26 May 2015

Flowgroup plc
(the "Group")

Preliminary Results

Flowgroup plc (AIM: FLOW), which develops and commercialises alternative and efficient energy products for the global market, announces its Preliminary Results for the year ended 31 December 2014.

Financial highlights

- Revenue of £33.4m (2013: £13.8m)
- Operating loss of £10.0m (2013: £7.7m) reflecting infrastructure and resource costs to support business growth and commercialisation
- Cash at 31 December 2014 of £8.4m (31 December 2013: £17.4m)

Operational highlights

- Awarded CE Certification from the British Standards Institution (BSI), for the Flow boiler
- Increased the maximum number of Flow boilers to be manufactured under Jabil agreement from 390,000 to 500,000, and agreed to collaborate on future product development
- Opened dedicated installer training school with the capacity to train 3000 installers a year
- Signed agreements with Zopa for the provision of personal finance to Flow customers and ongoing discussions with partners for national surveying and installation services
- Re-launched Flow's home energy proposition, growing the customer base to around 66,000 customer accounts at year end
- Installed Flow Battery products in North American with Trane Canada and in the UK with National Grid UK

Post year end highlights

- Market launch of the Flow boiler during January 2015
- Boiler production line received CE Type Approval during April 2015
- Re-entered the energy market with the Connect tariff
- Raised £21.3m (net) in equity fundraise, including £7.4m from Jabil, to accelerate future growth

Clare Spottiswoode, Non Executive Chairman of Flowgroup commented: *"Following the launch of our electricity-generating Flow boiler we believe we are now in a position to take advantage of the commercial possibilities that this game-changing product presents. We believe we are well set for a year of good progress in 2015."*

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CHAIRMAN'S STATEMENT

2014 saw one of the most important moments in the history of the Group as the Flow boiler went into manufacture in Jabil's facility in Livingston, Scotland. This was closely followed by the launch of the Flow boiler in early 2015. Developing a genuinely game-changing technology is by no means easy and a huge amount of time and resource has rightly been invested in this project. That we now have the world's first affordable electricity-generating boiler and the first genuine opportunity to commercialise microCHP technology for the mass market, both in the UK and internationally, is a testament to the dedication and expertise of all our teams and I would like to thank them for all their effort in leading up to this pivotal moment. Following a successful equity fundraise post-year end we believe we are in a position to accelerate our growth plans in 2015 and to achieve significant success for the Group and for shareholders.

Industry developments

We believe that our microCHP technology platform puts us at the forefront of two global shifts in the way energy industries work. The first is that, as with many industries, energy is becoming something people do rather than just corporations. This drive towards personal power - local, small scale solutions for the production of lower cost, lower carbon electricity - perfectly suits our technology. Our aim of allowing our customers to play an active role in the energy industry, by generating electricity in the home, chimes exactly with the growing expectation of empowerment from consumers everywhere.

The second shift is that energy companies are moving beyond the simple supply of energy to a broader offer which includes products. The reality of the connected, efficient, tech-powered home is drawing closer and is in part driven by the relatively large scale adoption of intelligent thermostats by consumers. However, we believe that our technology platform has the potential to put us in a stronger position than those companies simply offering more accurate control of heating systems. By embedding such a fundamental product as a boiler in a customer's home, and one with the capability to generate electricity and play an important part in powering that customer's life, Flow becomes, even in an energy industry that is in flux, something entirely new. Both heating and powering a customer's home creates a strong bond of trust which, we believe, has the potential to deliver a close and enduring customer relationship. We therefore believe that our technology will allow us to take maximum advantage of change in the energy industry, both in the UK and internationally, delivering the clever alternative to customers and significant benefits for our shareholders.

Business overview

While initiating both manufacturing and sales of the Flow boiler were undoubtedly our biggest achievements, we also expanded our manufacturing agreement with Jabil. The maximum number of Flow boilers to be manufactured under the agreement has increased from 390,000 to 500,000. Both parties also formalised a plan to collaborate on future product development. The relationship between our two Companies was further strengthened when during the recent fundraising Jabil invested £7.4m to take an 8.14% shareholding.

