041	965	(305)	660
Transactions with owners in their capacity as owners:						
Issue of options	(73)	-	-	(73)	-	(73)
Balance at 30 June 2020	211,767	(15,946)	(148,914)	46,907	758	47,665

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 2020

	Consolidated entity	
	Unreviewed	
	30 June	30 June
	2020	2019
	\$'000	\$'000
Cash flows from operating activities		
Receipt from customers	29,937	26,708
Payments to suppliers and employees	(34,447)	(49,656)
Receipt from /(transfer to) restricted cash	(402)	821
Interest received	98	106
Interest and other costs of finance paid	(413)	(323)
Income taxes paid	(45)	(228)
Net cash outflow from operating activities	(5,272)	(22,572)
Cash flows from investing activities		
Payments for property, plant and equipment	(167)	(347)
Payments for construction of concession assets	(241)	(1,383)
Proceeds from sale of property, plant and equipment	29	-
Proceeds from disposal of short-term deposits	-	733
Acquisition of non-controlling interest in a subsidiary	-	(300)
Proceeds from disposal of short term deposits	5,000	-
Net cash inflow / (outflow) from investing activities	4,621	(1,297)
Cash flows from financing activities		
Proceeds from borrowings	1,044	1,904
Finance lease payments	(876)	(951)
Net cash inflow from financing activities	168	953
Net decrease in cash and cash equivalents	(483)	(22,916)
Cash and cash equivalents at the beginning of the financial year	21,908	38,741
Effects of exchange rate changes on cash and cash equivalents	(1,271)	(225)
Cash and cash equivalents at end of period	20,154	15,600

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 2020 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 2019 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 31 August 2020.

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 2020, the consolidated entity earned an operating income of \$1,736,000 (2019: loss of \$17,506,000) and had cash outflows from operating activities of \$5,272,000 (2019: \$22,572,000), and total net cash outflows of \$483,000 (2019: \$22,916,000). The Group had cash and cash equivalents of \$20,154,000 at 30 June 2020.

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 expects to have sufficient funds to support its ongoing operations for a period of 12 months from the date the financial report was authorised for issue.

As at 30 June 2020, the Group had a substantial contracted sales backlog of US\$234 million predominantly due to the Ivory Coast project. Accordingly, the Group expects to earn significant revenue over the next 12 months and beyond. The resulting net cash flows associated with this revenue will provide further working capital to the consolidated entity.

3 Significant accounting policies

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 2019.

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.

Fluence Corporation Limited
Notes to the Consolidated Financial Statements
30 June 2020
(continued)

4 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 where discrete financial information is available. OUs include the Group's entities in 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	Product and Innovation \$'000	Intersegment Elimination \$'000	Total \$'000
2020				
Segment revenue				
Operating revenue and other income	57,565	454	(461)	57,558
	57,565	454	(461)	57,558
Segment expense				
Segment depreciation and amortisation	(797)	(386)	(115)	(1,298)
Share of profits of associates	39	-	-	39
Segment expense	(50,550)	(1,044)	1,461	(50,133)
Unallocated expenses - corporate	-	-	-	(4,430)
	(51,308)	(1,430)	1,346	(55,822)
Net result	6,257	(976)	885	1,736
Assets				
Investments in associates	408	-	-	408
Segment assets	141,680	5,466	(5,598)	141,548
Unallocated assets - corporate	-	-	-	10,574
	142,088	5,466	(5,598)	152,530
Liabilities				
Segment liabilities	(97,325)	(9,414)	4,357	(102,382)
Unallocated liabilities - corporate	-	-	-	(2,483)
	(97,325)	(9,414)	4,357	(104,865)
Acquisitions of non-current assets	487	9	-	496

Profit or Loss items are for the 6 months ended 30 June 2020 and Balance Sheet items are as of 30 June 2020.

