



## Fluence March 2018 Quarterly Report

*Growth underpinned by multiple contract wins*

Melbourne, 30 April 2018

Fluence Corporation Limited (ASX: FLC) is pleased to provide the following quarterly business update to the market alongside its Appendix 4C: Quarterly cashflow report for the three months ended 31 March 2018 (Q1 2018).

### **Key Q1 2018 highlights: On track to deliver accelerated growth in 2018**

- Contract revenue backlog of US\$94.9 million (including San Quintin) at 31 March 2018
  - of which US\$68.0 million is anticipated to convert into revenue in 2018, on top of US\$10.2 million revenue generated in Q1 2018, with further revenues to come from the current sales pipeline and sales activities
- Achieved financial close for the US\$48 million San Quintin, Mexico project, including 30-year-recurring revenues
- China market opportunity materialising – relationships and product awareness building with five operational reference sites and an additional sale through Jinzi of an MABR wastewater treatment plant for the local government of Zhenfeng County, Guizhou province
- Rapid deployment of Nirobox to a resort facility in Philippines foreshadows further opportunities in the region, while brackish water treatment Nirobox sales in Argentina highlight Nirobox's continued global expansion
- Strengthened management team with CFO and CMO appointments
- On track to deliver accelerated growth in 2018:
  - Revenue expected to nearly double from 2017 to between US\$105 million to US\$115 million
  - Gross profit expected to be between US\$22 million to US\$25 million.

### **Henry Charrabé, Managing Director and CEO of Fluence commented:**

*“Over the first quarter of 2018, Fluence has achieved new contract wins in new regions that will support our accelerated growth objectives for this year. We are investing in our partner relationships and have recently created the new role of Chief Marketing Officer to strengthen our global sales efforts and build on our existing partner relationships.*”

*“The technologies Fluence has developed can be deployed cost-effectively, quickly and with more flexibility than alternative solutions available in the market. This was evidenced by the deployment of a Nirobox SW unit in the Philippines, which was installed and operational within one week of receiving the order.*”

*“Water scarcity is a global issue that affects people and governments around the world. There are multiple opportunities in the pipeline and we expect this to build over time. It was encouraging that we were recently able to achieve financial close on the US\$48 million San Quintin water desalination project in Mexico. In addition to the construction component, this project will also provide Fluence with recurring revenues from a 30-year operating and maintenance agreement.”*

## **Progress in key regions during Q1 2018**

### ***Financial close for US\$48 million San Quintin, Mexico project***

At the end of Q1 2018, Fluence reached financial close for a seawater desalination project for its customer, Comisión Estatal del Agua de Baja California (CEA), the State Water Commission of Baja California, to provide water for the town of San Quintin, Mexico.

This project is a milestone for Fluence, as it is its first non-recourse finance project arranged by the Company. The North American Development Bank (NADB) will cover 75% of the project cost as debt, with the balance funded by Fluence and its local partners.

Fluence will build and operate a 5.8 million gallon/day (approximately 22,000 m<sup>3</sup>/day) seawater desalination plant, and a Special Purpose Vehicle owned by Fluence and its local partners will sell the water to San Quintin for the next 30 years, after which ownership of the plant will be transferred to CEA.

Fluence expects to start construction and receive first disbursement in Q3 2018, subject to resolution of the local legislation appeal process, which could push project commencement until later in the second half of 2018. The Company expects the plant to be fully operational within 20 months of project commencement, after which water sales are expected to generate US\$10 million of recurring annual billings for Fluence.

### ***Further expansion in South America***

In Argentina, Fluence will provide its first two Nirobox BW (brackish water) units in South America to the Municipality of Berazategui, in the province of Buenos Aires. These brackish water treatment units will be installed in the industrial zone surrounding Buenos Aires and each will produce 1,500 m<sup>3</sup>/day of potable drinking water to residents who currently only have access to highly polluted well water. The custom-designed units, which include advanced reverse osmosis and ultra-violet filtration technology, are currently being built and are expected to be delivered and commissioned in Q2 2018.

Work is ongoing for the Portuguesa project in Venezuela under the umbrella of the previously disclosed PDVSA contract. The Portuguesa project involves wastewater treatment solution for Ethanol Plants and will continue throughout the year with estimated contract revenue in 2018 of US\$18.0 million, of which US\$2 million was recognised in Q1 2018 and the remaining US\$16 million is expected to be recognised through the remainder of the year.

### ***Building pipeline of opportunities in Africa***

Fluence is continuing to negotiate with an African nation to design and construct a 150,000 m<sup>3</sup>/day advanced water treatment plant to provide high-quality drinking water for more than one million people following the signing of an exclusive MOU in Q3 2017. This project is expected to be fully financed through a government-backed export credit financing institution and will be operational within a two-year period following contract finalisation.

Additionally, there are two smart-packaged MABR (C-MABR) plants currently under construction in Ethiopia, proving another new geography is well suited for the validated wastewater treatment solution.

