4 December 2013

Flowgroup Plc
("Flowgroup" or the "Company")

Manufacturing Agreement with Jabil Circuit Inc
Proposed Firm Placing and Subscription to raise £15.9m
Open Offer to raise up to approximately £2.0m
& Notice of General Meeting

Flowgroup plc (AIM: FLOW), which develops and commercialises alternative and efficient energy products, announces that it has entered into an exclusive Manufacturing Services Agreement with Jabil Circuit Inc. ("Jabil"), one of the world's leading manufacturing solutions companies, to manufacture up to 390,000 microCHP Flow boilers in the UK. The Company also announces a conditional Firm Placing and Subscription to raise approximately £15.9m and an Open Offer to raise up to approximately £2.0m to further the continuing commercial development of the Flow boiler for volume launch from H2 2014.

Agreement with Jabil

- Jabil will manufacture up to 390,000 Flow boilers, funding production working capital
- Jabil will assist Flowgroup with the ongoing design of an economical and effective supply chain as well as logistics and other support for international expansion in due course
- Flowgroup also has the option, conditional on Admission, to draw down a loan of up to £2.5 million until 31 December 2014, which is secured on the Group's Flow boiler intellectual property on an insolvency event, with a coupon of 9.5 % per annum. Repayments commence 1 October 2015. The Directors do not envisage drawing down on the loan

Fundraising

- **Firm Placing and Subscription of £15.9 million** – Firm Placing of 96,308,460 new Ordinary Shares at 16.25p each to raise £15,650,125 before expenses by means of a placing with new and existing institutional investors and a Director by Cenkos Securities
- **Subscription** – Subscription of 1,261,540 new Ordinary Shares at 16.25p each to raise £205,000 by Directors and certain senior management
- **Open Offer** – Up to £1,957,469 to be raised from an Open Offer at 16.25p. Qualifying Shareholders are entitled to apply for 1 Offer Share for every 11 Existing Ordinary Shares, with an over-allotment option available
- **Offer Price –** the Offer Price of 16.25p is the closing bid price from 29 November 2013 and represents a discount of 2.23% to the middle market closing price of 16.62p on 3 December 2013, being the last practicable date prior to this announcement
- **Qualifying Shareholders –** Any Shareholders on the register of members at 5pm on 3 December 2013
- **Use of Funds –** to continue volume product optimisation; continue the domestic pilot phase; transfer technology to Jabil for manufacturing; set up the sales, servicing and installation infrastructure for volume launch in H2 2014; create combination boiler and cascade operation prototypes to extend market reach; and fund set up costs for Flow Battery framework agreement with National Grid
- **Notice of GM** – Shareholder approval will be sought at a General Meeting on 20 December 2013
- **Admission –** Admission and commencement of dealings in the New Ordinary Shares on AIM on 23 December 2013
- **Directors' participation –** Directors have agreed to subscribe in aggregate for 1,692,304 new Ordinary Shares and unanimously recommend Shareholders vote in favour of the Resolutions

Commenting, David Kipling, Senior Director at Jabil said: "*We are also pleased to support manufacturing of Flowgroup's products because we have been very impressed by all aspects of the Company from their products, management and business model. A successful partnership with Flowgroup will mean jobs in the UK."*

Commenting Tony Stiff, Group Chief Executive of Flowgroup, said: *"We have been impressed with Jabil's proposition and partnership approach. Their thorough due diligence and significant investment, via this* *agreement, in our business illustrates their confidence in our technology and our business plan. This is matched by our confidence that Jabil can help us achieve our target of building one of the UK's largest energy services companies – and then exporting that success into international markets. We believe this is one of the most important steps we have yet taken and, as a company, we would like to express our deep satisfaction at the conclusion of this agreement. We are also delighted with the support shown by both our existing institutional shareholders and a number of new investors in relation to the oversubscribed fundraising. The very strong demand and the success of the fundraising will enable the company to carry out its business plan with plenty of headroom."*

Flowgroup plc www.flowgroup.uk.com
Tony Stiff, Group Chief Executive Officer Tel: +44 (0)151 348 2100

Cenkos Securities plc (NOMAD & Broker) www.cenkos.com
Stephen Keys / Christopher Golden (Corporate Finance / Nomad) Tel: +44 (0)20 7397 8900
Julian Morse (Sales)

Walbrook PR Ltd Tel: +44 (0)20 7933 8780 or flowgroup@walbrookpr.com
Paul McManus (Media Relations) Mob: 07980 541 893
Paul Cornelius (Investor Relations) Mob: 07827 879 460

About Jabil

Jabil, a publicly-held company trading on the NYSE, is one of the world's leading global manufacturing solutions partners. It has 175,000 employees across 33 countries, generated $18.3 billion revenue in the financial year 2013 and manufactures for many major global organisations including Cisco, Hewlett Packard, GE and Apple.