Fluence Corporation Limited
Notes to the Consolidated Financial Statements
30 June 2020
(continued)

4 Segment information (continued)

	Operating Units \$'000	Product and Innovation \$'000	Intersegment Elimination \$'000	Total \$'000
2019				
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	(934)	(447)	-	(1,381)
Segment expense	(30,740)	(4,678)	820	(34,598)
Share of profits of associates	40	-	-	40
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	434	-	-	434
Segment assets	110,800	6,536	(5,483)	111,933
Unallocated assets - corporate	-	-	-	21,827
	111,234	6,536	(5,483)	134,194
Liabilities				
Segment liabilities	(80,184)	(8,871)	4,168	(84,887)
Unallocated liabilities - corporate	-	-	-	(2,229)
	(80,184)	(8,871)	4,168	(87,116)
Other information				
Acquisitions of non-current assets	2,804	80	-	2,884

Profit or Loss items are for the 6 months ended 30 June 2019 and Balance Sheet items are as of 31 December 2019.

(a) *Unallocated expenses*

	Consolidated entity	
	30 June 2020 \$'000	30 June 2019 \$'000
Other corporate expenses	(4,430)	(5,351)

(b) *Unallocated assets*

	Consolidated entity	
	30 June 2020 \$'000	31 December 2019 \$'000
Cash and cash equivalents	5,536	11,575
Other assets	5,038	10,252
	10,574	21,827

Fluence Corporation Limited
Notes to the Consolidated Financial Statements
30 June 2020
(continued)

4 Segment information (continued)

(c) *Unallocated liabilities*

	Consolidated entity	
	30 June 2020 \$'000	31 December 2019 \$'000
Trade and other payables	(677)	(882)
Other liabilities	(1,806)	(1,347)
	(2,483)	(2,229)

Intersegment transactions

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

5 Operating revenue

	Consolidated entity	
	30 June 2020 \$'000	30 June 2019 \$'000
Operating revenue		
<i>Contract revenue</i>		
Smart product solutions	10,597	5,580
Custom engineering solutions	42,876	13,044
Service concession arrangements revenue	1,529	1,902
	55,002	20,526
<i>Service revenue</i>		
Revenues on services	1,245	2,078
Other	1,126	1,175
	2,371	3,253
	57,373	23,779

6 Other gains/(losses) - net

	Consolidated entity	
	30 June 2020 \$'000	30 June 2019 \$'000
Other gains / (losses) - net		
Foreign exchange (loss)/gain	(2,480)	645
Withholding taxes	(150)	(306)
Income from investments accounted for using the equity method	39	40
Gain on disposal of PPE	13	-
Other	63	(72)
	(2,515)	307

Fluence Corporation Limited
Notes to the Consolidated Financial Statements
30 June 2020
(continued)

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:

2020

Grant date	Expiry Date	Exercise Price (AU\$)	Granted	Exercised	Cancelled / Reversed	Balance at the end of the year
Opening balance			76,432,872	(13,773,161)	(23,061,887)	39,597,824
11/2/20	15/6/20	0.53	-	-	(31,250)	(31,250)
11/2/20	3/6/20	0.46	-	-	(2,250)	(2,250)
11/2/20	3/12/20	0.46	-	-	(5,000)	(5,000)
5/3/20	30/9/21	0.39	-	-	(40,950)	(40,950)
5/3/20	10/9/21	0.81	-	-	(4,500)	(4,500)
5/3/20	31/11/21	0.86	-	-	(112,500)	(112,500)
12/3/20	25/5/25	0.93	-	-	(1,398,917)	(1,398,917)
12/3/20	27/8/22	0.46	-	-	(62,500)	(62,500)
12/3/20	25/5/25	0.48	-	-	(162,500)	(162,500)
10/3/20	3/6/21	0.44	20,000	-	-	20,000
10/3/20	10/9/21	0.44	100,000	-	-	100,000
10/3/20	3/6/22	0.44	104,000	-	-	104,000
10/3/20	3/12/22	0.44	92,000	-	-	92,000
10/3/20	1/3/23	0.44	12,000	-	-	12,000
10/3/20	30/5/23	0.44	144,000	-	-	144,000
10/3/20	29/8/23	0.44	200,000	-	-	200,000
10/3/20	29/11/23	0.44	88,000	-	-	88,000
10/3/20	1/3/24	0.44	72,000	-	-	72,000
19/3/20	1/3/24	0.44	1,490,000	-	-	1,490,000
14/4/20	13/4/20	0.35	-	-	(500,000)	(500,000)
30/4/20	30/9/21	0.39	-	-	(64,050)	(64,050)
30/4/20	10/9/21	0.81	-	-	(7,500)	(7,500)
30/4/20	11/3/22	0.58	-	-	(80,000)	(80,000)
30/4/20	1/11/20	0.74	-	-	(500,000)	(500,000)
30/4/20	13/11/21	0.86	-	-	(187,500)	(187,500)
30/4/20	31/5/20	0.93	-	-	(1,000,000)	(1,000,000)
4/5/20	3/5/20	0.30	-	-	(100,000)	(100,000)
4/5/20	3/5/20	0.40	-	-	(100,000)	(100,000)
18/5/20	18/5/20	0.40	-	-	(1,000,000)	(1,000,000)
18/5/20	16/5/20	0.59	-	-	(400,000)	(400,000)
28/5/20	28/5/20	0.59	-	-	(100,000)	(100,000)
Closing balance			78,754,872	(13,773,161)	(28,921,304)	36,060,407

As of 30 June 2020, 39,931,998 of the options under the Company's employee share option plan have vested.

(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:

Fluence Corporation Limited
Notes to the Consolidated Financial Statements
30 June 2020
(continued)

7 People cost (continued)

2020

Grant date	Expiry Date	Share price at grant date (AU\$)	Exercise Price (AU\$)	Dividend yield	Risk-free interest rate	Fair value at grant date (US\$)
10/3/20	3/6/21	0.285	0.44	Nil	0.21%	0.0404
10/3/20	10/9/21	0.285	0.44	Nil	0.21%	0.0289
10/3/20	3/6/22	0.285	0.44	Nil	0.22%	0.0407
10/3/20	3/12/22	0.285	0.44	Nil	0.23%	0.0474
10/3/20	1/3/23	0.285	0.44	Nil	0.24%	0.0506
10/3/20	30/5/23	0.285	0.44	Nil	0.24%	0.0532
10/3/20	29/8/23	0.285	0.44	Nil	0.25%	0.0562
10/3/20	29/11/23	0.285	0.44	Nil	0.25%	0.0590
10/3/20	1/3/24	0.285	0.44	Nil	0.26%	0.0617
19/3/20	1/3/24	0.285	0.44	Nil	0.26%	0.0617

The weighted average remaining contractual life of options outstanding at year-end was 2.62 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 \$0.0884. These values were calculated using the binomial lattice, based on the Cox, Ross Rubinstein (1979) method applying the following inputs:

Weighted average exercise price: \$0.62
Expected share price volatility: 63%

Expenses arising from share-based payment transactions

	Consolidated entity	
	30 June 2020 \$'000	30 June 2019 \$'000
Share based payment expense		
Consultant share based payments	23	94
Employee share based payments	(479)	375
Director share based payments	383	687
	(73)	1,156

Fluence Corporation Limited
Notes to the Consolidated Financial Statements
30 June 2020
(continued)

8 Trade and other receivables

	Consolidated entity	
	30 June 2020	31 December 2019
Current receivables- Trade receivables		
Contract receivables	19,549	22,936
Contract unbilled receivables	48,904	15,689
Provision for impairment - contract receivables	(2,037)	(2,874)
	66,416	35,751
Current receivables- Other receivables		
GST receivable	1,870	2,953
Income tax receivable	957	997
Other taxes receivable	113	(29)
Other receivables	124	105
	3,064	4,026
Total current trade and other receivables	69,480	39,777
Non-current receivables		
Long-term receivables	1,187	1,190
Provision for impairment - long-term receivables	(1,187)	(1,190)
Total non-current receivables	-	-

