1. Company details

Fluence Corporation Limited
Appendix 4D
Interim Half-year Report
Half-year 30 June 2023

Name of entity:	Fluence Corporation Limited
ABN:	52 127 734 196
Reporting period:	For the half-year ended 30 June 2023
Previous period:	For the half-year ended 30 June 2022

2. Results for announcement to the market

Current reporting period - half year ended 30 June 2023
Previous - half year ended 30 June 2022

				$'000
Revenues from ordinary activities from continuing operations	down	51%	to	31,409
Loss from ordinary activities after tax attributable to the Owners of Fluence Corporation Limited	up	12%	to	(8,719)
Loss for the half-year attributable to the Owners of Fluence Corporation Limited	up	12%	to	(8,719)

Dividends
There were no dividends paid, recommended or declared during the current financial period.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(1.60)	(0.30)

Explanation of the above information:

Refer to the Directors' Report - Review of operations.

To be read in conjunction with the 31 December 2022 Annual Report

ABN 52 127 734 196

Fluence Corporation Limited

Interim Report - 30 June 2023

Directors' Report

The Directors present their report, together with the financial statements for the six months ended 30 June 2023 ("H1 2023") of Fluence Corporation Limited ("Fluence", the "Company", and together with its subsidiaries, the "Group"). Please note that unless otherwise stated, all figures are in US Dollars.

Directors

The following persons held office as Directors of Fluence during or since the end of the previous financial year and for the whole of the period unless otherwise stated:

Mr Douglas Brown, Chairman (appointed 20 March 2023)
Mr Thomas Pokorsky, CEO and Managing Director
Mr Paul Donnelly, Lead Independent Director, Non-Executive Director
Mr Richard Irving, Non-Executive Director (Chairman until 20 March 2023)
Mr Ross Haghighat, Non-Executive Director
Ms Samantha Tough, Non-Executive Director (until 25 July 2023)
Dr Rengarajan Ramesh, Non-Executive Director (until 25 May 2023)

Introduction

During H1 2023, Fluence continued to execute its plan of transforming the organisation. The Company has now virtually completed the formal restructuring and repositioning of the business announced in Q4 2022. Other than a few key positions that are in the process of being filled, we are now fully operating and reporting under the new organisational structure. The benefits the Company is realising from this realignment include: (1) enhanced commercial collaboration across all business units; (2) a significant reduction of $3.8 million (28%) in fixed costs in H1 2023 compared to H1 2022; and (3) improved ability to allocate capital effectively.

The strategic realignment and reorganisation announced in Q4 2022 had the stated goals of growing the Company's sales reach, improving efficiency, reducing costs, and ultimately improving EBITDA growth. The Company was realigned to enable the more effective and efficient sale of products in applicable global markets. Rather than organising by geography, the Company reorganised around product lines with the following principal areas of focus:

- Decentralised Municipal Water and Wastewater treatment including MABR (Aspiral, SUBRE, and Nitro), Nirobox and aeration products ("DMWW");
- High-Strength Wastewater and Waste-to-Energy, providing 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 ("HSWW");
- Specialised Industrial Water solutions, focusing on water reuse applications and high-growth markets such as lithium mining that supports the trend toward electrification ("SIW");
- Southeast Asia and China, with a particular focus on efforts in countries such as Taiwan, Vietnam, Cambodia and Korea to strengthen and diversify its sales pipeline ("SEA & China"); and
- Recurring Revenue, including Build-Own-Operate ("BOO") projects and Operations & Maintenance ("O&M") contracts for equipment sales.
- The Ivory Coast main works project continues to progress toward completion as the Company transitions away from large turn-key projects to Smart Product Solutions ("SPS") and Recurring Revenue in the above noted markets.

This reorganisation has now been effectively completed and Fluence is now reporting under these product-based business units. As part of this realignment and reorganisation, a large amount of focus has been placed on North America. Fluence has now completed the first phase of expanding its North American sales and support team, which included hiring two new sales managers for the DMWW group, one new sales manager for the SIW group, one sales manager for the HSWW group, and five new technical team members. We are beginning to reap the benefits of these efforts as our North American pipeline has grown by over 200% to almost $60 million in 2023 with quality projects and YTD order bookings that have already doubled those of all of last year.

Overall, Fluence is expecting to book orders totalling $70.0 – $80.0 million in H2 2023, which could potentially represent an increase of more than 300% over H1 2023 and H2 2022.

In light of the lower revenue and slower bookings in H1 2023, Fluence has revised its annual guidance to total revenue of $90-95 million for FY 2023 (from $95-100 million), including SPS and Recurring Revenue of $60-70 million (from $75-80 million) and EBITDA of $2.5 million (from $4 million).

Additionally, the Company was in compliance with the minimum unrestricted cash and cash equivalents covenant throughout the reporting period. The Company was out of compliance with the consolidated Debt Service Coverage Ratio ("DSCR") during the reporting period and received several waivers from Upwell LLC ("Upwell"), including the most recent waiver on 30 July 2023. Fluence continues to make all principal and interest payments in full and on time.

The Company has been and continues to be actively engaged in good faith negotiations with Upwell in respect of a potential Amendment of the Loan Agreement during the reporting period. While the Company remains confident in the likelihood of a successful resolution of the negotiations, such a resolution cannot be guaranteed.

H1 2023 Review

H1 2023 suffered from lower revenue and slower bookings than expected. These delays were attributable to a number of external factors, which are detailed below. Nevertheless, the Company’s pipeline continues to grow due to collaboration across business units and market growth in our core end markets, as evidenced by recent Letters of Intent ("LOI") and Letters of Offer and Acceptance ("LOA"), verbal awards, and a pipeline that has more than doubled since December 31, 2022. Despite the slower than expected start, the Company still expects strong growth in order bookings this year.

H1 2023 revenues were lower than H1 2022 primarily due to the wind down of the Ivory Coast Main Works. SPS revenue for Q2 2023, on the other hand, was up 105% over Q1 2023 due to growth across all business units, primarily our SIW business. Another key reason for the reduction in revenue was due to delays in SEA & China where certain projects have been awarded and are ready to proceed but will not move forward until down payment is received. Customers, including a number of State-Owned Enterprises (“SOE’s”), have been slow to release funds in the wake of COVID shutdowns. The remaining amounts result from order delays in the DMWW and HSWW business units. We expect improvement in these orders throughout the balance of 2023.