The information reproduced below is extracted from the Circular was has been published and posted to Shareholders today. The full Circular is currently available on the Company's website:

www.flowgroup.uk.com

This announcement does not constitute an offer to sell or an invitation to subscribe for, or solicitation of an offer to subscribe for or buy New Ordinary Shares and/or Open Offer Entitlements to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation. In particular, this announcement must not be taken, transmitted, distributed or sent, directly or indirectly, in, or into, the United States of America, Canada, Australia, Japan or the Republic of South Africa or transmitted, distributed or sent to, or by, any national, resident or citizen of such countries. Accordingly, the New Ordinary Shares and/or Open Offer Entitlements may not, subject to certain exceptions, be offered or sold, directly or indirectly, in, or into, the United States of America, Canada, Australia, Japan or the Republic of South Africa or in any other country, territory or possession where to do so may contravene local securities laws or regulations. The New Ordinary Shares and the Open Offer Entitlements have not been, and will not be, registered under the United States Securities Act of 1933 (as amended) or under the securities legislation of any state of the United States of America, any province or territory of Canada, Australia, Japan or the Republic of South Africa and they may not be offered or sold, directly or indirectly, within the United States of America or Canada, Australia, Japan or the Republic of South Africa or to or for the account or benefit of any national, citizen or resident of the United States of America, Canada, Japan or the Republic of South Africa or to any US person (within the definition of Regulation S made under the US Securities Act 1933 (as amended)).

Firm Placing of 96,308,460 new Ordinary Shares at 16.25 pence per share
Subscription of 1,261,540 new Ordinary Shares at 16.25 pence per share
Open Offer of up to 12,045,964 new Ordinary Shares at 16.25 pence per share
Notice of General Meeting

1. Introduction

The Board is pleased to announce that it has entered into an exclusive manufacturing services agreement with Jabil Circuit Inc. ("**Jabil**"), one of the world's leading manufacturing solutions companies, under which Jabil has agreed to provide manufacturing services, a loan of up to £2.5 million, funding manufacturing and, supply chain working capital and access to Jabil's extensive development services to produce up to 390,000 Flow boilers. At the same time the Board is pleased to announce a conditional Firm Placing of 96,308,460 new Ordinary Shares at 16.25 pence each to raise £15,650,125 before expenses by means of a placing by Cenkos Securities and that Henry Cialone, David Grundy, Clare Spottiswoode, Anthony Stiff and certain senior management have agreed to subscribe for an aggregate of 1,261,540 new Ordinary Shares at 16.25 pence each to raise £205,000. John Johnston has agreed to subscribe for 553,844 new Ordinary Shares under the Firm Placing.

In addition, in order to provide Shareholders who have not taken part in the Firm Placing with an opportunity to participate in the proposed issue of new Ordinary Shares, the Company is providing all Qualifying Shareholders with the opportunity to subscribe at the Offer Price for an aggregate of 12,045,964 Offer Shares, to raise up to £1,957,469, on the basis of 1 new Ordinary Shares for every 11 Existing Ordinary Shares, at 16.25 pence each, payable in full on acceptance.

The Open Offer provides Qualifying Shareholders with an opportunity to participate in the proposed issue of the Offer Shares on a pre-emptive basis whilst providing the Company with additional capital to invest in the business of the Group.

The Offer Price is at a discount of 2.23 per cent. to the closing middle market price of 16.62 pence per Existing Ordinary Share on 3 December 2013 (being the last practicable date before publication of this announcement).

The Firm Placing, Subscription and Open Offer are conditional, amongst other things, on the passing of the Resolutions by Shareholders at the General Meeting, notice of which is set out at the end of the Circular. If the Resolutions are passed, the New Ordinary Shares will be allotted after the General Meeting. Admission is expected to occur no later than 8.00 a.m. on 23 December 2013 or such later time and/or dates as Cenkos Securities and the Company may agree. The Firm Placing, Subscription and Open Offer are not underwritten.

The purpose of the Circular is to explain the background to the Firm Placing and Open Offer, to set out the reasons why your Board believes that the Firm Placing, Subscription and Open Offer are in the best interests of the Company and its Shareholders and to seek your approval to the Resolutions at the forthcoming General Meeting, which will be held at the offices of Atticus Legal LLP at Castlefield House, Liverpool Road, Castlefield, Manchester M3 4SB on 20 December 2013 at 10.00 a.m.

A circular containing the details of these proposals (the "Circular") is being posted to Shareholders today and will be available shortly on the Company's website: www.flowgroup.uk.com.

2. Reasons for the Firm Placing, Subscription and Open Offer

Introduction

The Group continues to implement its strategy, announced last year, to deliver a large-scale energy services business, called Flow, which is based upon the proposition of providing customers with a new microgeneration gas boiler, which produces electricity, at no cost up front apart from installation, in return for the customers buying their gas and electricity from Flow for an agreed period.

Significant achievements

The Group launched its planned energy-only proposition in April 2013 through Flow Energy. The launch was successful, with Flow Energy registering approximately 50,000 customer accounts in six months. This enabled the Group to gain brand exposure, test the Group's systems and train personnel in preparation for the launch of the Flow boiler and energy package proposition in H2 2014.