Contract unbilled receivables significantly increased as of June 30 2020 as a result of Ivory Coast project

9 Earnings/(Loss) per share

(a) Basic earnings/(loss) per share

	Consolidated entity	
	30 June 2020	30 June 2019
	\$	\$
Earnings(Loss) attributable to the ordinary equity holders of the Group	0.003	(0.033)

(b) Diluted earnings/(loss) per share

	Consolidated entity	
	30 June 2020	30 June 2019
	\$	\$
Earnings(Loss) attributable to the ordinary equity holders of the Group	0.003	(0.033)

9 Earnings/(Loss) per share (continued)

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

	Consolidated entity	
	30 June 2020 \$'000	30 June 2019 \$'000
Earnings/(Loss) attributable to the ordinary equity holders of the Group used in calculating loss per share:	1,736	(17,506)

(d) Weighted average number of shares used as denominator

	Consolidated entity	
	30 June 2020 Number	30 June 2019 Number
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings/(loss) per share	624,854,034	537,385,141
Adjustments for calculation of diluted earnings per share:		
Options	38,603,692	-
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	663,457,726	537,385,141

Options granted to employees under the Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share.

10 Intangible assets

Consolidated entity	Capitalised development costs \$'000	Capitalised concession asset \$'000	Total \$'000
Year ended 31 December 2019			
Cost	1,912	3,691	5,603
Additions	-	295	295
Amortisation charge	(193)	-	(193)
Currency translation differences	157	136	293
Closing net book amount	1,876	4,122	5,998

10 Intangible assets (continued)

Consolidated entity	Capitalised development costs \$'000	Capitalised concession asset \$'000	Total \$'000
Half Year ended 30 June 2020			
Cost	1,876	4,122	5,998
Additions	-	58	58
Amortisation charge	(83)	-	(83)
Currency translation differences	(8)	(766)	(774)
Closing net book amount	1,785	3,414	5,199

11 Concession arrangements asset

The Group has three service arrangements on hand as of 30 June 2020:

(i) Service concession arrangement in Mexico to build and operate the San Quintin desalination plant:

Construction is scheduled to be completed by September 2021. For the 6 months ended 30 June 2020, the Group recognised revenue of \$224,000 on the construction of the desalination plant. As at 30 June 2020, the intangible asset and financial asset associated with this project were \$3,414,000 and \$10,277,000, respectively.

As set out in the Review of Operations, the customer, CEA, has requested some changes in the contract schedule and terms. These continue to be actively negotiated between the parties as at the date of this report.

The outcome of these commercial-in-confidence negotiations cannot be predicted with certainty. Whilst the Company remains positive about achieving agreement, an adverse outcome from the negotiations would probably be that the project does not proceed. This could result in additional net costs and / or asset impairments that would significantly impact the business and results of operations of the Group.

The Group's assessment has been made with regard to the available information. Considering the ongoing commercial negotiations the assessment is therefore subject to some uncertainties and complexities.

Estimates and judgements are continually evaluated. They are based on experience and other factors, including expectations of future events that many have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(ii) Service concession arrangement in the Bahamas to build the Bimini seawater desalination portable treatment plant:

Construction was completed in January 2020. For the 6 months ended 30 June 2020, the Group recognised revenue of \$1,259,000 from the sale of water to the grantor. Under AASB Interpretation 12 Service Concession Arrangements, once the plant is operating, the recognised asset needs to be depreciated over the life of the concession. For the 6 months ended 30 June 2020, the Group recognised depreciation expenses of \$132,000. On 30 June 2020, the financial asset associated with this project was \$3,285,000.

(iii) Service concession arrangement in Peru to build the Paracas desalination plant:

Construction is expected to be completed by December 2020. For the 6 months ended 30 June 2020, the Group recognised revenue of \$46,000 on the construction of the desalination plant. As at 30 June 2020, the financial asset associated with this project is \$5,736,000.