During H1 2023, the Company is reporting the following highlights:

- H1 2023 revenues of $31.4 million – Down 51% over H1 2022, mainly due to the wind-down of the Ivory Coast Main Works project;
- SPS revenues up 105% from Q1 2023 and 64% over Q2 2022, primarily due to revenue growth in our SIW business;
- Backlog currently at $52.8 million, $46.6 million of which is from SPS or Recurring Revenue;
- New orders in Recurring Revenue up 29% in H1 2023 over H1 2022. Orders in SPS up 35% in Q2 2023 over Q1 2023 but H1 2023 SPS Orders down 43% over H1 2022, primarily due to order delays. Orders are expected to increase significantly in H2 2023 vs. H1 2023;
- Fixed Costs savings of $3.8 million in H1 2023 over H1 2022, representing a reduction of 28% and reflecting the impact of implementing the restructuring announced in Q4 2022; and
- Cash Balance of $18.1 million plus $11.8 million in short and long-term deposits - Cash up $2.9 million in Q2 2023 from Q1 2023 but down $12.8 million from Q4 2022. The Company had Operating Cash Flow of $2.2 million in Q2 2023 and ($12.9) million in H1 2022. This was primarily due to the payment of more than $8 million in payables related to the Ivory Coast project after collecting in excess of $14 million of cash at the end of Q4 2022. In general, Fluence receives payments for the Ivory Coast project in advance of making payments to suppliers. Fluence received the payment for Milestone 9 of $18.8 million in Q2 2023.

The unfavourable currency fluctuations between the Argentinian peso, the Egyptian pound, and the Chinese yuan to the US dollar resulted in recognition of an exchange rate loss in H1 2023 of $1.2 million in the Group profit and loss statement, as well as $0.9 million in negative foreign currency translation reserve movement in the statement of changes in equity.

Key Wins in H1 2023

The Company secured a number of important wins in H1 2023, including:

- New repeat orders from a long-standing truck stop client (totaling almost $0.5 million);
- Four new orders from Coca-Cola in Argentina and Brazil for water reuse applications (totaling $2.7 million);
- Dow Operations Contract ($1.0 million);
- Red Bluff Dam Brackish Desalination Plant - first Nirobox in the USA ($0.5 million);
- YPF Luz Demineralized Water Treatment Plant ($0.5 million);
- Arabian Maize - First food processing wastewater plant in Saudi Arabia ($0.2 million);
- Select Energy Services - Three new MABR plants for existing customer ($0.7 million);
- Three of our first MABR / MBR system sales in Saudi Arabia;
- Two new industrial treatment plant projects in Italy for food and beverage companies (totaling $1 million); and
- Two of the largest MABR retrofit projects in the world each totaling 25,000 Cubic Meter Per Day to help the Shexian Jingdian and Shexian Qingzhang WWTPs in China comply with new stringent effluent regulations.

Decentralised Municipal Water and Wastewater

Revenues from the DMWW business unit were $6.2 million in H1 2023 (H1 2022: $8.4 million). Gross Profit in H1 2023 was $1.2 million (2022: $2.3 million) and EBITDA was ($0.9) million (2022: ($1.3) million).

The DMWW business unit is comprised of operations in North America, the Middle East (Dubai and Egypt) and Israel. While the Middle East and Israel businesses are continuing to build upon their established positions in their respective markets, we have focused our growth investment in building out the North American team and introducing Fluence to the North American market in a robust and comprehensive manner. The new team has been introducing Fluence products and services through online and in-person training sessions, conferences, and rapid expansion of our sales representative network which has more than doubled the number of states where Fluence is representated. This rep expansion will continue through 2023 and into 2024.

The total North American DMWW pipeline was approximately $12 million at the beginning of 2023 and the new team has grown it to approximately $38 million in H1 2023. We are still in the process of building out the North American sales rep network. When completed we will have much stronger coverage in all areas of the region.

High-Strength Wastewater and Waste-to-Energy

Revenues from the HSWW business unit were $3.4 million in H1 2023 (H1 2022: $4.0 million) while H1 2023 Gross Profit was $0.9 million (2022: $0.9 million) and EBITDA was ($0.1) million (2022: $0.0 million).

The HSWW business unit is comprised of operations in Italy and North America (sales and engineering). The expansion of the North American team, partners and sales reps has been the focus of our growth initiative with a focus on the Company's anaerobic digestion product line as well as renewable energy projects. The team is building out our delivery capabilities to satisfy the US domestic content requirements under the Inflation Reduction Act program. This will position Fluence with a competitive advantage to win projects over its competitors.

In just over three months, the new sales team in North America for HSWW business unit has built a pipeline of $21 million and recently signed an LOI for our first anaerobic digester order in North America potentially worth over $1 million. Additionally, the Company signed a service agreement with one of the largest meat processing companies in North America to advise and scope out a large anaerobic digestion facility to create renewable natural gas in support of the company's sustainability goals. Fluence is in an excellent position to exclusively negotiate the delivery of this project for this customer, which has dozens of facilities across North America with potential for similar projects. The HSWW business in the rest of the world is also expecting to see significant growth in bookings in H2 2023, with LOI's and verbal awards of more than $6 million already in hand.

Specialised Industrial Water

Revenues from the SIW business unit were $5.7 million in H1 2023 (H1 2022: $6.5 million) while H1 2023 Gross Profit was $1.7 million (2022: $1.5 million) and EBITDA was ($0.1) million (2022: $0.3 million).

The SIW business unit is comprised of operations in Argentina and North America (sales and engineering). This group is making significant progress in building out its sales and delivery capabilities throughout South America, with strong growth in both capital sales and operations, maintenance and support services. Much of the growth is occurring in the rapidly growing lithium mining sector, with Fluence providing competitive, cost effective and state of the art solutions to satisfy the escalating market demand. These competitive products and solutions are now being offered in North America through our new team and growing list of partners.

The SIW business in South America is already ahead of their order target and expected to continue their strong performance H2 2023, led by several O&M contracts secured in H1 2023 and bolstered by product sales in several reuse applications for food & beverage as well as the rapidly growing lithium mining space (that support the global electric vehicle industry). As mentioned above, the SIW business is also expecting future growth in North America with the recent hires of both sales and technical leadership in the US.

Southeast Asia and China

For H1 2023, Revenues from the SEA & China business unit were $2.2 million (H1 2022: $1.5 million), Gross Profit was $0.6 million (2022: $0.5 million) and EBITDA was ($1.5) million (2022: ($2.4) million).

The SEA & China business unit is comprised of operations in China, Singapore and the Philippines, with China being the only manufacturing location. The business also has project installations in Cambodia, Vietnam and Korea.

There are a number of contracted projects in China that are on hold due to customer funding issues. The money for many of these projects flows from the central government to the local districts. That flow of money has been slow during the recovery from COVID. When funds are released we expect a significant increase in orders bookings and revenue.

In SEA & China, the pipeline remains robust, particularly in several new countries that have been the focus of business development efforts. The pipeline in Southeast Asia (including Taiwan, Vietnam and Korea) is now larger than that of China, including several sizeable projects where Fluence is well-positioned.