In order to provide installation experience and additional reliability and generation data before launch in H2 2014, the Flow microgeneration boiler, developed by Flow Products, is now entering its domestic pilot following product testing in the laboratory. 120 Flow boilers of production standard are targeted to be installed in customer homes starting in December 2013. This domestic pilot scheme aims to identify any issues associated with installation and the use of the Flow boiler in the home environment. The marketing campaign to secure these 120 pilot customers attracted over 4,500 responses, illustrating what the Directors consider is a strong and positive consumer reaction to the domestic pilot programme.

In addition to the development of the Flow boiler and energy business, the Group has been developing its compressed air backup power business, Flow Battery. Flow Battery's technology gained type approval from National Grid in October 2011 and was recently awarded a framework agreement from National Grid to replace conventional lead-acid batteries in National Grid substations in England and Wales. The framework agreement is for an initial three year period which can be extended by up to two additional years. There are roughly 300 National Grid substations in England and Wales, which incorporate approximately 3,200 backup power battery systems. Under the agreement Flow Battery may be asked to tender for the replacement of conventional lead-acid batteries in the National Grid sub-stations.

Manufacturing Agreement

One of the key goals for the Group in 2013 was to put in place a volume manufacturing contract for the Flow microgeneration boiler. Accordingly, we are delighted to announce that the Group has entered into an exclusive manufacturing services agreement with Jabil, one of the world's leading manufacturing partners. Jabil has 175,000 employees across 33 countries and generated $18.3 billion revenue in the financial year 2013 manufacturing for many major corporates including Cisco, HP, Emerson and Apple. We believe that this manufacturing deal, with a company of Jabil's size and experience, will secure the capability to produce the Flow boiler at the high volumes, with the high quality and at the unit cost that the Group's growth strategy requires.

Subject to the terms of the manufacturing services agreement, Jabil will manufacture up to 390,000 Flow boilers in the UK, funding production working capital. Jabil will provide a 2 year manufacturer warranty on the boiler. Jabil will assist Flowgroup with the ongoing design of an economical and effective supply chain as well logistics and other support for international expansion in due course. Flowgroup also has the option to draw down a loan of up to £2.5 million (which is conditional on Admission) until 31 December 2014, which is secured on the Group's Flow boiler intellectual property on an insolvency event, with a coupon of 9.5 % per annum. Repayments commence 1 October 2015. The Directors do not envisage drawing down on the loan.

Jabil undertook a significant due diligence exercise using both external experts and their internal specialists, exploring the Flow boiler's technical performance, the Group's supply chain and business model. We believe the positive outcome represents confidence in the Group and the Flow boiler.

We are particularly pleased that Jabil will manufacture the Flow boiler in its entirety, including the microCHP power module in the UK. This allows the Flow boiler to be marketed as a UK designed and manufactured product.

Energy as a 21st century business

The Group has developed a microCHP (micro combined heat and power) appliance, the Flow boiler. This is a gas fired domestic boiler that generates electricity at the same time as it uses gas to heat a home, at less than 36% of the cost of electricity from the grid. Our innovative business model allows a customer to receive a Flow boiler at no cost up front except for installation. In return, the customer agrees to receive their gas and electricity supply from Flow for five years. Although the customer pays for all the gas and electricity they use in these five years at the normal tariff rate, some of this electricity is being generated by the Flow boiler and is therefore not being purchased by the Group. The saving to the Group plus the Feed in Tariff payments that the generated electricity attracts for the first 30,000 installations, allows the cost of the boiler to be repaid. The cost of the boiler is initially met by a finance agreement registered in the customer's name. However, the repayments that the customer makes every month are matched by credits to the customer's energy account, effectively allowing the boiler to pay for itself.

We expect that the cost of the boiler in volume production will reduce to a level that is significantly less than the value of the electricity a Flow boiler will generate in average conditions over five years. This additional margin will supplement the supplier margin of providing gas and electricity to the customer as usual. Other opportunities include a one off margin on the sale of the boiler (the difference between the cost of the boiler and the sale through the credit agreement), margin on installation (microgeneration boiler installations attract VAT at only 5%) and margin on annual service.

At the end of the credit agreement, provided the homeowner remains a Flow customer, Flow expects to be able to share the generation margin and the Feed in Tariff with the homeowner.

We believe that this arrangement, in totality, will allow Flow to attract long term energy customers at significantly higher margins than a traditional energy supply business.

Microgeneration technology comes of age

The key generation component of the Flow boiler is the scroll, which acts as a mini generator to produce electricity. The rise of hybrid and electric cars and the consequent technological advances have meant that scrolls used for air-conditioning have become available to the Group at a fraction of their previous £6,000 price tag. Combined with the use of common refrigeration parts, this has allowed our engineers to produce the first low cost microgeneration boiler. The technological solutions they have employed to achieve this are protected by worldwide patents.

