31 July 2024

Fluence Corporation Quarterly Activities Report

Fluence Corporation Limited (ASX:FLC; "Fluence" or the "Company") presents its Quarterly Activities Report and accompanying ASX Appendix 4C (the "Quarterly Cashflow Report") for the quarter ended 30 June 2024 ("Q2 2024"). All financial numbers contained herein are in US dollars and are unaudited.

Q2 2024 Highlights

The Company is reporting the following highlights for Q2 2024:

- **Total H1 2024 Revenue of $20.1M** was 34% lower than H1 2023 primarily due to delays in commencing work on the Ivory Coast Addendum project. H1 2024 revenue from the Ivory Coast project was $0.7M as compared to $13.3M of revenue in H1 2023.
- **H1 2024 SPS plus Recurring Revenue of $19.2M**, representing 14% growth over H1 2023.
- **Gross margins of 30.6%** in H1 2024, an increase of 8.3% over H1 2023.
- **Backlog as of Q2 2024 sits at $96.6M,** an increase of $43.8M (+83%) over Q2 2023 and $5.2M (+5.7%) higher than Q1 2024**.**
- **SG&A and R&D savings in H1 2024 and Q2 2024 of $2.4M (-19%) and 1.4M (-22%)**, respectively, when compared to H1 and Q2 2023[2].
- **Cash balance of $7.9M plus $7.8M in security deposits as at June 30, 2024**. Negative cash flow in Q1 2024 was expected, however, operating cash flow underperformed expectations in Q2 2024 due to the delayed start of the Ivory Coast Addendum project, delays in certain large collections forecasted to be received and project delays. H2 2024 is expected to be operating cash flow positive. Repaid $2.3M in debt in Q2 2024 and $3.6M overall in H1 2024.
- **Fully repaid its loan facility with Upwell Water LLC (the "Upwell Facility") and secured a new revolving credit facility for up to $15.0 million (the "Revolving Facility")**, which will provide the Company considerable interest savings and operating flexibility**.**
- **Revising guidance for FY 2024 to $70-75M of revenue and EBITDA of $0M**.

[1] EBITDA excludes the impact of Other Gains and Losses, which include FX gains and losses, gains and losses related to various legacy balance sheet items, restructuring, and other exceptional items.
[2] SG&A and R&D in Q2 2023 excludes the reversal of the Chief Scientist liability.

Financial and Operating Update

During H1 2024, Fluence continued to execute its renewed strategy of shifting focus to high-margin SPS and Recurring Revenue through its realigned and product-focused business units while transitioning away from low-margin CES projects. Revenue in H1 2024 of $20.1M was $10.5M lower than H1 2023, however, when adjusting for the impact of Ivory Coast, revenue in the core business grew by $2.2M or 14%. It is expected that revenue will increase significantly in H2 2024.

The shift in focus toward our SPS and Recurring Revenue products and services is having the desired effect of improving gross margins, which saw an increase in H1 2024 to 30.6% (up 8.3% vs. H1 2023). These improved gross margins were also in-line with Q4 2023 margins of 30.6%, which were higher than any other point in FY2023.

SG&A and R&D costs also continued to improve. With the full benefit of the FY2023 reorganization combined with the sale of the Aeration & Mixing assets ("Aeration Assets") in Q1 2024, the Company realized $1.4M (22%) in savings in Q2 2024 as compared to Q2 2023 and $2.4M in savings in H1 2024 as compared to H1 2023 (19%)[2].

Despite the increase in SPS and Recurring Revenue, higher gross margins and lower SG&A and R&D, administrative delays in the Ivory Coast Addendum project and the slowdown in China have resulted in an EBITDA[1] loss in Q2 2024 and H1 2024 of $1.6M and $3.6M, respectively.

As a reminder, the Company is now organized around product lines with the following principal areas of focus:

- Municipal Water and Wastewater ("MWW") treatment includes MABR (Aspiral, SUBRE and Nitro) and Nirobox products (formerly Decentralized Municipal Water & Wastewater or DMWW);
- Industrial Wastewater & Biogas ("IWB"), provides solutions that support the shift to global decarbonization, taking advantage of government incentives such as the Inflation Reduction Act in the United States and the new nitrogen removal laws in Mexico (formerly High-Strength Wastewater and Waste-to-Energy or HSWW);
- Industrial Water & Reuse ("IWR") solutions, focusing on water reuse applications and high-growth markets such as lithium mining that supports the trend toward electrification (formerly Specialized Industrial Water or SIW);
- Southeast Asia and China ("SEA & China"), with a particular focus on efforts in countries such as Taiwan, Vietnam, Cambodia and South Korea to strengthen and diversify its sales pipeline;
- Recurring Revenue, including Build-Own-Operate ("BOO") projects and Operations & Maintenance ("O&M") contracts for equipment sales; and
- The Ivory Coast Main Works and Addendum projects.