BOO Projects

Revenues from BOO projects were $1.1 million in H1 2023 (H1 2022: $1.0 million), Gross Profit was $0.2 million (2022: $0.5 million) and H1 2023 EBITDA was $0.2 million (2022: $0.6 million).

Fluence has BOO projects in the Bahamas and Jamaica currently, which are supported by various business units and dedicated operations based in the United States. The BOO team has continued to grow in support of our expanding business in the Caribbean and our new offering of the BOO business model in the US. We now have all seven of our sales managers in North America sourcing BOO opportunities across all three of our product lines.

We are anticipating closure of several high probability BOO projects in the second half of 2023. The total contracted revenue for the three highest probability projects in the pipeline is potentially as much as $50 million.

Ivory Coast

Revenues from the Ivory Coast project were $13.2 million in H1 2023 (H1 2022: $42.9 million) while H1 2023 Gross Profit was $1.9 million (2022: $5.5 million) and EBITDA was $1.5 million (2022: $4.6 million). The Ivory Coast project had $0.5 million in Sales, R&D and Administrative costs in H1 2023 (2022: $1.0 million).

In H1 2023, Fluence saw continued successful execution of the Ivory Coast project, including receiving payment on Milestone 9 of the Main Works equal to $18.8 million as well as the release of an additional $3.0 million in advance payments that had been contractually retained by the customer pending completion of milestones. The Company also received sign-off and payment of Milestone 4 of the Additional Works of $2.1 million in June. The Company continues to progress toward planned plant commissioning in Q4 2023. The latest video showing plant progress is available on the Fluence YouTube channel and can be viewed at: https://www.youtube.com/watch?v=Ki_u1kDUKso

Additionally, the customer has proposed additional ancillary work on the project, which we are currently negotiating. Assuming we can successfully negotiate a profitable, low-risk addendum to the current contract and the customer can secure the proper financing, we may be able to recognise significant additional revenue from this project later this year and into 2024.

Profit and loss items for the 6 months ended 30 June 2022 were prepared in accordance with the requirements of the Accounting Standards, although the information was not available to the Chief Operating Decision Maker ("CODM") at that time.

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 from continuing operations for the six months ended 30 June 2023 was $31,409,000 (2022: $64,209,000) and the loss from ordinary activities from continuing operations before tax was $9,166,000 (2022: loss of $7,639,000).

Cost of sales from continuing operations for the six months ended 30 June 2023 decreased to $24,730,000 (2022: $52,630,000).

Total fixed costs including R&D, Sales & Marketing, and General & Administrative expenses for the six months ended 30 June 2023 decreased to $11,365,000 (2022: $14,876,000) illustrating the cost savings related to the restructuring and realignment announced in Q4 2022.

The Group's net assets decreased by $8,978,000 to negative $6,062,000 on 30 June 2023 from $2,916,000 as at 31 December 2022.

Material Business Risks

Risk Management

Fluence's approach to managing risk is documented in a Corporate Risk Registry reviewed and approved by the Board of Directors (the "Board"). The Risk Registry seeks to ensure that risk management is embedded throughout the business and managed in a structured and systematic manner. The Risk Registry is reviewed regularly by the Board's Audit and Risk Committee (the "ARC") and is evaluated and updated as the Company's business model evolves and underlying risks change.

The ARC assists in discharging the Board's responsibility to manage the organisation's risks, and monitors management's actions to ensure they are in line with Company policy.

The following is a summary of the key continuing significant operational risks facing the business and the way in which Fluence manages these risks:

Corporate – The Company manages a number of corporate risks such as safety, recruitment and retention of key employees, tax, foreign exchange, purchasing and procurement, potential lower than anticipated return on capital invested and potential lower underlying earnings. All the aforementioned risks are managed through Fluence's risk management framework, which includes review and monitoring by management, the ARC and the Board.

Liquidity, Interest Rate, Financing, and Credit – The Company's activities expose it to a variety of financial risks such as interest rates, credit, liquidity, funding and capital controls. This risk includes, but is not limited to, the ability to collect trade receivables from customers, increases in interest rates, access to funding through capital markets, capital or access to cash being restricted in certain geographies where the Company operates due to currency controls or similar restrictions and default on credit facilities due to the ability of the Company to meet its financial obligations (including its debt obligations). These risks can adversely affect the Company's ability to operate profitably or as a going concern. The Company's overall risk management program focuses on each of these risks and seeks to minimise potential adverse effects on the financial performance of the Company. The Company uses different methods to measure the different types of risk to which it is exposed. These methods include sensitivity analysis in the case of cash flow forecasts, interest rates, pricing risks and accounts receivable aging analysis for credit risk. Risk management is carried out by senior executives under policies approved by the ARC and the Board. Finance reports to the ARC on a monthly basis.

Material Contracts – Fluence regularly enters into contracts with customers that exceed $1 million. Successful execution of such contracts is imperative for the continued success of the Company. Most notably, the Ivory Coast project represents a significant share of Fluence's FY 2023 revenue. Some of the key risks associated with these material contracts include executing on time and on budget, cash flow, contract management, performance and quality of the equipment being delivered and reputation. Fluence management manages these material contracts closely with regimented steering committee reviews, operating reviews with subcontractors and other strict project management practices. Direct project management utilises well defined project definitions, adequate optimisation and resourcing of workflows, effective monitoring to identify issues early, automation of controls, collaboration, and project validation. Internal and external legal counsel are deeply involved in the negotiation process, including with key subcontractors, as well as the maintenance of the contract during the execution of the project. Finally, Fluence negotiates favourable payment terms and reviews counterparty credit risk to manage cash flow as effectively as possible.

Design, Engineering & Quality of Equipment – Fluence designs and engineers water and wastewater treatment equipment and systems for the global market. This presents the risk of delivering equipment that does not meet customer specifications, regulatory compliance, or local drinking water standards. A core strength of the Company is that it employs a large staff of highly specialised engineers that have significant experience in designing and installing water treatment equipment and systems. Many of Fluence's senior engineering and technical employees have been with the Company for a number of years and have significant experience with Fluence's products and technologies. Fluence also provides a standard 1-year warranty and the Company and its service staff will address any deficiencies after installation and commissioning. Lastly, the Company maintains insurance coverage that is sufficient to cover the risks associated with delivering water treatment equipment and services.

Cost Controls, Inflation, & Supply Chain Constraints – Rising input costs and supply chain constraints experienced over the past few years have the potential to reduce profit margins where those costs cannot be recovered from customers and project delays. Significant input costs include labour, components and materials, and freight. Fluence has the ability to recover costs through price increases incorporated into project bids, which usually have a limited time to be accepted before the Company has the right to increase costs. The Company sources components and equipment from multiple suppliers and vendors, allowing us to get the most competitive pricing on various input components. Service contracts such as Operations and Maintenance contracts have annual escalators typically linked to inflation.