Market conditions

The UK boiler market is large with approximately 1.6 million boilers replaced each year and, although it is mature, sales of gas and LPG boilers experienced strong growth in 2013. We believe that, by bringing a microgeneration boiler to the market, one which conforms to the parameters of a typical household boiler (similar size, wall-hung), and providing it at no upfront cost apart from installation, the Group has a product and a customer offer that can attract the numbers of customers required to build a large-scale energy services business.

We believe that the market conditions for the launch of the Flow boiler are extremely good. The benefits of the Flow boiler closely match the goals of energy policy and the demands of consumers. The Flow boiler reduces household emissions by up to 1,000kg of CO_2 annually, assisting the country in meeting its emissions reductions targets and helping consumers to be greener. Its capacity to reduce energy bills long term saves consumers money and supports governmental and societal aims to offset the rising cost of energy. Since the Flow boiler produces most electricity when it is using most gas, in the cold winter months at times of peak electricity demand, it helps meet peak demand, assisting in solving a growing problem. More generally, the Flow boiler empowers consumers to actively participate in the energy market, engaging them with an industry that we believe they currently feel alienated by. Since the cost of a boiler replacement is one of the largest emergency bills a household can face, and the current economic climate is uncertain, providing the boiler with no up front cost apart from installation fits well with general consumer focus on personal finances.

As the Flow boiler provides a broad range of benefits, and since it is a UK designed, developed and manufactured product, we expect it to receive support from government, industry, green organisations and consumers.

Our target market is defined primarily by a household's level of gas consumption. A particular level of gas consumption is required for the Flow boiler to generate 1,800kWh of electricity annually, the amount needed to achieve payback of the cost of the Flow boiler within the five year timescale. Independent testing has demonstrated that this level of generation can be achieved or exceeded in at least 6.9 million homes in Great Britain. Each year approximately 7% of homes need a replacement boiler, indicating an accessible market in Great Britain of at least 480,000 per annum.

In addition to the 1.6 million boiler replacements each year, many of which are breakdowns, there is also a large potential market of 5-6 million customers who still have working but old and inefficient boilers with energy ratings of F-G. We intend to target this market as well, looking to convert these customers into Flow customers with the lever of a highly efficient microgeneration boiler that pays for itself.

The worldwide boiler market also presents significant opportunities for expansion. For example, approximately 9 million gas boilers are replaced each year across Europe. Calor, the supplier of LPG gas to off-mains properties, and with whom the Group now has a strategic relationship, presents an additional opportunity for the Group. Calor will, in collaboration with Flow, offer the Flow boiler to new and existing customers as part of its own energy and boiler proposition.

Flow Battery

Flow Battery targets very different markets but ones in which we can see good opportunities for growth. Flow Battery's award-winning compressed air backup power systems can be used in substations in Grids around the world. Flow Battery has recently been awarded a framework agreement from National Grid to replace conventional lead-acid batteries in National Grid substations in England and Wales. National Grid has approximately 3,200 battery systems across roughly 300 substations and this agreement has the potential to provide a strong revenue stream to the Group. We are pleased to note that Flow Battery was awarded the highest overall score in the tender process, providing a significant endorsement of the technology.

Flow Battery's flagship installation in the Co-operative Financial Services datacentre provides an illustration of the application of Flow Battery's technology to the datacentre market as well, which is a large and growing opportunity.

Launch and success of the energy services business

Following successful completion of the Controlled Market Entry phase, we launched our energy supply business under the name Flow Energy on 2 April 2013. Due to the level of customer response and lower than expected acquisition costs, Flow Energy surpassed its original business plan target of 36,000 customer accounts and took on approximately 50,000 customer accounts in six months. In line with the Group's business plan, Flow Energy then withdrew its tariff to new customers to concentrate on servicing its existing customers and preparing for the launch of the Flow boiler in H2 2014.

Flow Energy's customers are now generating over £2.6m revenue a month. Entry into the market also allowed its systems and processes to be proven at volume in the live environment, as well as providing important brand exposure. In addition, Flow Energy has entered into wholesale trading arrangements with Dong, EDF and Morgan Stanley and joined the APX market (Amsterdam Power Exchange), which brings access to short term liquidity. All the systems, processes and arrangements for energy supply are now in place for planned expansion in 2014.

The database of existing Flow Energy customers provides a core of potential boiler customers to target following launch of the Flow boiler. Since the Flow boiler proposition is competitive and relevant, this campaign will be supplemented by PR, social, viral and word-of-mouth campaigns, all of which come at little cost, in order to keep our cost-per-acquisition for boiler customers as low as possible. Flow Energy has already received significant media coverage via the BBC, The Times and Sunday Times, The Guardian and The Daily Mail.

The Flow boiler pilot

The Flow Products team, which developed the Flow boiler, has now moved from the development phase to commercialisation. 175 units, of which 100 will be used for the domestic pilot of the boiler, are currently being manufactured in the UK. Calor are taking a further 20 units and will be part of this pilot programme. The first unit was installed in November 2013 and the pilot will run for 12 months from December 2013 and continuing post launch.

As well as providing important reliability and generation data, conducting a pilot of this size allows the Group to test and refine its surveying and installation procedures and its marketing messages before launch.