FY2024 Guidance

The Company has revised its forecast for FY2024:

- Revenue of $70-75M from previous guidance of $90-100M;
- Forecasted order bookings of $50-60M in H2 2024; and
- EBITDA[1] of $0M from previous guidance of $3.5-4.0M.

[1] EBITDA excludes the impact of Other Gains and Losses, which include FX gains and losses, gains and losses related to various legacy balance sheet items, restructuring, and other exceptional items.
[2] SG&A and R&D in Q2 2023 excludes the reversal of the Chief Scientist liability.

Table1: Segmented Financial Results

(US$ millions)	YTD 2023 (2)		YTD 2024 (2)		*YTD Variance*	
	Revenue	EBITDA (1)	Revenue	EBITDA (1)	*Revenue*	*EBITDA* (1)
Municipal Water & Wastewater	$5.3	($0.5)	$3.7	($0.2)	*($1.6)*	*$0.3*
Industrial Wastewater & Biogas	$3.4	($0.1)	$3.2	($0.2)	*($0.2)*	*($0.1)*
Industrial Water & Reuse	$5.7	($0.1)	$8.7	$1.5	*$3.0*	*$1.6*
SEA & China	$2.2	($1.5)	$2.4	($0.7)	*$0.2*	*$0.8*
BOO	$1.2	$0.2	$1.5	$0.2	*$0.3*	-
IVC	$13.3	$1.5	$0.7	($0.2)	*($12.6)*	*($1.7)*
Corporate (3)	($0.6)	($1.2)	($0.1)	($4.0)	*$0.5*	*($2.8)*

(1) EBITDA excludes the impact of Other Gains and Losses, which include FX gains and losses, legacy balance sheet clean-up items, restructuring, and other exceptional items.

(2) Aeromix removed as an asset-held-for-sale.

(3) Includes all intercompany eliminations and unallocated expenses

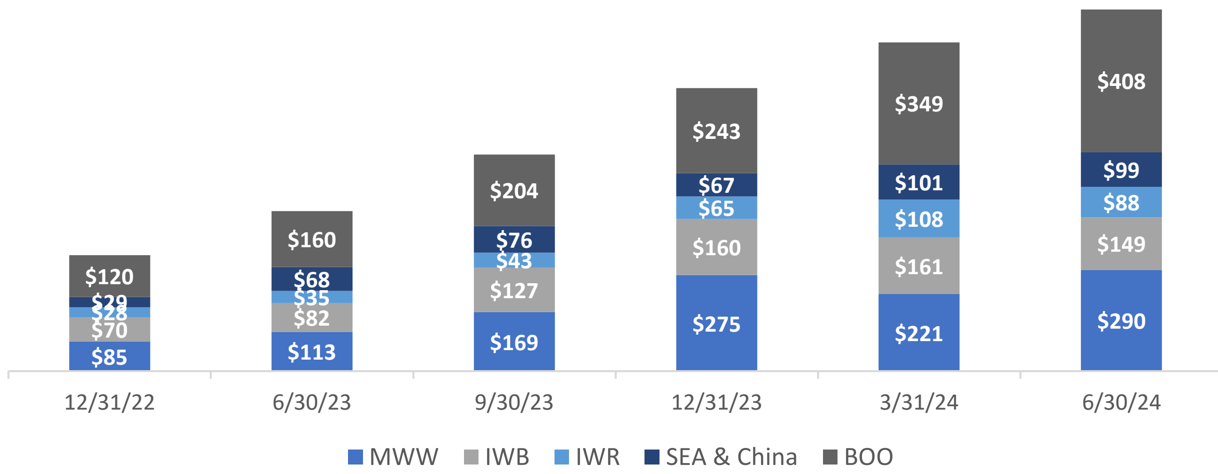
Revenue increased and EBITDA[1] losses decreased in IWR, SEA & China and BOO business units. IWR, in particular, saw significant Revenue and EBITDA[1] growth of $3.0M (+53%) and $1.6M, respectively. IWB saw a modest decrease in revenue and EBITDA[1] due to project and order delays, however, with backlog sitting at $12.0M (an increase of $7.7M or 175% over Q2 2023), IWB still expects significant growth in FY2024 compared to FY2023. MWW saw a reduction in revenue in FY2024 of $1.6M but a smaller EBITDA[1] loss. The reduction in revenue was primarily due to the recognition of a significant amount of remaining revenue (~$2M) related to the completion of the $20M New Mansoura WTP project in Egypt in H1 2023. MWW revenue in North America increased by $0.5M (+37%). The most significant revenue and EBITDA[1] reduction is related to the Ivory Coast. In FY2023, the Company was still completing the Main Works project while in FY2024, the majority of the work on the Main Works had already been completed and the Company was in the pre-commissioning phase. This revenue was expected to be replaced by revenue from the Addendum project, which was initially projected to commence in Q1 2024. This was projected to contribute $10.6M in revenue in H1 2024, however, revenue from the Ivory Coast was only $0.7M in H1 2024.