Political, Regulatory and Compliance – Fluence is a global company and operates in numerous countries around the world. The Company must comply with a range of governance requirements which are conditions of its listing on ASX. New or evolving regulations and international standards are outside the Company's control and can often be complex and difficult to predict. The potential development of international opportunities can be jeopardised by changes to fiscal or regulatory regimes, embargos, sanctions, adverse changes to tax laws, difficulties in interpreting or complying with local laws, material differences in sustainability standards and practices, or changes to existing political, judicial or administrative policies and changing community expectations. Fluence seeks to manage and minimise this risk through its existing risk management framework including Board approved governance policies which are subject to regular review.

Anti-Bribery and Corruption – Fluence's business activities and operations are located in jurisdictions with varying degrees of political, economic and judicial stability, including some countries with a relatively high inherent risk of bribery and corruption. This exposes Fluence to the risk of unauthorised payments or offers of payments to or by employees, agents or distributors that could be in violation of applicable anti-corruption laws. Fluence has a clear Anti-Bribery and Corruption Policy and internal controls and procedures to protect against such risks. However, there can be no assurances that such controls, policies and procedures will absolutely protect Fluence from potentially improper or criminal acts.

Environmental, Social, Governance – Fluence is keenly aware of the potential risks climate change could present to the Company and its customers across Australia and the rest of the world. With the continued impact of climate change, it is expected that we will see an increase in weather extremes and resource variability in the future. Fluence's portfolio of solutions are specifically developed to resolve some of today's most pressing environmental issues. The Company continues to monitor and review future impacts as new information and data becomes available. This informs the Company's approach as it develops its water asset portfolio. We expect the water market to continue to adjust as market participants consider these impacts and position for future change. The Board is conscious of its approach in seeking to build a sustainable business and is in the process of developing a reporting framework to manage and monitor the Company's ESG impact.

Significant Changes in the State of Affairs

During H1 2023, there was no significant change in the state of affairs of the Company.

Significant Events After Balance Sheet Date

Effective 25 July 2023, Mr Norman Mel Ashton was appointed as a Non-Executive Director, replacing Ms Samantha Tough.

No other matter or circumstance has occurred subsequent to 30 June 2023 that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

Rounding of Amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the Directors

Thomas Pokorsky
Chief Executive Officer and Managing Director
30 August 2023
Golden Valley, Minnesota

Fluence Corporation Limited
Contents
30 June 2023

General information

The financial statements cover Fluence Corporation Limited as a Group consisting of Fluence Corporation Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in US dollars, which is Fluence Corporation Limited's functional and presentation currency.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 30 August 2023.

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 2022 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.

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DECLARATION OF INDEPENDENCE BY KATHERINE ROBERTSON TO THE DIRECTORS OF FLUENCE CORPORATION LIMITED

As lead auditor for the review of Fluence Corporation Limited for the half-year ended 30 June 2023, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Fluence Corporation Limited and the entities it controlled during the period.

Katherine Robertson
Director

BDO Audit Pty Ltd

Melbourne, 30 August 2023

Fluence Corporation Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2023

	Note	Consolidated 30 June 2023 $'000	Consolidated 30 June 2022 $'000
Revenue from continuing operations	6	31,409	64,209
Other income		-	10
Expenses			
Cost of sales		(24,730)	(52,630)
Research and development (expenses) / income		1,203	(1,510)
Sales and marketing expenses		(3,663)	(2,985)
General and administrative expenses		(8,905)	(10,381)
Finance costs - net		(2,446)	(2,007)
Other losses	7	(2,034)	(2,345)
Loss before income tax benefit/(expense) from continuing operations		(9,166)	(7,639)
Income tax benefit/(expense)		187	(38)
Loss after income tax benefit/(expense) from continuing operations		(8,979)	(7,677)
Loss after income tax expense from discontinued operations	5	(9)	(88)
Loss after income tax benefit/(expense) for the half-year		(8,988)	(7,765)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(881)	(2,159)
Other comprehensive income for the half-year, net of tax		(881)	(2,159)
Total comprehensive income for the half-year		(9,869)	(9,924)
Loss for the half-year is attributable to:			
Non-controlling interest		(269)	(5)
Owners of Fluence Corporation Limited		(8,719)	(7,760)
		(8,988)	(7,765)
Total comprehensive income for the half-year is attributable to:			
Continuing operations		(252)	19
Discontinued operations		(17)	(24)
Non-controlling interest		(269)	(5)
Continuing operations		(9,542)	(9,851)
Discontinued operations		(58)	(68)
Owners of Fluence Corporation Limited		(9,600)	(9,919)
		(9,869)	(9,924)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Fluence Corporation Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2023

		Cents	**Cents**
Earnings per share for loss from continuing operations attributable to the Owners of Fluence Corporation Limited			
Basic earnings per share	9	(1.34)	(1.20)
Diluted earnings per share	9	(1.34)	(1.20)
Earnings per share for loss from discontinued operations attributable to the Owners of Fluence Corporation Limited			
Basic earnings per share	9	-	(0.01)
Diluted earnings per share	9	-	(0.01)
Earnings per share for loss attributable to the Owners of Fluence Corporation Limited			
Basic earnings per share	9	(1.34)	(1.21)
Diluted earnings per share	9	(1.34)	(1.21)

In accordance with AASB 5 "Non-current Assets Held for Sale and Discontinued Operations", the 30 June 2022 comparatives within the 6 month 2023 interim report have been re-presented to consolidate the Italian operations into the consolidated entity.

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Fluence Corporation Limited
Statement of financial position
As at 30 June 2023

	Note	Consolidated 30 June 2023 $'000	Consolidated 31 December 2022 $'000
Assets			
Current assets			
Cash and cash equivalents	10	18,129	30,936
Other financial assets		6,527	4,128
Trade and other receivables	11	33,475	49,026
Inventories		8,643	9,290
Prepayments		5,998	6,065
Concession arrangement assets	12	246	246
Other assets		153	151
Total current assets		73,171	99,842
Non-current assets			
Investments accounted for using the equity method		396	348
Property, plant and equipment		9,510	9,663
Intangible assets	13	1,187	1,339
Concession arrangement assets	12	2,497	2,619
Long-term deposits	14	5,408	9,532
Other assets		232	277
Total non-current assets		19,230	23,778
Total assets		92,401	123,620
Liabilities			
Current liabilities			
Trade and other payables	15	31,489	51,494
Borrowings	16	31,057	1,265
Lease liabilities		1,002	1,103
Current tax liabilities		25	118
Provisions		7,269	6,172
Contract liabilities		24,144	24,977
Total current liabilities		94,986	85,129
Non-current liabilities			
Other liabilities	15	-	1,779
Borrowings	16	149	30,003
Lease liabilities		2,571	2,934
Deferred tax liabilities		91	334
Provisions		498	525
Contract liabilities		168	-
Total non-current liabilities		3,477	35,575
Total liabilities		98,463	120,704
Net assets/(liabilities)		(6,062)	2,916