Response to the marketing campaign to identify 100 candidates for the domestic pilot has been strong. Since mid-June, over 4,500 people have expressed an interest in being involved in the pilot. A range of homes has been chosen, including some smaller homes, to test the possibility of installing the Flow boiler in homes of that size, thereby widening still further the target market, and to provide the broadest range of data. The installations will, over the course of the 12 months, operate in a combination of heat-and-power and heat only modes. To underpin the credibility of the pilot data, it has been agreed that the pilot will be ratified by the Energy Savings Trust (EST), one of the UK's leading energy efficiency information sources. The data collected during the pilot will assist the Group with ensuring that the full production unit, to be manufactured in H2 2014 by Jabil, will perform to its full capability.

Product development

To add to the market potential of the existing Flow boiler, the Flow Products team is creating a detailed product development roadmap for the next five years. As well as designing additional models for the UK market (larger heat output, a combination boiler version, cascade operation) to expand the potential number of homes the Flow boiler can be installed in, the roadmap will also include plans for expansion into international markets.

Expanded installation capability

The Company has engaged, or is in talks with, a range of companies to provide installation and after care services. We intend that this broad range of agreements will provide the flexibility the Company requires as it grows. The Company has a long-standing arrangement in place with Carillion Energy Services, which has a proven track record of delivering high volume projects across Great Britain. Calor will also provide installation and after care services and the Group will benefit from Calor's significant infrastructure and reputation for excellent customer service. In addition to these agreements, the Company is also in negotiations with another contractor offering national coverage as well as smaller organisations offering local solutions.

Milestones

The Group's key milestones are clear:

- December 2013 – launch the 12 month domestic pilot of the boiler;
- H1 2014 – deliver a detailed product roadmap including the combi version specification;
- H2 2014 – complete technology transfer to Jabil and achieve full production capability. Gain full accreditation (CE and MCS) and move to volume production; and
- H2 2014 - begin customer sales

3. Use of proceeds

The funds raised through the Firm Placing, Subscription and Open Offer will be used for the continuing commercial development of the energy services business through to Flow boiler sales and cashflow generation. In particular the funds will be applied to:

- continue volume product optimisation;

- continue domestic pilot phase;
- transfer technology to Jabil for manufacturing;
- set up sales, servicing and installation infrastructure for volume launch in H2 2014;
- create combination boiler and cascade operation prototypes to extend market reach; and
- fund set up costs for Flow Battery framework agreement with National Grid.

4. Principal terms of the Firm Placing and Subscription

The Company has conditionally raised £15,650,125 before expenses by the Firm Placing of 96,308,460 new Ordinary Shares at the Offer Price to the Firm Placees.

The Firm Placing is conditional, inter alia, upon:

(i) the passing of all of the Resolutions;
(ii) the Firm Placing and Open Offer Agreement becoming or being declared unconditional in all respects and not having been terminated in accordance with its terms prior to Admission; and
(iii) Admission becoming effective by no later than 8.00 a.m. on 23 December 2013 or such later time and/or date (being no later than 8.00 a.m. on 31 January 2014) as Cenkos Securities and the Company may agree.

If any of the conditions are not satisfied, the Firm Placing Shares will not be issued and all monies received from the Firm Placees will be returned to them (at the Firm Placees' risk and without interest) as soon as possible thereafter.

The Firm Placing Shares are not subject to clawback and are not part of or subject to any condition related to the Open Offer.

The Firm Placing Shares (the Subscription Shares and the Offer Shares) will be issued free of all liens, charges and encumbrances and will, when issued and fully paid, rank pari passu in all respects with the Existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid after the date of their issue.

The Subscription is conditional on Admission. Under the Subscription Agreements Henry Cialone, David Grundy, Clare Spottiswoode, and Anthony Stiff together with certain members of senior management have agreed to subscribe for the Subscription Shares.

Application will be made to the London Stock Exchange in respect of Admission of the Firm Placing Shares and the Subscription Shares to trading on AIM. It is expected that Admission will occur and that dealings will commence at 8.00 a.m. on 23 December 2013 at which time it is also expected that the Firm Placing Shares and the Subscription Shares will be enabled for settlement in CREST.

Related Party

The participation of Aviva plc ("Aviva") in the Placing constitutes a related party transaction under the AIM Rules for Companies by virtue of Aviva being a substantial shareholder in the Company and that Aviva's participation in the Placing represents more than 5% of the market capitalisation of the Company as of this date. The Directors consider, having consulted with Cenkos Securities, its nominated adviser, that the terms of the transaction are fair and reasonable insofar as its shareholders are concerned.

5. Directors' participation in the Firm Placing and Subscription

The following Director, John Johnston, has agreed to subscribe for 553,844 Firm Placing Shares at the Offer Price. Henry Cialone, Clare Spottiswoode, David Grundy and Anthony Stiff have agreed to subscribe for 1,138,460 Subscription Shares at the Offer Price. The respective holdings of the Directors following the Firm Placing, Subscription and Open Offer are described in paragraph 3 of Part 5.

