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Ivory Coast Project – Conditions Precedent Met

30 September 2020 (Q3 2020) Quarterly Activities Report

Summary:

- Ivory Coast Project achieved all conditions precedent for the €165 million (approx. US$190 million) water treatment plant with notice-to-proceed formally issued and construction commencing
- €23.1 million (approx. US$26.9M) Advance Payment for Ivory Coast project received on 29 October 2020 (post Q3 2020)
- Further payments from the Project are expected in Q4 2020 and will see Fluence operating cashflow positive in that quarter
- Total Cash flow in Q3 2020 was positive US$11.1 million, after a net operating cash outflow of US$6.4 million and drawdown of US$20 million from the finance facility with Upwell Water LLC
- Cash balance of US$31.2 million at 30 September 2020 ($20.1 million at 30 June 2020)
- Revenue of US$15.6 million in the quarter, up 13% on Q3 2019 and up 50% on Q2 2020
- Overhead cost reductions (SG&A) continue, falling 16% in the September quarter on the prior corresponding period and down 22% year to date on the same period to September 2019
- EBITDA positive year to date
- FY 2020 guidance reaffirmed of: positive EBITDA, US$32 million in SPS revenue and US$9 million in recurring revenue
- Current backlog of US$215 million, of which US$156 million is related to the Ivory Coast Project

New York, Melbourne, 30 October 2020

Fluence Corporation Limited (ASX: FLC) is pleased to present this Quarterly Activities Report and accompanying ASX Appendix 4C (Quarterly Cashflow Report) for the quarter ended 30 September 2020 (Q3 2020).

Reflecting on Q3 2020, Fluence Managing Director & CEO Henry Charrabé, said:

"The COVID-19 pandemic continues to impact our operations globally. The outbreak has had a devastating effect on the global economy as a whole and we have seen slower new order bookings, less revenue recognition, and delays in the execution of projects. We are pleased to advise that very few of our global team have contracted the virus and appropriate precautions are being taken throughout our global operations. Despite these challenges, and based on presently known information and forecasts, we are pleased to reaffirm our guidance for 2020 of: EBITDA positive for the full year, Smart Products Solutions (SPS) revenue of $32 million and recurring revenue of $9 million for the year.

"This week we completed the remaining Conditions Precedent for the Ivory Coast project and received formal Notice-to-Proceed. As a consequence, we have already collected the €23.1 million Advance Payment for the Project. We have mobilised to site and are commencing construction of the 150,000 m^3/day water treatment plant outside of Abidjan. Additional payments for the €165 million project financed by the Israeli Discount Bank on behalf of the Ivory Coast Government with support from the export credit agency from Israel, are expected in the coming weeks and we anticipate providing safe, reliable, fresh drinking water to the local population within 24 months.

"Sales of our innovative MABR solutions continue to increase in China, with revenue up over 100% on the pcp and up 40% year to date on the prior period. However, the challenging local situation due to COVID-19 related delays in China has also reduced the ability to execute projects locally at the speed we had originally anticipated. Despite the slowdown, we continue to feel confident about achieving our near-term targets, including growing MABR sales in China and Southeast Asia and meeting our SPS targets.

"During the past months, we have also experienced increased interest for SPS from other geographies. We have sold MABR systems in the United States to the Department of Agriculture and are working closely with oil and gas customers to provide packaged water and wastewater systems for their needs. Despite the lack of face-to-face meetings, we are deeply engaged in discussions with potential sales channel partners and strategic partnerships in several locations and industry segments.

"The negotiations for finding an acceptable resolution for our project in San Quintin, Mexico, are ongoing. After several years of moving this project forward, and intense discussions since the beginning of the year, we feel we are closer to agreeing with the customer on how best to proceed. It is the view of the Board of Directors and Management that unless acceptable returns on capital for this project are achieved, the project may not proceed. The parties continue to work together to consider several outcomes, including mutual termination of the agreement. We will update the market as soon as a final resolution has been agreed.

"As experienced previously, we expect the fourth quarter to be our strongest for the year. We see customers rapidly adapting to the new global working environment amidst the pandemic. We also expect to continue to book new orders in China, the USA, the Middle East, and other areas around the world.

"We are encouraged by the sales and delivery outlook for the final quarter of 2020. We are looking forward to commencing construction in Ivory Coast and focusing increasingly on Smart Products Solutions globally. Despite all the challenges, based on known information and forecasts, we reaffirm our 2020 guidance."

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Q3 2020 Business Update

Custom engineered solutions (CES)

Ivory Coast

Fluence has announced that Israel Discount Bank (IDB) has confirmed that the final financing conditions precedent for the €165 million (approx. US$190 million) Ivory Coast water treatment plant ("Project") finance facility have been met. As a result, the Ivory Coast Government finance facility, provided through IDB with support from the State of Israel export credit agency (ASHRA) and the Italian export credit agency (SACE), will now begin to fund contractual payments for the Project to Fluence. Fluence and its infrastructure sub-contractor Vinci Construction, are commencing construction of the 150,000 m^3/day water treatment plant outside of Abidjan, the €23.1 million advance payment has been received and payments for work already performed is expected in the coming weeks.

Egypt project

In September Fluence secured a US$3.2 million contract, through a joint venture, the International Company for Water Services (IWS), with a semi-government utility company to rehabilitate and upgrade a 12,000 m3/day seawater reverse osmosis desalination plant in Sharm El Sheikh, Egypt. The system is expected to be completed and operational by late summer 2021.

Together with the US$7.6 million NIROBOX™ Smart Products Solution desalination plant ordered in October 2018, and our US$20 million order for the New Mansoura desalination plant awarded in March 2019, this latest contract further reinforces two key elements of Fluence's growth strategy: a focus on desalination solutions for geographies urgently addressing water shortages, and providing innovative water treatment solutions to help build sustainable communities.