The above statement of financial position should be read in conjunction with the accompanying notes

Fluence Corporation Limited
Statement of financial position
As at 30 June 2023

		Consolidated	
	Note	30 June 2023 $'000	31 December 2022 $'000
Equity			
Contributed equity	17	218,564	217,673
Foreign currency translation reserve		(14,778)	(13,897)
Accumulated losses		(207,585)	(198,866)
Equity/(deficiency) attributable to the Owners of Fluence Corporation Limited		(3,799)	4,910
Non-controlling interest		(2,263)	(1,994)
Total equity/(deficiency)		(6,062)	2,916

The above statement of financial position should be read in conjunction with the accompanying notes

Fluence Corporation Limited
Statement of changes in equity
For the half-year ended 30 June 2023

Consolidated	Contributed equity $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 January 2022	212,279	(11,721)	(182,673)	(1,895)	15,990
Loss after income tax expense for the half-year	-	-	(7,760)	(5)	(7,765)
Other comprehensive income for the half-year, net of tax	-	(2,159)	-	-	(2,159)
Total comprehensive income for the half-year	-	(2,159)	(7,760)	(5)	(9,924)
Transactions with Owners in their capacity as Owners:					
Issue of ordinary shares, net of transaction costs	3,715	-	-	-	3,715
Issue of options	651	-	-	-	651
Balance at 30 June 2022	216,645	(13,880)	(190,433)	(1,900)	10,432

Consolidated	Contributed equity $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Non-controlling interest $'000	Total deficiency in equity $'000
Balance at 1 January 2023	217,673	(13,897)	(198,866)	(1,994)	2,916
Loss after income tax benefit for the half-year	-	-	(8,719)	(269)	(8,988)
Other comprehensive income for the half-year, net of tax	-	(881)	-	-	(881)
Total comprehensive income for the half-year	-	(881)	(8,719)	(269)	(9,869)
Transactions with Owners in their capacity as Owners:					
Issue of options	891	-	-	-	891
Balance at 30 June 2023	218,564	(14,778)	(207,585)	(2,263)	(6,062)

The above statement of changes in equity should be read in conjunction with the accompanying notes

Fluence Corporation Limited
Statement of cash flows
For the half-year ended 30 June 2023

	Consolidated	
	30 June 2023 $'000	30 June 2022 $'000
Cash flows from operating activities		
Receipt from customers	44,375	37,808
Payments to suppliers and employees	(54,744)	(53,046)
Interest received	150	56
Interest and other costs of finance paid	(2,403)	(1,979)
Income taxes paid	(259)	(83)
Net cash used in operating activities	(12,881)	(17,244)
Cash flows from investing activities		
Payments for property, plant and equipment	(858)	(142)
Proceeds from sale of property, plant and equipment	35	-
Proceeds from release of security deposits	2,119	6,137
Proceeds from disposal of GCM Peru	-	150
Net cash from investing activities	1,296	6,145
Cash flows from financing activities		
Proceeds from issue of shares	-	3,715
Repayment of borrowings	(194)	(27)
Repayment of lease liabilities	(709)	(857)
Net cash from/(used in) financing activities	(903)	2,831
Net decrease in cash and cash equivalents	(12,488)	(8,268)
Cash and cash equivalents at the beginning of the financial half-year	30,936	41,363
Effects of exchange rate changes on cash and cash equivalents	(319)	(1,324)
Cash and cash equivalents at the end of the financial half-year	18,129	31,771

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 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 2023 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 2022 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 30 August 2023.

Note 2. Going concern

The financial statements have been prepared on the going concern basis which assumes the Group 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 2023, the Group incurred an operating loss of $8,719,000 (2022: $7,760,000). The Group had net current liabilities of $21,815,000 (31 Dec 2022: net current assets of $14,713,000). The Group had net liability position of $6,062,000 (31 Dec 2022: net assets of $2,916,000) and had cash outflows from operating activities of $12,881,000 (2022: $17,244,000) and total net cash outflows of $12,488,000 (2022: $8,268,000). The Group had cash and cash equivalents of $18,129,000 at 30 June 2023.

The Group 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 may require additional financing to fund its ongoing operations for a period of 12 months from the date the financial report was authorised for issue.

To address future funding requirements of the Group, the Group is evaluating capital markets options and discussing capital raising scenarios with potential advisors. Based on preliminary discussions with brokers, the Group believes there would be an appetite for a capital raise given the shift in strategy of Fluence, the addition of experienced water management, and the combined impact of cost savings as well as sales pipeline growth from enhanced collaboration due to the reorganisation and realignment announced in Q4 2022.

Additionally, the Group is in the process of negotiating an Amendment to its loan facility with Upwell as a result of the breach of the DSCR covenants. The Company has been and continues to be actively engaged in good faith negotiations with Upwell in respect of a potential Amendment of the Loan Agreement during the reporting period. While the Company remains confident in the likelihood of a successful resolution of the negotiations, such a resolution cannot be guaranteed.

The requirement to raise additional finance or equity to fund operations creates a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. However, the directors' believe the Group will raise additional finance or equity to fund operations.

The financial statements do not reflect the situation should the Group be unable to continue as a going concern. If the going concern assumption is not valid, the consequence is the consolidated entity may be unable to realise the value of its assets including its intangible assets and discharge its liabilities in the ordinary course of business.

Note 3. Significant accounting policy information

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

Note 3. Significant accounting policy information (continued)

The Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in the Group's last Annual Financial Statements for the year ended 31 December 2022.

The accounting policies have been applied consistently throughout the Group 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.

Comparatives

The comparative figures have been adjusted to conform with the AASB 5: "Assets held for sale and discontinued operations" presentation requirements. Refer to Note 3 "Discontinued operations" for detailed information on the changes in comparatives presentation.

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.

Note 4. Segment information

The Group identified seven 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.

The segment note reporting segments have been revised reflecting the Group`s strategic realignment and reorganization. As a consequence the segment note, and the prior period comparatives, have been represented.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The Group's operating segments are:

- DMWW including MABR (Aspiral, SUBRE, and Nitro), Nirobox and aeration products;
- SIW, focusing on water reuse applications and high-growth markets such as lithium mining that supports the trend toward electrification;
- HSWW, providing 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;
- SEA & China, with a particular focus on efforts in countries such as Taiwan, Vietnam, Cambodia and Korea to strengthen and diversify its sales pipeline;
- Ivory Coast project ("IVC"); and
- Recurring Revenue, BOO projects and O&M contracts for equipment sales.