6. Principal Terms of the Open Offer

The Company is proposing to raise up to approximately £17.8 million before expenses through the issue of up to 109,615,964 New Ordinary Shares, of which approximately £15.9 million has been conditionally raised from the Firm Placing and Subscription. The balance of up to £1,957,469 may be raised from the Open Offer.

A total of 12,045,964 new Ordinary Shares are available to Qualifying Shareholders pursuant to the Open Offer at the Offer Price, payable in full on acceptance. Any Offer Shares not subscribed for by Qualifying Shareholders will be available to Qualifying Shareholders under the Excess Application Facility.

Qualifying Shareholders may apply for Offer Shares under the Open Offer at the Offer Price on the following basis:

1 Offer Share for every 11 Existing Ordinary Shares

and so in proportion for any number of Existing Ordinary Shares held on the Record Date. Entitlements of Qualifying Shareholders will be rounded down to the nearest whole number of Offer Shares. Fractional entitlements which would otherwise arise will not be issued to the Qualifying Shareholders but will be made available under the Excess Application Facility. The Excess Application Facility enables Qualifying Shareholders to apply for Excess Shares in excess of their Open Offer Entitlement. Not all Shareholders will be Qualifying Shareholders. Shareholders who are located in, or are citizens of, or have a registered office in certain overseas jurisdictions will not qualify to participate in the Open Offer. The attention of Overseas Shareholders is drawn to paragraph 6 of Part 3 of the Circular.

Valid applications by Qualifying Shareholders will be satisfied in full up to their Open Offer Entitlements as shown on the Application Form. Applicants can apply for less or more than their entitlements under the Open Offer but the Company cannot guarantee that any application for Excess Shares under the Excess Application Facility will be satisfied as this will depend in part on the extent to which other Qualifying Shareholders apply for less than or more than their own Open Offer Entitlements. The Company may satisfy valid applications for Excess Shares of applicants in whole or in part but reserves the right not to satisfy any excess above any Open Offer Entitlement. The Board may scale back applications made in excess of Open Offer Entitlements on such basis as it reasonably considers to be appropriate.

Application has been made for the Open Offer Entitlements to be admitted to CREST. It is expected that such Open Offer Entitlements will be credited to CREST on 5 December 2013. The Open Offer Entitlements will be enabled for settlement in CREST until 11.00 a.m. on 19 December 2013. Applications through the CREST system may only be made by the Qualifying CREST Shareholder originally entitled or by a person entitled by virtue of bona fide market claims. The Offer Shares must be paid in full on application. The latest time and date for receipt of completed Application Forms or CREST application and payment in respect of the Open Offer is 11.00 a.m. on 19 December 2013. The Open Offer is not being made to certain Overseas Shareholders, as set out in paragraph 6 of Part 3 of the Circular.

Qualifying Shareholders should note that the Open Offer is not a rights issue and therefore the Offer Shares which are not applied for by Qualifying Shareholders will not be sold in the market for the benefit of the Qualifying Shareholders who do not apply under the Open Offer. The Application Form is not a document of title and cannot be traded or otherwise transferred.

Further details of the Open Offer and the terms and conditions on which it is being made, including the procedure for application and payment, are contained in Part 3 of the Circular and on the accompanying Application Form.

The Open Offer is conditional on the Firm Placing becoming or being declared unconditional in all respects and not being terminated before Admission. The principal conditions to the Firm Placing are:

(i) the passing of all of the Resolutions;
(ii) the Firm Placing and Open Offer Agreement becoming or being declared unconditional in all respects and not having been terminated in accordance with its terms prior to Admission; and
(iii) Admission becoming effective by no later than 8.00 a.m. on 23 December 2013 or such later time and/or

date (being no later than 8.00 a.m. on 31 January 2014) as Cenkos Securities and the Company may agree.

Accordingly, if these conditions are not satisfied or waived (where capable of waiver), the Open Offer will not proceed and the Offer Shares will not be issued and all monies received by Neville Registrars will be returned to the applicants (at the applicants' risk and without interest) as soon as possible thereafter. Any Open Offer Entitlements admitted to CREST will thereafter be disabled.

The Offer Shares (the Firm Placing Shares and the Subscription Shares) will be issued free of all liens, charges and encumbrances and will, when issued and fully paid, rank pari passu in all respects with the Existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid after the date of their issue.

Application will be made to the London Stock Exchange for the admission of the Offer Shares to trading on AIM. It is expected that Admission will occur and that dealings will commence at 8.00 a.m. on 23 December 2013 at which time it is also expected that the Offer Shares will be enabled for settlement in CREST.

7. Enterprise Investment Scheme and Venture Capital Trusts

On issue, the New Ordinary Shares will not be treated as either ''listed'' or ''quoted'' securities for relevant tax purposes.

The following information is based upon the laws and practice currently in force in the UK and may not apply to persons who do not hold their Ordinary Shares as investments.