### ***Foundation in place for growth in the USA***

A C-MABR demonstration unit at the Código Resource Recovery Center at Stanford University in California was successfully deployed in early 2018 and is continuing to perform to expectations. This joins the first U.S. C-MABR plant, which has been operational in the US Virgin Islands since November 2016 and serves as a demonstration plant and reference site to support further US sales.

The Company has deployed a full-time sales person to develop US MABR opportunities.

Fluence's Minneapolis-based US operations have been streamlined to focus on strategic revenue growth and reduce costs. In April 2018, Fluence was awarded a contract to deliver a water treatment reuse system to its customer, Rosenblad Design Group, as part of a larger project being installed in California. Fluence's zero liquid discharge solution utilises ultrafiltration and reverse osmosis equipment to treat brine for reuse.

The market for water reuse in the US is expected to grow over the next couple of decades due to policy change, population growth and climate related challenges in water scarce regions. California, in particular, is a large market where investment in water technologies are needed with the local government having recently renewed the drought declaration and once again implemented restrictions on water consumption.

### ***SUBRE deployment in Israel***

In October 2017, Fluence announced it had been awarded its first SUBRE contract to upgrade of the Mayan Zvi centralised wastewater treatment plant owned by Israeli water utility company Mayanot Ha-Amakim (MAH) with SUBRE technology. This technology will increase the treatment plant's capacity by 15–20% while ensuring compliance with tighter nitrogen discharge rules without the use of any hazardous chemicals. The SUBRE installation is anticipated to be completed and operational in Q4 2018.

This was the first sale of the SUBRE technology and the application is generating interest from other customers globally, whose plants can be upgraded with the technology to meet more stringent environmental considerations, reduce costs and increase treatment capacity. Fluence is currently quoting SUBRE projects for potential clients in the US and China and continues to focus on the full commercialisation of the product in Q1 2019.

Fluence's first MABR installation at HaYogev in Israel, continues to operate unattended and without interruption since June 2016.

### ***China opportunity materialising – relationships and product awareness building***

The Chinese Government is targeting an increase in rural wastewater treatment to reach Class 1A effluent discharge from 10% currently to 70%. Given only 10% of rural wastewater is currently treated, this presents a very large opportunity for MABR and Fluence generally.

With five C-MABR plants in China currently operational through five distinct partnerships, and three installations under construction, these eight sites serve as attractive references for the efficacy of Fluence's MABR to serve this opportunity. MABR offers the lowest cost, lowest energy, and fastest to deploy solution available to treat wastewater to Class 1A compliant levels.

China remains a significant large long-term market opportunity and an important strategic market for Fluence. In 2017, our key China objectives of establishing strategic partnerships, deploying demonstration units and securing certification through demonstrated performance were all successfully achieved.

The focus for 2018 is to win multiple contracts with multiple partners in multiple provinces, which is anticipated to set the stage for a diversified set of higher volume contracts in the future.

Fluence's relationship with one of its local partners in China, Jiangsu Jinzi Environment Company (Jinzi), continues to strengthen with the awarding of a further contract during Q1 2018 – a C-MABR for a 1,000 m<sup>3</sup>/day wastewater treatment plant for the local government of Zhenfeng County, Guizhou province, China. This contract award follows an order for six C-MABR plants pursuant to the November 2017 framework agreement between Fluence and Jinzi.

## ***South East Asia***

Fluence provided a Nirobox SW unit to a new resort facility in Philippines producing 1,000 m<sup>3</sup>/day of desalinated, potable water from seawater for consumption. The unit was installed and operating within one week of receiving the order.

With municipalities for many similar resorts failing to provide water at competitive rates, there are a significant number of additional private customer groups to target within the region. Having now established a presence in the Philippines, Fluence will look to expand its reach in the region and explore similar opportunities in Malaysia, Indonesia and Thailand.

## ***Strengthened management team***

In March, Francesco Fragasso joined the Company as Chief Financial Officer (CFO). Most recently, Francesco served as the CFO at Desalitech, a reverse osmosis technology company based in Boston, Massachusetts (USA). Prior to his role at Desalitech, Francesco was the CFO for Nuvera Fuel Cells, Inc. part of Hess Corporation Group, and spent more than 10 years in public accounting with Deloitte.

Earlier in March, Erik Arfalk was appointed to the newly created role of Chief Marketing Officer (CMO). Erik has significant experience leading marketing teams for global industrial companies, most recently as Vice President, Marketing & Communications in the US for Sweden headquartered Atlas Copco. Prior to joining Atlas Copco, Erik worked for General Electric's Life Sciences division. Erik is responsible for strategic marketing and communications across Fluence's global portfolio of water and wastewater treatment solutions.

## **Q1 2018 cash flow report**

The Appendix 4C quarterly cashflow report for the three months ended 31 March 2018 is attached. Total cash usage (Net Cash Used from Operating Activities) in Q1 2018 of US\$13.0 million was in line with expectations and above Q4 2017 usage. Cash usage for the quarter was impacted by some delay in receipts from customers due to the timing of shipments in the latter part of the quarter and includes the build-up in inventory of NIROBOX which can now be quickly deployed, as demonstrated in the Philippines contract.

