



10 March 2015

**Flowgroup plc
(the "Company" or the "Group")**

Pre-close statement

Flowgroup plc (AIM: FLOW), which develops and commercialises alternative and efficient energy products, reports a pre-close update ahead of its results for the financial year ended 31 December 2014, which are expected to be announced on Tuesday 26 May 2015.

- Significant operational and financial progress during 2014
- Flow boiler launched in UK in January 2015
- Flow boiler in testing with potential international partners
- Flow Energy generated c. £33m in revenues and attracted 66,000 customer accounts
- Results expected to be in line with current analyst forecasts

A global technology

The year to 31 December 2014 saw Flowgroup initiate production of its electricity-generating Flow boiler and make progress in executing its strategy. With Flow boilers currently being manufactured in Livingston, Scotland for sale into the UK market, and several units being tested in the research facilities of two major international energy companies for potential commercialisation in Europe and the US, the Group believes that it is making significant progress towards its vision of installing, globally, in excess of 1m units per annum. In addition, the Group has seen growth in both its energy business, Flow Energy, and its backup power division, Flow Battery.

Flow Boiler

Production of the Flow boiler began at Jabil Circuit Inc's ("Jabil") manufacturing facility in Livingston, Scotland as planned on 17 November 2014. Jabil has installed a complete assembly line with an annual capacity of 50,000 units on a five day, three shift system, and has the infrastructure in place to increase capacity to 100,000 units per year. Production is gradually being ramped up through the launch phase. The Flow boiler received CE certification in March 2014. It is intended that the production line will be verified by the BSI (British Standards Institution) in April of this year.

The Group has expanded its manufacturing deal with Jabil to increase the number of Flow boilers to be manufactured under the agreement from 390,000 to 500,000. The Group and Jabil also agreed to collaborate on the Company's future Flow mCHP product developments for the UK and international markets, both in terms of introducing new versions of the Flow boiler more quickly and to accelerate the manufacturing cost reduction programme. In addition, the amended agreement also included an extension of the drawdown period of the previously announced loan facility (currently undrawn), which now expires on 31 December 2015, and improvements to the credit terms for a period of time to support the initial launch of the Flow boiler in the UK. All key component suppliers have allocated the necessary capacity and personnel required to support the planned growth in volume and will support, alongside Jabil, the Group's product cost reduction and product line extension programmes.

The sales and marketing campaign for the Flow boiler is now live following the launch of the boiler in January 2015. The campaign is progressing to plan.

The Group has put in place testing agreements for its mCHP technology platform with a major European utility and with NRG Energy Inc in the US. The purpose of these trials is to assess the potential for commercialisation in the European and North American markets respectively. Once the testing has been completed the Group hopes to enter into further commercial agreements. As well as these previously

announced potential partners, the Group is also in discussion with a range of other organisations about similar agreements. These international markets will be developed, potentially with these incumbent participants, who can provide local market knowledge and access to large customer bases. The European market is particularly attractive, with a projected 9m boiler sales in 2015.

The Group's research and development activities are focused on product line extension, for the UK and to take advantage of the potential of international markets, and product cost reduction, as well as continuing work on further increasing the efficiency and power generation capability of its patented mCHP technology. The Group's product roadmap defines the development timescales of several different versions of the Flow boiler. It prioritises new product variants in specific markets based on their potential profitability and the ease and speed of adapting Flow's product platform, as well as the existing agreements the Group has in place with key participants in those markets. Working to accelerate the implementation of the product roadmap will allow the Group to take advantage of the potential of its key target markets more quickly.

Sales and installation partnerships

During the year, the Group initiated an installer liaison programme to recruit independent boiler installers nationally. This programme has attracted in excess of 2,000 Gas Safe registered installers who will become accredited Flow boiler installers. Accreditation training takes place at the Group's new training facility in Preston Brook, near Runcorn, which opened in July 2014. This dedicated 9,000 square foot facility has the capacity to train over 3,000 installers a year. As well as being allocated installation work from the Group's direct sales programme, it is expected that these installers will also generate sales as they visit customers' homes in the course of their normal activity and recommend the Flow boiler.