In addition, we signed testing agreements for the US market with NRG Energy Inc. and for the European market with one of the world's biggest utilities. A successful conclusion of these trials has the potential to deliver ongoing commercial relationships.

Flow Energy re-entered the energy market in April 2014. Growing organically rather than paying commission for acquisitions we increased our customer base by around 32%, taking revenues for the year to £33m. We maintained our all-important reputation for customer service, regularly delivering one of the lowest levels of complaints across the UK energy industry.

Flow Battery built its infrastructure base in anticipation of increased business and installed two units in Canada for a large telecommunications client through Trane Canada, further growing its position in the high power and North American markets. Flow Battery also completed its first installations under its National Grid framework agreement.

Board and management changes

During the year I became Non Executive Chairman reflecting the increased executive resource now available to the Group. Nigel Canham joined the Group as Chief Financial Officer in December 2014 from Danaher Corporation where he was Finance Director of several of Danaher's businesses. He has brought leadership experience from across a broad range of businesses in both developed and emerging global markets and has the skills and experience to help us grow our business both in the UK and abroad.

Funding

On 18 May 2015 shareholders approved the firm placing and open offer raising £21.3m (net of expenses). The funds raised are to be used to: accelerate product development of the combination boiler to increase the addressable market in the UK from the current 400,000 to 1.7m units per year and provide early entry into European markets; reduce supply chain costs and upgrade systems to reduce production costs; expand the existing sales team to turn installers into resellers; upgrade systems and processes to enable management of a wide range of UK boiler installers; develop integrated smart home connectivity, to be included in the combination boiler from the outset; and exploit intellectual property through licensing.

Business prospects

Following the launch of our electricity-generating Flow boiler we believe we are now in a position to take advantage of the commercial possibilities that this game-changing product presents. We believe we are well set for a year of good progress in 2015.

Clare Spottiswoode
Non Executive Chairman
26 May 2015

STRATEGIC REPORT

Group performance

2014 saw us build towards our ultimate goal of the launch of the game-changing Flow boiler, which we achieved just after year end in January 2015. This was a significant achievement for the Group although our success was not confined to the Products side of our business – Flow Energy performed well and Flow Battery made progress.

Flow Products

Manufacture of the Flow boiler began in Jabil's Livingston facility in November. Receiving product CE Certification earlier in the year, along with BSI G83/2 compliance for the boiler's in-house power electronics control system, allowed us to move forward with plans for production with Jabil. We completed a detailed planning phase in which we sourced several new European suppliers to improve component quality and secure volume capacity. We then moved into the manufacturing phase.

Initiating manufacturing with Jabil was a major achievement. The first production boiler came off the assembly line in November, thus proving the end to end manufacturing process. As a late addition to this process we took the long-term view that Jabil should also build the scroll assembly, requiring additional work at this stage, but strategically the right decision.

It was necessary to initiate a limited initial build to gain CE Type Approval for the production line and the boilers, which we duly obtained in April 2015. However, this did not delay the launch of the Flow boiler to consumers in January 2015. This was a soft launch where we published full details of our boiler packages, including prices, on our website and started to take reservations for the Flow boiler in advance of receiving CE Type Approval.

Following CE Type Approval, 50 pre-production models were produced on the line and were subject to verification and validation testing. This is, appropriately, an extremely rigorous process which is taking longer than expected but must be satisfactorily completed before Flow boilers are released for customer installations. The testing is now approaching completion and the first customer installations will take place during June 2015.

We are now building towards peak period capability in the later months of this year. Our sales forecast remains heavily loaded towards the end of the current year in the peak boiler sales period of September onwards, allowing us to build further capacity on the sales and installation side, refine processes following our first installs and continue to grow, develop and strengthen our teams.

Earlier in the year, we had further cemented our relationship with Jabil by expanding our exclusive manufacturing agreement from a maximum of 390,000 to up to 500,000 Flow boilers and agreeing to collaborate closely on both future product development and our cost reduction programmes. We believe this will continue to be our most important strategic relationship as we look to create new products and expand into additional markets.

The development teams have concentrated on production readiness of the current boiler over the last few months. The additional equity fundraising allows us to accelerate the development of the combination boiler and bring forward its launch from H2 2017 to H2 2016.