Overall revenue growth in the core business units (excluding Ivory Coast) grew by $2.2M or 13% and, were it not for project delays and the economic slowdown in China, would have seen even more growth. Lastly, Corporate costs were higher in H1 2024 vs. H1 2023 primarily due to the impact of the reversal of the Chief Scientist accrual. Adjusting for this reversal, Corporate EBITDA[1] would have only been $0.2M higher in FY2024.

[1] EBITDA excludes the impact of Other Gains and Losses, which include FX gains and losses, gains and losses related to various legacy balance sheet items, restructuring, and other exceptional items.

[2] SG&A and R&D in Q2 2023 excludes the reversal of the Chief Scientist liability.

Chart 1: Fluence Sales Pipeline[4]



(4) Excludes Ivory Coast O&M.

Our overall sales pipeline saw continued growth in Q2 2024 and has increased by $576M since Q2 2023 to $1,034M (+126%). North America continues to lead the way, particularly in MWW, where the pipeline has grown from $38M in Q2 2023 to $242M due to the investment in sales and technical talent the Company has made in the region. The total sales pipeline represents over 450 opportunities, which results in an average project size of $1.4M (excluding BOO).

Key Recent Wins

The Company secured several notable new orders in Q2 and July 2024, including:

- Eneva Demi Water Plant – Brazil ($4.8M);
- Rabigh Power Ultrapure WTP & Demineralization – Saudi Arabia ($3.6M);
- Coca Cola Solar WTP by BWRO – Brazil ($1.7M);
- New Mansoura Operations contract – Egypt ($1.2M);
- Boortmalt WTP by BWRO – Argentina ($0.6M);
- International Functionalized Polymers WTP – Milan, Italy ($0.5M);
- Lamb Weston WTP by BWRO – Argentina ($0.3M); and
- Austin Powders Condensate Treatment by BWRO – Argentina ($0.2M).

Fluence signed $14.9M in new order bookings during Q2 2024 (+$4.8M or 48% over Q2 2023) and $24.8M in H1 2024 overall (+$6.4M or 35% over H1 2023). Most notably, MWW, IWR and IWB H1 2024 orders increased by $14.6M (+289%) over H1 2023. In addition, there are over $16M of orders that are under Letter of Intent or expected to close imminently. As a result, backlog as of Q2 2024 sits at $96.6M, an increase of $43.8M (+83%) over Q2 2023 and $5.2M (+5.7%) higher than Q1 2024. Of the $96.6M of backlog, $38.9M is forecasted to be recognized in FY2024.

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[2] SG&A and R&D in Q2 2023 excludes the reversal of the Chief Scientist liability.

Corporate Update

In July 2024, the Company fully repaid its Loan Facility with Upwell Water LLC. Since the Upwell Facility was put in place in July 2020, Fluence had drawn down on $30.3 million, a substantial portion of which was repaid in 2023 and in the first half of 2024. In addition to repayment of the balance of the Upwell Facility term loan, the Company has also fully repaid the balance of the Bimini Project Loan for a total repayment of $14.25 million across both loans. As a result of the repayment, the Upwell Facility has been terminated and all collateral underlying the loan will be fully released. Upwell will continue to have the option to provide project debt financing on future Build-Own-Operate projects presented by Fluence.