To supplement this installer sales channel, the Group signed an MOU with entu Plc, to deliver additional high volume third party sales. entu has a significant existing customer base to whom to market the Flow boiler and conducts extensive marketing campaigns to reach new customers, supporting this activity through 71 sales and marketing offices and 14 repair and installation service centres across England and Scotland. It is expected that entu will be able to provide an end-to-end sales process with regard to the Flow boiler and will additionally provide referrals through to Flow for new home energy contracts.

Flow Energy

The Group's energy business grew steadily through the year as planned. Re-entering the energy market again in April 2014 with a competitive tariff, the Group took the decision not to pay commissions to price comparison sites and instead to attract customers organically, in order to apply its financial resources to the mCHP Flow boiler business. This resulted in measured growth with lower customer acquisition costs. At year end, Flow Energy had generated revenue of approximately £33m revenue and had attracted 66,000 customer accounts since its launch. The energy campaign provided continuing exposure for the Flow brand and allowed Flow Energy to establish a strong reputation for customer service, consistently delivering a top 3 position in the UK energy industry for the quality of its customer service.

The energy market appears to be changing more rapidly than in previous years. The Group believes this presents the kind of conditions in which smaller suppliers such as Flow Energy may be able to grow rapidly and significantly, adding value to the Group. The Group therefore continues to analyse the energy market for growth opportunities.

Flow Battery

Flow Battery, the Group's award-winning compressed air backup power business, completed its first installations under the three year framework agreement it won in 2013 with National Grid UK. It has replaced conventional lead-acid backup power units in 29 National Grid substations, working to National Grid's timelines on the project.

In addition, Flow Battery received an initial order from Trane Canada for one DC100 (100kW) and one DC50 (50kW) compressed air battery unit, which were shipped in July. The units were procured by Trane for a

major Canadian telecommunications company. The Group believes the deal with Trane, in the key North American market, has the potential to open up many more opportunities.

Financing

The Board continually keeps under review its financing position. As at 31 December 2014 the Group had net cash of £8.4 million.

Group Strategy and Outlook

The Group believes that international markets for its mCHP technology present significant opportunities for expansion as the need for effective and affordable local generation technologies continues to increase. It intends on working collaboratively with utilities around the world, who can provide access to large existing customer bases, and also with other heating product manufacturers, taking a 'Flow inside' approach, ensuring that as many heating products as possible globally incorporate the Group's patented mCHP technology.

In addition, the Group continues to believe that its mCHP technology can play a central role in a 'connected home' offer. The Group is planning to develop the 'smart' capability of its boiler, allowing remote control and service together with integration of a new generation of smart, efficient home energy devices.

Tony Stiff, CEO of Flowgroup, said:

"Flowgroup represents an extremely important part of the future of energy, not just in the UK but around the world. Our robust progress in the UK has therefore been matched by significant effort in expanding our business internationally, to take advantage of what we believe is a global market opportunity. Flow boilers are being manufactured, now, in the UK, and we have a clear strategy and initial agreements in place for international expansion based on the Group's patented technology platform. We also believe that the UK market may present opportunities for significant growth for Flow Energy with regard to home energy supply alone. This makes 2015 another important year for Flowgroup and its investors."

Flowgroup plc

Tony Stiff, Group Chief Executive Officer
Nigel Canham, Chief Financial Officer

www.flowgroup.uk.com

Tel: +44 (0)151 348 2100

Investec Bank plc (NOMAD, joint Financial Adviser and joint Broker)

Christopher Baird / Daniel Adams / Ben Williams

Tel: +44 (0)20 7597 4000

Cenkos Securities plc (joint Financial Adviser and joint Broker)

Stephen Keys / Christopher Golden (Corporate Finance)
Julian Morse (Sales)

Tel: +44 (0)20 7397 8900

Walbrook PR Ltd

Paul McManus

Tel: +44 (0)20 7933 8780 or flowgroup@walbrookpr.com

Mob: 07980 541 893