International expansion

Our goal of international expansion was brought closer as we signed testing agreements in the US and Europe. Signing an agreement with NRG Energy represents the first step into the US retail energy market, linking up with one of the leading players in US energy, a company with considerable vision for the energy businesses of the future and one which has already demonstrated leadership in this sector. Following the successful conclusion of NRG's testing of our technology, we would expect to move to commercial discussions.

We also signed a similar agreement with one of the world's biggest utilities with a focus on the European market. The European market is a key target for the Group and conducting this initial test and evaluation of a Flow boiler with a major energy player, at their facility, supports the objective of launching the Group's unique electricity-generating products across Europe. The market for gas fired heating products in Europe is around 8 million units per year, with many key markets such as Germany, Italy, France and the Netherlands providing incentives and regulations for low carbon heating. This results in attractive market conditions for microCHP in these geographies.

Discussions with other interested parties are ongoing. Our goal is to create partnerships with a range of providers in international markets, both by providing bespoke versions of our boiler to organisations to retail to their customer base and by providing our technology to augment existing heating products – a 'Flow inside' approach.

UK installer network

While we are pleased to be making progress internationally, the focus of the business remains on the UK. One of the key routes to market for any boiler is via installers, who the majority of customers go to for advice on home heating. In July 2014 we opened our state of the art training facility in Cheshire where Gas Safe registered engineers now undertake surveying, installation and aftercare training programmes to become accredited installers of the Flow boiler. The 9,000 square foot centre is strategically placed just off the M56, close to the junction with the M6 at Preston Brook, Runcorn. The training facility has the capacity to train up to 64 installers a week, allowing in excess of 3,000 installers to be accredited on an annual basis.

In order to attract installers to work with Flow, we put together a dedicated installer sales team who visit installers across the country, generating significant interest in our product and brand and creating an engaged network of installers who will both install the Flow boiler and act as sales agents. It is these brand ambassadors who, under the leadership of our industry experienced Sales Director, will help drive Flow boiler sales and we are investing significant time and resource in ensuring they are of the highest quality.

Partnership development

The creation of a strong surveying, installation and service / aftercare infrastructure is important to the future growth of the business. We are working with a number of installer networks across the UK in order to broaden our capability. We have a memorandum of understanding with both Mears Group and Entu but also took the decision to go direct to the larger installer groups in the UK which will further facilitate the infrastructure and fulfilment capability once completed.

We have contracted with Zopa Limited, Europe's largest peer-to-peer lending platform, to provide finance to our Flow boiler customers. It is a key part of our strategy to enable customers to finance the cost of a Flow boiler with a personal loan and to have a fixed reduction in their home energy bill, thus the agreement with Zopa was an important one. Both Flow and Zopa share a belief in the necessity of innovating and providing an enhanced customer offering in order to drive growth so we believe this is a natural partnership. In order to allow this partnership to function most effectively, we also applied for and were granted FCA authorisation for limited scope credit broking.

'Boiler that pays for itself' model

The plan for the Flow boiler was always to launch it under a model which entirely removed the financial risk of adopting a new technology. We achieved that with our Flow Finance and Flow Freedom packages. Flow Finance allows the customer to avoid the upfront cost of the Flow boiler completely by taking a personal loan through Zopa and then receiving every month a fixed reduction in their home energy bill that exceeds the monthly finance payment. Flow Freedom requires the customer to pay for their boiler, they then receive the same monthly discount on their home energy which, in total after five years, exceeds the amount they paid for their boiler. We believe that no other boiler package returns as much to a customer as ours and these packages achieve our aim of removing any financial risk for our customer in installing a Flow boiler. These packages perfectly complement our innovative technology and we believe were the right way to enter the market.

Launch of the Flow boiler

We started to take actionable sales enquiries at the end of January 2015, when we published our prices and full details of our packages on our website. We significantly expanded our customer services operation, creating a dedicated Flow boiler sales team, who initially targeted the database of customers who had previously expressed interest in our boiler. We then began to drive new enquiries via regional marketing campaigns initially focused on the North West. We have taken customer confirmed reservations for Flow boilers in line with our sales plan for April and May and our first installs will occur in June. We will move to volume sales through our installer network as we move through summer 2015 in preparation for the winter sales period.