San Quintin, Mexico

Fluence and the State Water Commission of Baja California ("CEA") continued to hold regular meetings via video conference regarding CEA's requested changes to the project schedule and other contractual amendments.

As shared previously, the Board and Management of Fluence have set targets for expected returns on invested capital and will only pursue projects that meet this strict criterion and add to shareholder value. Whilst constructive negotiations continue to take place, it is the view of the Board and Management that this project may not proceed as originally proposed, with all parties considering a range of outcomes, including mutual termination.

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Smart Product Solutions (SPS)

During the quarter, Fluence continued to expand the footprint of its MABR portfolio worldwide with sales in USA, South Africa, and China.

An MABR project in South Africa will be a pilot project installed in cooperation with our local partner MEB and treat wastewater from effluent to various levels of usage – ultimately allowing for reuse to potable levels.

China sees continued strong demand from key partners for both the Aspiral™ and SUBRE product lines. South East Asia is a strategic growth region for Fluence. In October, Fluence secured an order for both a NIROFLEX water treatment system and an Aspiral™ wastewater MABR system from the same customer in the Philippines.

New Product launches

Aspiral™ Micro launch

Aspiral™ Micro is the newest member of Fluence Aspiral™ family. It is a small-scale packaged MABR wastewater treatment solution with a capacity of 5m^3/day. Its footprint is only 3.8m^2 and it is designed to be installed semi-underground. Aspiral™ Micro was presented at the IE EXPO event in August in Shanghai, China. The product will serve decentralised wastewater treatment applications and can be combined into multi-unit solutions. The first pilot unit order was received in October in China.

See picture below.



Dissolved Air Flotation launch

Another addition to our SPS portfolio is the Dissolved Air Flotation (DAF) system. The DAF, developed by Fluence Italy, is a new and improved version of a well proven technology and is now a pre-engineered, standardised product. The global launch took place in September with positive customer feedback.
See picture below.



Recurring Revenue and Aftermarket Sales

Total recurring revenue of US$1.7 million was recognised in Q3 2020, up 70% on the previous quarter. Year to date recurring revenue of US$5.7 million is up 63% on the prior corresponding period.

Peru BOOT project construction will restart, as final permits were received, which were delayed due to the total COVID-19 country lock-down. Upon construction completion, which is expected in September 2021, the project is expected to generate recurring revenue of at least US$3.0 million per annum over 10 years.

Working capital and Project Loan Facility

Fluence was pleased to announce during the quarter that it had entered into a loan agreement with Upwell Water LLC to provide an initial US$20 million finance facility. The facility can be upsized to US$50 million, at Fluence's request and at Upwell's discretion. This facility replaced the project loan facility with Generate Capital and comprises a general working capital facility together with project sub-facilities. The working capital facility portion has an initial three-year term, while the project sub-facility loans will have maturities aligned with the underlying BOOT projects revenue contracts.

FY 2020 Guidance

Despite the significant challenges presented by the global pandemic and its impact on business development activities and based on current information and forecasts, Fluence is pleased to reaffirm its guidance for 2020: EBITDA profitability in FY 2020, US$32 million in SPS sales and US$9 million in recurring revenue.

In the event that global economic conditions and / or COVID-19 related business restrictions deteriorate beyond what the Company currently anticipates, it is possible that some of the forecast 2020 revenue may be delayed into 2021.

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Q3 2020 Cash Flows

The Appendix 4C quarterly cashflow report for Q3 2020 is attached.

Cash and Cash Equivalents were US$31.2 million at 30 September 2020. Total cash flow in the quarter was positive US$11.1 million, after a net operating cash outflow of US$6.4 million and the drawdown of US$20 million from a finance facility with Upwell Water LLC.

Revenue in Q3 2020 was US$15.6 million, up 13% on pcp, and operating costs (SG&A) were down 16% on pcp.

The following is a Summary of Receipts and Expenditures for the September Quarter 2020 business activities (refer also accompanying ASX Appendix 4C):

(US$'000)	**Sept Qtr**	**Year to date (9 months)**
Receipts from customers	17,223	47,144
Product manufacturing and operating costs	(17,219)[4]	(38,362)
Research and development	(1,133)	(2,607)
S,G&A (Corporate Overhead)	(5,456)	(16,964)
Investing Activities	(468)	3,884
Financing payments / receipts	17,468	17,465
Other	616	(1,277)

Notes:
[1] Numbers in the table are presented on a cash basis, consistent with the ASX Appendix 4C.
[2] Numbers exclude the effect of movement in exchange rates on cash held.
[3] Expenditures include allocations of Staff Costs, which are shown as a separate line in the ASX Appendix 4C.
[4] Includes delayed payments from Q2

Based on current contracts and the anticipated collections from the Ivory Coast project, the Company expects to be operating cash flow positive in Q4 2020.

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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 Friday, 30 October at 9:30 am Australia AEDT / Thursday, October 29th at 6:30 pm USA EST. Call details below:

For those wishing to dial into the call, please register for the call through the following link:

https://s1.c-conf.com/diamondpass/10010667-eusjzks.html

Alternatively, at the time of the call, dial your respective local number below and provide the conference ID **10010667** to the operator:

AUSTRALIA TOLL/INTERNATIONAL	+61 2 9007 4041
AUSTRALIA TOLL-FREE	1 800 173 224
US TOLL-FREE	(855) 336 4664
US TOLL	(208) 758 0667

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://s1.c-conf.com/diamondpass/10010667-eusjzks.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 decentralised water, wastewater, and reuse treatment markets, with its pre-engineered, standardised 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 optimisation 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 maximise 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, economic uncertainty associated with COVID-19, 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.

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