Cash and Cash Equivalents were US\$58.3 million at the end of Q1 2018. As previously noted, the prepaid PDVSA funds are cash available to the company, unrestricted, and reported into the Cash and Cash Equivalents balance in accordance with International Financial Reporting Standards.

Based on current contracts, the Company expects US\$20 million of cash inflows during Q2 2018 reflecting receipts from customers. The expected cash inflows and the estimated cash outflows noted in the Appendix 4C, result in an estimated net cash usage for Q2 2018 of US\$12 million.

## ***On track to deliver accelerated growth in 2018***

Based on the Company's current backlog and pipeline of new tenders, as well as recent contract wins, Fluence continues to expect to deliver revenue for 2018 in the range of US\$105 million to US\$115 million, weighted to the latter part of the year. Visibility of forecast 2018 revenues is high, with US\$10.2 million revenues generated in Q1 2018, and an additional US\$68.0 million of the current US\$94.9 million contract backlog expected to be recognised in 2018.

Reflecting the changing mix of contracts in 2018, Gross Profit continues to be anticipated to be in the range of US\$22 million to US\$25 million, including also the construction phase of the large San Quintin project in Mexico.

Fluence continues to target the achievement of a positive EBITDA some time in 2019.

## Annual General Meeting

The Annual General Meeting of Shareholders is scheduled for May 24, 2018 at 4.00pm (AEST) in the offices of Hall & Wilcox, Rialto South Tower, 525 Collins St, Melbourne, Victoria, Australia 3000. For further details, refer to the separate Notice of AGM.

## Quarterly update – conference call

Richard Irving (Executive Chairman), Henry Charrabé (Managing Director & CEO) and Francesco Fragasso (CFO) will host an investor conference call regarding the Company's quarterly update.

The conference call will be held on Monday 30 April at 11:00am Australia Eastern Standard Time (Sunday 29 April at 9:00 pm US Eastern Standard Time).

For those wishing to dial into the call, please call your respective local number below:

- Conference ID: 1121390
- Participant Dial-In Numbers:

US TOLL-FREE	1-866-548-4713	
US TOLL/INTERNATIONAL	1-323-794-2093	
AUSTRALIA TOLL-FREE	1-800-573-793	ISRAEL TOLL-FREE 1-809-212-883

A live webcast will be accessible through the "Investors" page on Fluence's website. Questions will need to be submitted electronically through the webcast interface: <http://public.viavid.com/index.php?id=129210>.

## For further information, please contact:

### Corporate:

Henry Charrabé (USA)  
Managing Director & CEO  
E: [hcharrabe@fluencecorp.com](mailto:hcharrabe@fluencecorp.com)  
P: +1 212 572 3766

Richard Irving (USA)  
Executive Chairman  
E: [rirving@fluencecorp.com](mailto:rirving@fluencecorp.com)  
P: +1 408 382 9790

Ross Kennedy (Australia)  
Company Secretary & Advisor to the Board  
E: [rkennedy@fluencecorp.com](mailto:rkennedy@fluencecorp.com)  
P: +61 409 524 442

### Investors (Australia):

Ronn Bechler  
Market Eye  
E: [ronn.bechler@marketeye.com.au](mailto:ronn.bechler@marketeye.com.au)  
P: +61 400 009 774

### Media (Australia):

Tristan Everett  
Market Eye  
E: [tristan.everett@marketeye.com.au](mailto:tristan.everett@marketeye.com.au)  
P: +61 403 789 096

### Investors & media (USA):

Gary Dvorchak, CFA  
The Blueshirt Group  
E: [gary@blueshirtgroup.com](mailto:gary@blueshirtgroup.com)  
P: +1 323 240 5796 (US) or +86 138 1079 1480 (China)

## **About Fluence Corporation Limited (ASX: FLC)**

Fluence has experience operating in over 70 countries worldwide and employs more than 300 highly trained water professionals around the globe. The Company provides local, sustainable treatment and reuse solutions, while empowering businesses and communities worldwide to make the most of their water resources.

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. With established operations in North America, South America, the Middle East and Europe, Fluence is also expanding into China's rural wastewater treatment market.

Global consultancy Frost and Sullivan recently awarded Fluence Corporation "2018 Global Decentralized Water and Wastewater Treatment Company of the Year", noting in their award dissertation:

*"While typical decentralized water treatment systems are relatively expensive, complicated, and inefficient, Fluence Corporation leverages innovative and smart technology solutions backed by decades of industrial know-how to excel in water and wastewater treatment solutions. Fluence's excellence becomes apparent through its success, as the company continues to expand its existing offerings as well as partnerships with other prominent companies in the industry. With its easy to use, sustainable, smart and cost-effective solutions as well as a remarkable year of growth, innovation, and leadership, Fluence Corporation earns Frost & Sullivan's 2018 Global Company of the Year Award in the decentralized water and wastewater treatment industry."*

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.