Fluence Corporation Limited
Notes to the Consolidated Financial Statements
30 June 2020
(continued)

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 drew down \$2,030,000 (the "Proceeds") from the Facility to fund the project in the Bahamas. For more details see Note 15 - Events occurring after the reporting period.

	Consolidated entity	
	30 June 2020	31 December 2019
Borrowings		
Current borrowings	1,717	877
Non-current borrowings	2,030	2,030
	3,747	2,907

13 Contributed equity

(a) Share capital

		30 June 2020	31 December 2019	30 June 2020	31 December 2019
	Notes	No. of Shares	No. of Shares	\$'000	\$'000
Ordinary shares	13(b)	624,854,034	624,854,034	204,056	204,056
Options	13(c)	36,060,407	39,597,824	7,711	7,784
		660,914,441	664,451,858	211,767	211,840

(b) Ordinary shares - fully paid

	Number of shares	\$'000
Opening balance 1 January 2019	537,375,296	179,047
Private placement at AU\$0.44 per share	81,818,181	24,455
Shares issued pursuant to a Share Purchase plan announced on 28 October 2019 at AU\$0.44 per share	5,381,453	1,617
Exercise of options	279,104	65
	624,854,034	205,184
Transaction costs arising on share issue	-	(1,128)
Balance 31 December 2019	624,854,034	204,056
	Number of shares	\$'000
Opening balance 1 January 2020	624,854,034	204,056
Balance 30 June 2020	624,854,034	204,056

13 Contributed equity (continued)

(c) Options

	Number of options
Opening balance 1 January 2019	46,436,671
Unlisted options issued to employees	1,970,000
Unlisted options issued to directors	3,860,000
Exercise options	(484,518)
Cancelled/lapsed options	(12,184,329)
Balance 31 December 2019	39,597,824
	Number of options
Opening balance 1 January 2020	39,597,824
Unlisted options issued to employees	2,322,000
Cancelled/lapsed options	(5,859,417)
Balance 30 June 2020	36,060,407

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 2020	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Financial liabilities</i>				
Government grant liability	-	-	4,435	4,435
	-	-	4,435	4,435
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
31 December 2019				
<i>Financial liabilities</i>				
Government grant liability	-	-	4,562	4,562
	-	-	4,562	4,562

14 Recognised fair value measurements (continued)

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 as the present value over the expected time that the grant liability is to be repaid from the royalty stream from future revenue discounted at an annual rate of 13.9% (2019: 13.9%).

Reconciliation of Level 3 fair value movements

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

	Government grant \$'000
Opening balance at 1 January 2019	4,834
Payment	
Adjustment to fair value of liability	(292)
Currency translation differences	20
Closing balance at 31 December 2019	4,562
Payment	-
Adjustment to fair value of liability	(118)
Currency translation differences	(9)
Closing balance at 30 June 2020	4,435

15 Commitments and contingencies

As at 30 June 2020 and 31 December 2019, 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 \$1,153,000 and \$1,519,000, respectively.

16 Events occurring after the reporting period

On 29 July 2020, the Group entered into a loan agreement with an affiliate of Upwell LLC to provide an initial \$20 million finance facility (the "Facility"). The Facility can be increased up to \$50 million at Fluence's request and at Upwell's discretion.

The Facility replaces and refinances the Company's current project loan facility with Generate Capital and comprises a general working capital facility, together with project sub-facilities.

Fluence Corporation Limited
Directors' Declaration
30 June 2020

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 9 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 2020 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.

This declaration is made in accordance with a resolution of the Directors.



Henry J. Charrabé
Managing Director and CEO

New York, NY
31 August 2020

**Fluence Corporation Limited
Independent Auditor's Review Report
30 June 2020**

**Independent Auditor's Review Report of
Fluence Corporation Limited**

The Auditor's report will be provided with the final reviewed half year financial statements.