Note 4. Segment information (continued)

2023	DMWW	HSWW	SIW	China & SEA	BOO	IVC	R&D - P&I	Intersegment Elimination	Fluence
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue									
Revenue from continuing operations	6,153	3,366	5,698	2,168	1,109	13,233	16	(334)	31,409
Other income									-
Unallocated income - corporate									-
	6,153	**3,366**	**5,698**	**2,168**	**1,109**	**13,233**	**16**	**(334)**	**31,409**
Expenses									
Depreciation and amortisation	(336)	(107)	(150)	(154)		(82)	(227)		(1,056)
Share of profits of associates	83								83
Other expenses	(10,251)	(3,769)	(5,484)	(3,939)	(1,314)	(11,204)	63	334	(35,564)
Unallocated expenses - corporate									(3,860)
	(10,504)	**(3,876)**	**(5,634)**	**(4,093)**	**(1,314)**	**(11,286)**	**(164)**	**334**	**(40,397)**
Segment gross margin	**1,182**	**857**	**1,666**	**569**	**242**	**1,878**	**19**	**266**	**6,679**
Segment EBITDA	**(947)**	**(64)**	**(77)**	**(1,522)**	**220**	**1,503**	**1,287**	**66**	**466**
Unallocated EBITDA - corporate									**(2,959)**
Segment results	**(4,351)**	**(510)**	**64**	**(1,925)**	**(205)**	**1,947**	**(148)**		**(8,988)**

Profit and loss items are for the 6 months ended 30 June 2023

Note 4. Segment information (continued)

2022	DMWW	HSWW	SIW	China & SEA	BOO	IVC	R&D - P&I	Intersegment Elimination	Fluence
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue									
Revenue from continuing operations	8,356	4,039	6,527	1,495	998	42,902	88	(196)	64,209
Other income									
Unallocated income - corporate									10
	8,356	**4,039**	**6,527**	**1,495**	**998**	**42,902**	**88**	**(196)**	**64,219**
Expenses									
Depreciation and amortisation	(390)	(168)	(119)	(177)		(87)	(316)		(1,257)
Share of profits of associates									
Other expenses	(11,058)	(5,240)	(6,524)	(4,295)	(648)	(37,972)	(2,499)	196	(68,040)
Unallocated expenses - corporate									(2,687)
	(11,448)	**(5,408)**	**(6,643)**	**(4,472)**	**(648)**	**(38,059)**	**(2,815)**	**196**	**(71,984)**
Segment gross margin	**2,252**	**863**	**1,545**	**473**	**454**	**5,534**	**91**	**377**	**11,589**
Segment EBITDA	**(1,294)**	**37**	**331**	**(2,413)**	**578**	**4,587**	**(842)**	**(133)**	**851**
Unallocated EBITDA - corporate									**(2,235)**
Segment results	**(3,092)**	**(1,369)**	**(116)**	**(2,977)**	**350**	**4,843**	**(2,727)**		**(7,765)**

Profit and loss items are for the 6 months ended 30 June 2022 . The information for 2022 was prepared in accordance with the requirements of the Accounting Standards although the information was not available to the CODM at that time.

Unallocated expenses

	Consolidated 30 June 2023 $'000	Consolidated 30 June 2022 $'000
Other corporate expenses	(3,860)	(2,687)

Intersegment transactions

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

Balance sheet disclosures have not been included as they are not reviewed by the CODM.

Note 5. Discontinued operations and assets classified as held for sale

(a) Discontinued operations and assets classified as held for sale

(i) Description

During the half-year ended 30 June 2023, the Company classified its operations in Mexico ("Fluence Mexico") as discontinued operations. FLC Generate GCM, S.A. de C.V. ("GCM Peru") was sold in April 2022 and was deconsolidated from Fluence Group.

(ii) Financial performance and cash flow information

The financial performance and cash flow information presented are for the half-year ended 30 June 2023 and the year ended 31 December 2022.

	Consolidated 30 June 2023 $'000	Consolidated 30 June 2022 $'000
GCM Peru		
General and administrative expenses	-	(8)
Cash flow from operating activities	-	(6)
Cash flow from investing activities	-	(3)
Cash flow from financing activities	-	20
Changes in cash funds effects of exchange-rate changes	-	(11)
Net increase/(decrease) in cash and cash equivalents from discontinued operations	-	-

	Consolidated 30 June 2023 $'000	Consolidated 30 June 2022 $'000
Fluence Mexico		
Cost of sales	(24)	(68)
General and administrative expenses	(21)	(16)
Other Gains/(Losses) - Net	67	(27)
Finance Costs - Net	3	2
Loss before income tax	25	(109)
Income tax expense	(34)	29
Loss after income tax from discontinued operations	(9)	(80)

	Consolidated 30 June 2023 $'000	Consolidated 30 June 2022 $'000
Cash flow from operating activities	(75)	(30)
Changes in cash funds effects of exchange-rate changes	91	27
Net increase/(decrease) in cash and cash equivalents from discontinued operations	16	(3)

Note 5. Discontinued operations and assets classified as held for sale (continued)

(b) Carrying amounts of assets and liabilities discontinued

	Consolidated	
	30 June 2023 $'000	31 December 2022 $'000
Fluence Mexico		
Carrying amounts of assets and liabilities discontinued		
Cash and cash equivalents	142	127
Trade and other receivables	46	34
Prepayments	10	8
Other current assets	8	7
Property, plant and equipment	3	3
Total assets discontinued	209	179
Trade and other payables	(439)	(366)
Current tax liabilities	(5)	(5)
Deferred revenue	-	(1)
Other non-current liabilities	(319)	(347)
Total liabilities discontinued	(763)	(719)
	(554)	(540)

Note 6. Revenue

	Consolidated	
	30 June 2023 $'000	30 June 2022 $'000
From continuing operations		
Smart Product Solutions	13,343	13,815
Customer Engineering Solutions	13,920	45,118
Recurring Revenue	4,146	5,276
Revenue from continuing operations	31,409	64,209

Revenue has been disaggregated based on contract revenue (inclusive of Smart Product Solutions and Customer Engineering Solutions) and service revenue (inclusive of Recurring Revenue). They comprise distinct revenue streams, customers and margins.