The Company is also pleased to report it has replaced the Upwell Facility with a new revolving credit facility for up to $15.0 million on more favorable terms for the Company than the Upwell Facility. The Revolving Facility will initially be used to pay off the Upwell Facility and for working capital and projects going forward. The interest rate on the Revolving Facility is variable and will equal to the US Prime Rate, which is currently 8.5%. The initial term will be 21 months with a Company option to extend for up to three (3) months at Prime Rate plus 5%. Security in respect of the Revolving Facility will initially be limited to no more than five percent (5%) of the equity interests of the Company, unless shareholder approval is obtained under ASX Listing Rule 10.1. The Revolving Facility has been provided by companies associated with Nikolaus Oldendorff and Doug Brown, each of whom currently sit on the Company's Board of Directors and have been long-term supporters of the business.

The repayment of the Upwell Facility and securing the Revolving Facility will provide the Company considerable interest savings, operating flexibility and will support our continued growth.

Q2 2024 Cash Flows

The Appendix 4C quarterly cashflow report for Q2 2024 is attached.

As at June 30, 2024, Cash and Cash Equivalents were $7.9M. In addition, the Company held $7.8M in short and long-term deposits, of which $6.8M are held as collateral for bank guarantees for the Ivory Coast Project. Operating cash flow used in Q2 2024 was $6.3M.

While it was expected that that the Company would generate negative cash flow in the Q1 2024, both Q1 and Q2 underperformed compared to forecast. This was primarily due to:

- Delays in the IVC Addendum and securing the preliminary deposit;
- New Mansoura and other collection delays in the MMW Middle East;
- Slowdown in China resulting in lower project revenue and delays in collections;
- Repaying more Upwell debt than forecasted; and
- Project delays in IWR resulting in fewer deposits.

Fluence forecasts that operating cash flow will reverse the trend and will be positive for the balance of FY2024.

The Company repaid $2.3M in debt in Q2 2024 and $3.6M overall in H1 2024, as noted in the cash flows from financing activities. As of July 29, 2024 Fluence has repaid the entirety of the Upwell Facility, which was $30.3M as at June 30, 2023.

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Fluence also generated $1.6M in investing cash flows due to the sale of the Aeration Assets (less closing costs) and return of collateral related to project bonds and guarantees. The Company also invested $0.7M in capital expenditures in H1 2024.

Ivory Coast Progress

In Q2 2024, Fluence continued pre-commissioning of the Main Works. Due to unusually large rainfalls in the quarter, commissioning has been delayed and is now expected to be completed in Q4 2024.

During the quarter Fluence continued to advance the financing of the Addendum contract toward closing. While the Company had anticipated that a Notice to Proceed would be granted in Q1 2024, unfortunately there were administrative delays related to the project financing that delayed the startup of the project. We have now received the Entry into Force from the client and are expected to receive the Notice to Proceed on the project in the coming weeks. As noted in prior updates, these works are a critical step to connect the Main Works water treatment plant to the distribution system allowing delivery of the water produced by the plant to the people of Abidjan. The Addendum works are expected to take approximately 18 months to complete and a significant amount of the revenue was originally forecasted to be recognized in 2024 with the balance in 2025. Unfortunately, due to the financing delays which ultimately resulted in delaying the commencement of the project, this has reduced the expected revenue recognition from the Addendum by at least $10M.

Fluence is also actively seeking to secure an O&M contract for the plant from the customer. The start of the long-term O&M contract requires the work being undertaken pursuant to the Addendum to be completed, however, there may be an interim O&M contract awarded which Fluence is well-positioned to receive. Operating the plant on an interim basis would also position the Company well for the long-term O&M contract.

This announcement is authorised for lodgement on the ASX by Thomas Pokorsky, CEO and Managing Director, Fluence Corporation Limited.

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About Fluence Corporation Limited (ASX: FLC)

Fluence is a leader in Wastewater Treatment and Reuse, High-Strength Wastewater Treatment, Wastewater-to-Energy, Industrial and Drinking Water markets, with its pre-engineered, standardized Smart Products Solutions (SPS), including Aspiral™, NIROBOX™, SUBRE and Nitro. In addition to rapid delivery and commissioning of solutions to meet a broad range of needs from smaller communities to city-scale systems, Fluence offers ongoing operation and maintenance support, Build Own Operate (BOO) and other recurring revenue solutions. Fluence has a broad international footprint and focuses on high growth markets including North America and Southeast Asia.

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 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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