The Directors believe that the VCT Placing Shares should be eligible (subject to the circumstances of investors) for tax reliefs under EIS and for investment by VCTs. The Company has received advance assurance from HMRC, based on information provided, that: (i) following receipt of a properly completed form EIS 1, they will be able to authorise the Company to issue certificates under section 204(1) Income Tax Act 2007 in respect of the VCT Placing Shares; (ii) the New Ordinary Shares will be eligible shares for the purpose of section 285(3A) of the Income Tax Act 2007 and may be part of a qualifying holding for the purposes of Chapter 4 of Part 6 of the Income Tax Act 2007; and (iii) the proposed utilisation of funds raised will constitute satisfactory employment for the purposes of section 293 of the Income Tax Act 2007 and the placing of those funds raised on deposit account pending eventual use within the business will not jeopardise the Group's qualifying status.

In order to ensure the VCT Placing Shares qualify with the relevant requirements of EIS and VCT legislation, it is necessary to ensure that the VCT Placing Shares are issued prior to the remainder of the New Ordinary Shares. Accordingly, it is expected that the VCT Placing Shares will be allotted and issued at 5.30 p.m. on 20 December 2013 and the remaining New Ordinary Shares will be allotted and issued at 7.00 a.m. on 23 December 2013. It is expected that Admission of all New Ordinary Shares will occur at 8.00 a.m. on 23 December 2013.

Although the Company currently expects to satisfy the relevant conditions for EIS and VCT investment, and the Directors are not aware of any subsequent change in the qualifying conditions or the Company's circumstances that would prevent the VCT Placing Shares from being eligible EIS and VCT investments on this occasion, neither the Directors nor the Company give any warranty or undertaking that relief will be available in respect of any investment in the VCT Placing Shares pursuant to this announcement, nor do they warrant or undertake that the Company will conduct its activities in a way that qualifies for or preserves its status.

Companies can raise up to £5 million from State Aid investment sources, including under the combined EIS and from VCTs, in any 12 month period. In order to comply with this restriction only a certain number of the Firm Placing Shares, which are allocated as VCT Placing Shares, will be able to claim EIS or VCT relief.

As the rules governing EIS and VCT reliefs are complex and interrelated with other legislation, if Shareholders or any potential investors are in any doubt as to their tax position, require more detailed information than the general outline above, or are subject to tax in a jurisdiction other than the United

Kingdom, they should consult their professional adviser.

8. Overseas Shareholders

The attention of Qualifying Shareholders who have registered addresses outside the United Kingdom, or who are citizens or residents of countries other than the United Kingdom, or who are holding Existing Ordinary Shares for the benefit of such persons, (including, without limitation, custodians, nominees, trustees and agents) or who have a contractual or other legal obligation to forward this announcement or the Application Form to such persons, is drawn to the information which appears in paragraph 6 of Part 3 of the Circular.

In particular, Qualifying Shareholders who have registered addresses in or who are resident in, or who are citizens of, countries other than the UK (including without limitation the United States of America), should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their entitlements under the Open Offer.

9. Risk Factors and Additional Information

The attention of Shareholders is drawn to the risk factors set out in Part 2 of the Circular and the information contained in Parts 3, 4 and 5 of the Circular, which provide additional information on the Open Offer, the Firm Placing and Flowgroup.

10. General Meeting

The Directors do not currently have authority to allot all of the New Ordinary Shares and, accordingly, the Board is seeking the approval of Shareholders to allot the New Ordinary Shares at the General Meeting.

A notice convening the General Meeting, which is to be held at the offices of Atticus legal LLP at Castlefield House, Liverpool Road, Castlefield, Manchester, M3 4SB at 10.00 a.m. on 20 December 2013, is set out in the Circular. At the General Meeting, the following Resolutions will be proposed:

- Resolution 1, which is an ordinary resolution to authorise the Directors to allot relevant securities up to an aggregate nominal amount of £5,480,798.20, being equal to 109,615,964 New Ordinary Shares (i.e. the maximum number of New Ordinary Shares available under the Firm Placing Subscription and Open Offer); and
- Resolution 2, which is conditional on the passing of Resolution 1 and is a special resolution to authorise the Directors to issue and allot 109,615,964 New Ordinary Shares pursuant to the Firm Placing Subscription and Open Offer on a non-pre-emptive basis.

The authorities to be granted pursuant to the Resolutions shall expire on whichever is the earlier of the conclusion of the Annual General Meeting of the Company to be held in 2014 or the date falling 15 months from the date of the passing of the Resolutions (unless renewed varied or revoked by the Company prior to or on that date) and shall be in addition to the Directors' authorities to allot relevant securities and dis-apply statutory pre-emption rights granted at the Company's Annual General Meeting held in 2013.

11. Action to be taken

In respect of the General Meeting

Shareholders will find enclosed with the Circular a Form of Proxy for use by Shareholders at the General Meeting. Whether or not you intend to be present at the General Meeting, you are requested to complete and return the Form of Proxy in accordance with the instructions printed thereon. To be valid, completed Forms of Proxy must be received by Neville Registrars at Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA as soon as possible and in any event not later than 10.00 a.m. on 18 December 2013, being 48 hours before the time appointed for holding the General Meeting. Completion of a Form of Proxy will not preclude you from attending the meeting and voting in person if you so choose.