Note 7. Other gains/(losses) - net

	Consolidated	
	30 June 2023 $'000	30 June 2022 $'000
Other gains/(losses) - net		
Foreign exchange loss	(1,156)	(1,122)
Withholding taxes	(186)	(63)
Loss on disposal of subsidiary	-	(207)
Gain from investments accounted for using the equity method	83	-
Gain on debt forgiveness	-	417
Gain/loss on disposal of PPE	15	3
Inventory write-off	(557)	74
Onerous contract provisions	(46)	(1,143)
Other	(187)	(304)
	(2,034)	(2,345)

Note 8. People cost

Set out below are summaries of options granted to Directors, Consultants, and Employees under the Company's employee share option plan:

2023

Grant / change date	Expiry date	Exercise price (AU$)	Granted	Exercised	Cancelled/ Lapsed/ Forfeited	Balance at the end of the year
Opening balance		**-**	**138,931,872**	**(13,773,161)**	**(55,583,023)**	**69,575,688**
15 January 2023	1 March 2024	0.44	-	-	(8,250)	(8,250)
16 January 2023	29 November 2023	0.44	-	-	(9,000)	(9,000)
25 January 2023	14 March 2027	0.22	-	-	(937,500)	(937,500)
25 January 2023	1 January 2027	0.18	-	-	(61,816)	(61,816)
30 January 2023	15 January 2028	0.23	8,000,000	-	-	8,000,000
30 January 2023	15 January 2028	0.19	13,040,000	-	-	13,040,000
30 January 2023	30 May 2023	0.44	-	-	(70,000)	(70,000)
31 January 2023	1 March 2024	0.44	-	-	(90,000)	(90,000)
31 January 2023	31 May 2025	0.23	-	-	(375,000)	(375,000)
31 January 2023	22 March 2027	0.17	-	-	(500,000)	(500,000)
24 February 2023	29 August 2024	0.26	-	-	(12,500)	(12,500)
28 February 2023	29 August 2024	0.26	-	-	(6,250)	(6,250)
1 March 2023	1 March 2023	0.44	-	-	(12,000)	(12,000)
31 March 2023	1 March 2024	0.44	-	-	(270,000)	(270,000)
31 March 2023	31 May 2025	0.23	-	-	(375,000)	(375,000)
3 April 2023	29 August 2023	0.44	-	-	(12,000)	(12,000)
20 April 2023	29 August 2024	0.26	-	-	(10,000)	(10,000)
21 April 2023	31 May 2025	0.23	-	-	(43,750)	(43,750)
24 April 2023	29 August 2024	0.26	-	-	(27,500)	(27,500)
28 April 2023	29 August 2024	0.26	-	-	(8,250)	(8,250)
25 May 2023	30 June 2026	0.22	-	-	(500,000)	(500,000)
25 May 2023	25 August 2025	0.23	-	-	(750,000)	(750,000)
30 May 2023	30 May 2023	0.44	-	-	(32,000)	(32,000)
30 May 2023	30 May 2023	0.60	-	-	(250,000)	(250,000)
30 May 2023	30 May 2023	0.80	-	-	(250,000)	(250,000)
6 June 2023	6 June 2028	0.20	2,500,000	-	-	2,500,000
13 June 2023	29 August 2024	0.23	-	-	(3,750)	(3,750)
20 June 2023	29 August 2024	0.26	-	-	(30,000)	(30,000)
23 June 2023	31 May 2025	0.23	**-**	**-**	(56,250)	(56,250)
Closing balance		**-**	**162,471,872**	**(13,773,161)**	**(60,283,839)**	**88,414,872**

As of 30 June 2023, 19,650,644 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:

2023

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$)
30 January 2023	15 January 2028	0.230	0.23	Nil	3.277%	0.0817
30 January 2023	15 January 2028	0.230	0.19	Nil	3.227%	0.0865
6 June 2023	6 June 2028	0.180	0.20	Nil	3.617%	0.0612

The weighted average remaining contractual life of options outstanding at year-end was 3.56 years.

Note 8. People cost (continued)

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 $0.1230. These values were calculated using the binomial lattice, based on the Cox, Ross Rubinstein (1979) method applying the following inputs:

Weighted average exercise price: $0.20
Expected share price volatility: 70%

Expenses arising from share-based payment transactions	Consolidated	
	30 June 2023 $'000	30 June 2022 $'000
Share based payment expense		
Employee share based payments	643	433
Director share based payments	248	218
	891	651

Note 9. Earnings per share

	Consolidated	
	30 June 2023 $'000	30 June 2022 $'000
Earnings per share for loss from continuing operations		
Loss after income tax	(8,979)	(7,677)
Non-controlling interest	252	(19)
Loss after income tax attributable to the Owners of Fluence Corporation Limited	(8,727)	(7,696)
	Cents	Cents
Basic earnings per share	(1.34)	(1.20)
Diluted earnings per share	(1.34)	(1.20)

	Consolidated	
	30 June 2023 $'000	30 June 2022 $'000
Earnings per share for loss from discontinued operations		
Loss after income tax	(9)	(88)
Non-controlling interest	17	24
Profit/(loss) after income tax attributable to the Owners of Fluence Corporation Limited	8	(64)
	Cents	Cents
Basic earnings per share	-	(0.01)
Diluted earnings per share	-	(0.01)

Note 9. Earnings per share (continued)

	Consolidated 30 June 2023 $'000	Consolidated 30 June 2022 $'000
Earnings per share for loss		
Loss after income tax	(8,988)	(7,765)
Non-controlling interest	269	5
Loss after income tax attributable to the Owners of Fluence Corporation Limited	(8,719)	(7,760)

	Cents	Cents
Basic earnings per share	(1.34)	(1.21)
Diluted earnings per share	(1.34)	(1.21)

	Number	Number
Weighted average number of ordinary shares		
Weighted average number of ordinary shares used in calculating basic earnings per share	650,554,034	640,485,267
Weighted average number of ordinary shares used in calculating diluted earnings per share	650,554,034	640,485,267

Note 10. Cash and cash equivalents

	Consolidated 30 June 2023 $'000	Consolidated 31 December 2022 $'000
Cash and cash equivalents	18,129	30,936

Note 11. Trade and other receivables

	Consolidated 30 June 2023 $'000	Consolidated 31 December 2022 $'000
Trade receivables	12,763	21,192
Less: Allowance for expected credit losses	(1,882)	(1,775)
	10,881	19,417
Contract assets (unbilled receivables)	20,266	27,423
GST and other taxes receivable	1,354	965
Income tax receivable	709	826
Other receivables	265	395
	22,594	29,609
	33,475	49,026

Note 12. Concession asset

In July 2018 the Group entered into a service concession arrangement in the Bahamas to build a seawater desalination potable water treatment plant. The onsite execution and construction started in October 2018 and was completed in October 2019. Under the terms of the agreement, the Group will operate the desalination plant and provide water to the grantor for an expected period of 15 years. The Group will be responsible for any maintenance services required during the concession period. The grantor provides the Group a guaranteed minimum annual payment for each year that the desalination plant will be in operation. At the end of the concession period, the desalination plant will become the property of the grantor and the Group will have no further involvement in its operation or maintenance requirements. For the six months ended 30 June 2023, the Group has recognised revenue of $1.1 million on the desalination plant.