In respect of the Open Offer

Qualifying non-CREST Shareholders wishing to apply for Offer Shares or the Excess Shares must complete the enclosed Application Form in accordance with the instructions set out in paragraph 3.1 of Part 3 of the Circular and on the accompanying Application Form and return it with the appropriate payment to Neville Registrars at Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA, so as to arrive no later than 11.00 a.m. on 19 December 2013.

If you do not wish to apply for any Offer Shares under the Open Offer, you should not complete or return the Application Form. Shareholders are nevertheless requested to complete and return the Form of Proxy.
If you are a Qualifying CREST Shareholder, no Application Form will be sent to you. Qualifying CREST Shareholders will have Open Offer Entitlements and Excess CREST Open Offer Entitlements credited to their stock accounts in CREST. You should refer to the procedure for application set out in paragraph 3.2 of Part 3 "Terms and Conditions of the Open Offer" of the Circular. The relevant CREST instructions must have settled in accordance with the instructions in paragraph 3.2 of Part 3 "Terms and Conditions of the Open Offer" of the Circular by no later than 11.00 a.m. on 19 December 2013.

Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with the Circular and the Open Offer.

12. Undertakings

Flowgroup has received irrevocable undertakings to vote in favour of the Resolutions from the Directors who hold, in aggregate, 1,457,207 Existing Ordinary Shares, representing 1.1 per cent. of the Existing Ordinary Shares, as at 3 December 2013 (being the last practicable date before publication of this announcement).

13. Recommendation

The Directors believe that the Firm Placing, Subscription and Open Offer and the passing of the Resolutions are in the best interests of the Company and Shareholders, taken as a whole. The Directors unanimously recommend Shareholders vote in favour of the Resolutions.

KEY STATISTICS

FIRM PLACING AND SUBSCRIPTION STATISTICS

Number of Existing Ordinary Shares	132,505,606
Number of Firm Placing Shares	96,308,460
Number of Subscription Shares	1,261,540
Offer Price	16.25 pence
Number of Ordinary Shares in issue immediately following the Firm Placing and Subscription	230,075,606
Gross proceeds from the Firm Placing and Subscription	£15,855,125
Market capitalisation of the Company immediately following the Firm Placing and Subscription at the Offer Price(1)	£37.4 million

OPEN OFFER STATISTICS

Number of Offer Shares up to	12,045,964
Offer Price	16.25 pence
Basis of the Open Offer	1 New Ordinary Share for every 11 Existing Ordinary Shares
Gross proceeds from the Open Offer*	up to £1,957,469
Enlarged issued share capital following the Firm Placing, Subscription and Open Offer*	up to 242,121,570

New Ordinary Shares as a percentage of the Enlarged Share Capital*	up to 45.27%
Market capitalisation of the Company immediately following the Firm Placing, Subscription and Open Offer at the Offer Price*	£39.3 million

(1) excluding the Open Offer
* on the assumption that the Open Offer is fully subscribed

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Announcement of the Firm Placing Subscription and Open Offer, publication and posting of this document, the Application Form and Form of Proxy	4 December 2013
Record Date for the Open Offer	5.00 p.m. on 3 December 2013
Ex-entitlement Date	4 December 2013
Open Offer Entitlements and Excess CREST Open Offer Entitlements credited to stock accounts of Qualifying CREST Shareholders	5 December 2013
Recommended latest time and date for requesting withdrawal of Open Offer Entitlements from CREST	4.30 p.m. on 12 December 2013
Latest time and date for depositing Open Offer Entitlements into CREST	3.00 p.m. on 16 December 2013
Latest time and date for splitting Application Forms (to satisfy bona fide market claims only)	3.00 p.m. on 17 December 2013
Latest time and date for receipt of completed Forms of Proxy to be valid at the General Meeting	10.00 a.m. on 18 December 2013
Latest time and date for acceptance of the Open Offer and receipt of completed Application Forms and payment in full under the Open Offer or settlement of relevant CREST instruction (if appropriate)	**11.00 a.m. on 19 December 2013**
General Meeting	10.00 a.m. on 20 December 2013
Announcement of result of General Meeting and Open Offer	20 December 2013
Admission and commencement of dealings in the New Ordinary Shares on AIM	8.00 a.m. on 23 December 2013
New Ordinary Shares credited to CREST members' accounts	23 December 2013
Despatch of definitive share certificates in certificated form	by 10 January 2014

If any of the details contained in the timetable above should change, the revised times and dates will be notified by means of an announcement through a Regulatory Information Service. Certain of the events in the above timetable are conditional upon, amongst other things, the approval of the Resolutions to be proposed at the General Meeting. All references are to London time unless stated otherwise.

The same definitions apply throughout this announcement as are applied in the Circular. The Circular will be sent to shareholders today and will shortly be available on the Company's website: www.flowgroup.uk.com.