	Consolidated	
	30 June 2023 $'000	31 December 2022 $'000
Concession assets		
Current concession asset	246	246
Non-current concession asset	2,497	2,619
	2,743	2,865

Note 13. Intangible assets

Consolidated entity	Capitalised development costs $'000
Year ended 31 December 2022	
Opening net book amount	1,709
Amortisation charge	(175)
Currency translation differences	(195)
Closing net book amount	1,339
Half year ended 30 June 2023	
Opening net book amount	1,339
Amortisation charge	(81)
Currency translation differences	(71)
	1,187

Note 14. Long-term deposits

	Consolidated	
	30 June 2023 $'000	31 December 2022 $'000
Long-term deposits		
Collections from customers deposited for a period of more than twelve months	5,408	9,532

Long-term deposits are collections from the Ivory Coast projects deposited for a period of more than twelve months.

Note 15. Trade and other payables and other liabilities

	Consolidated	
	30 June 2023 $'000	31 December 2022 $'000
Current		
Trade payables	6,139	17,609
Accrued payroll liabilities	1,998	3,576
Accrued project expenses	19,446	23,085
Government grants (i)	396	1,927
Other accruals	3,510	5,297
	31,489	51,494
Non-current		
Government grants (i)	-	1,779

(i) Government Grant Liability

The Group participates in programs sponsored by the Office of the Chief Scientist (“OCS”) of Israel, for the support of research and development projects. In exchange for the Chief Scientist's participation in the programs, the Group is required to repay the grant and interest by way of royalties at a rate between 3% and 4.5% of sales to end customers of products developed with funds provided by the Chief Scientist, if and when such sales are recognised. As of 30 June 2023 and 31 December 2022, the Group recognised a liability to the OCS in the amount of $396,000 and $3,706,000 respectively for the obligation for future royalty payments. The recognition of a liability for the Group to repay the grants from future royalty payments is based on its estimation at the end of each year. In 2023, due to a change in the estimate of the liability, the amount of the remaining liability has decreased by $2,581,000. The decrease in the liability has been recognised in the statement of profit and loss and other comprehensive income as an off-set within the Research and development expense.

Note 16. Borrowings

On 29 July 2020, the Company entered into a loan agreement with an affiliate of Upwell to provide an initial US$20 million finance facility. In December 2021 the facility was increased by US$10.3 million. The facility was used to fund the BOO projects and the Company's working capital.

Under the terms of the debt facility with Upwell, the Company is required to comply with a minimum DSCR and a minimum unrestricted cash and cash equivalents balance. The DSCR is measured both on a consolidated basis as well as on the Bimini project and the minimum unrestricted cash and cash equivalents is determined on a consolidated basis.

The Company was in compliance with the minimum unrestricted cash and cash equivalents covenant throughout the reporting period. The Company was out of compliance with the consolidated DSCR during the reporting period and received several waivers from Upwell, including the most recent waiver on 30 July 2023. Fluence continues to make all principal and interest payments on time.

The Company has been and continues to be actively engaged in good faith negotiations with Upwell in respect of a potential Amendment of the Loan Agreement during the reporting period. While the Company remains confident in the likelihood of a successful resolution of the negotiations, such a resolution cannot be guaranteed.

	Consolidated	
	30 June 2023 $'000	31 December 2022 $'000
Borrowings		
Current borrowings and interest payable	31,057	1,265
Non-current borrowings	149	30,003
	31,206	31,268

Note 17. Contributed equity

(a) Share capital

	Notes	30 June 2023 No. of Shares	31 December 2022 No. of Shares	30 June 2023 $'000	31 December 2022 $'000
Ordinary shares	note 17(b)	650,554,034	650,554,034	207,443	207,443
Options	note 17(c)	88,414,872	69,575,688	11,121	10,230
		738,968,906	**720,129,722**	**218,564**	**217,673**

(b) Ordinary shares - fully paid

	Number of shares	$'000
Opening balance 1 January 2022	624,854,034	203,728
Private placement at AU$0.21 per share	25,700,000	3,715
Balance 31 December 2022	650,554,034	207,443

	Number of shares	$'000
Opening balance 1 January 2023	650,554,034	207,443
Balance 30 June 2023	650,554,034	207,443

(c) Options

	Number of options
Opening balance 1 January 2022	**26,949,157**
Unlisted options issued to employees and directors	49,375,000
Cancelled, lapsed and forfeited options	(6,748,469)
Balance 31 December 2022	**69,575,688**

	Number of options
Opening balance 1 January 2023	**69,575,688**
Unlisted options issued to employees and directors	23,540,000
Cancelled, lapsed and forfeited options	(4,700,816)
Balance 30 June 2023	**88,414,872**

Note 18. 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).

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2022				
Financial liabilities				
Government grant liability	-	-	3,706	**3,706**

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2023				
Financial liabilities				
Government grant liability	-	-	396	**396**

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 18.2% (2022: 18.2%).

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 2022	**3,833**
Adjustment to fair value of liability, included in "Research and development expense" in the Consolidated Statement of Profit or Loss and Other Comprehensive Income	(478)
Currency translation differences, included in "Exchange differences on translation of foreign operations, net of tax" in the Consolidated Statement of Profit or Loss and Other Comprehensive Income	351
Closing balance at 31 December 2022	**3,706**
Payment	(612)
Adjustment to fair value of liability, included in "Research and development expense" in the Consolidated Statement of Profit or Loss and Other Comprehensive Income	(2,581)
Currency translation differences, included in "Exchange differences on translation of foreign operations, net of tax" in the Consolidated Statement of Profit or Loss and Other Comprehensive Income	(117)
Closing balance at 30 June 2023	**396**

Note 19. Commitments and contingent liabilities

The Group was party to several claims during the year. With respect to claims brought against the Company, Fluence will vigorously defend itself and is confident they will be successfully defended. There is significant uncertainty as to whether a future liability will arise in respect of these claims. The amount of liability, if any, is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The directors are of the opinion that the claims can be successfully resisted by the company.

Note 20. Events occurring after the reporting period

Effective 25 July 2023, Mr Norman Mel Ashton was appointed as a Non-Executive Director, replacing Ms Samantha Tough.

No other matter or circumstance has occurred subsequent to 30 June 2023 that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

Fluence Corporation Limited
Directors' declaration
30 June 2023

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the financial half-year ended on that date; and

- subject to the matters disclosed in Note 2, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the Directors

Thomas Pokorsky
Chief Executive Officer and Managing Director
30 August 2023
Golden Valley, Minnesota

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Fluence Corporation Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Fluence Corporation Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2023 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be the same terms if given to the directors as at the time of this auditor's review report.

Material uncertainty relating to going concern

We draw attention to Note 2 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Responsibility of the directors for the financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 30 June 2023 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

BDO Audit Pty Ltd

BDO
Katherine Robertson

Katherine Robertson
Director

Melbourne, 30 August 2023