Technology

In order to maximise the potential of our technology platform, we will now move forward with a structured cost reduction and product development programme. This will allow us to reduce the cost of the Flow boiler and to create different versions, both for the UK and for international markets.

Flow Energy

After the significant success we enjoyed in 2013 with the launch of our home energy business, we entered the market again in April 2014. However, we took a different approach. In 2013 we grew quickly by paying commissions to price comparison sites for new customers (the traditional route to growth for energy businesses). In 2014 we did not pay commissions and instead attracted customers organically through general visibility for our competitive tariff thus growing the customer base without any acquisition costs. We grew our energy business to over 66,000 customer accounts and generated revenues for the year of £33m.

While delivering growth we retained our excellent reputation for customer service. The energy industry releases quarterly complaint statistics which show the number of complaints per 100,000 customers. We consistently reported amongst the lowest levels of complaints in the entire industry, receiving 90% fewer complaints than some of our competitors.

This is important. As the truly competitive domestic energy market continues to mature, and prices begin to converge, factors such as service begin to play a key role in attracting customers. Our reputation for good service, as well as our ability to deliver keen prices and the brand benefits that come from association with our low carbon microgeneration technology, puts us in a strong position to win customers in a market that looks attractive. We therefore believe that opportunities may exist to grow the business from the current level to over 800,000 customer fuel accounts in the next three years. In order to achieve this, Flow Energy would need to enter into a contractual relationship with an energy trading party where the current high level of trading collateral lodged per customer would be reduced significantly. We are exploring options for a new energy purchasing contract whereby security is provided by a charge taken over our energy customers. Growing our energy customer base would increase revenue and create a large pool of customers to whom to market both the Flow boiler and other energy efficient products.

Flow Battery

Flow Battery continued to develop its customer base and established the infrastructure to service its anticipated growth as relationships, in particular with National Grid, mature through 2015.

In March 2014, Flow Battery received an initial order for two compressed air battery units from Trane Canada. Trane, a world leader in air conditioning systems, is part of Ingersoll Rand, a global company with revenues of $14 billion. The units were procured by Trane for a major Canadian telecommunications company. The units were installed in a telephone exchange outside Toronto, part of the company's extensive national network. This order further strengthened Flow Battery's position within the high power market and within the North American market, where we believe excellent sales potential exists. Developing a relationship with Trane, a large company that embraces new technology solutions, should also, we believe, open up many more opportunities.

2014 also saw the first installs under the National Grid UK framework agreement, announced in late 2013. The brief is to replace lead-acid backup power units as they reach the end of their service life in National Grid's network of 303 substations in England and Wales. Flow Battery has now replaced time expired equipment in 29 National Grid installations with a mixture of compressed air battery units and some conventional systems. With a number of sites already being surveyed for replacement systems, we expect to receive additional work under this agreement as we move through 2015 and beyond.

People

Headcount across the Group increased significantly as we strengthened many of our teams, taking headcount at the end of the year to just below 200. We invested heavily in our people on both the product and energy sides of the business, ensuring we have the people in place who share and can deliver our vision.

We firmly believe in people and their potential, and as well as recruiting experienced specialists we also ensure that career progression is a genuine possibility within our organisation. We have many examples of team members moving across departments to develop their skills and we will continue to develop the most important part of our business – our people.

2014 has been a year of progress which would not have been achieved without the commitment of all who work within the Group. The Directors appreciate all the efforts of our employees and look forward to working with them as the business strengthens and grows through 2015.

Fundraising

On 18 May 2015 shareholders approved the firm placing and open offer raising £21.3m after share issue costs. This share issue was supported by our manufacturing partner Jabil Circuit Inc who subscribed for 25.8m ordinary shares giving them an 8.14% interest in the Group.

The funds raised are to be used to: accelerate product development of the combination boiler to increase the addressable market in the UK from the current 400,000 to 1.7m units per year and provide early entry into European markets; reduce supply chain costs and upgrade systems to reduce production costs; expand the existing sales team to turn installers into resellers; upgrade systems and processes to enable management of a wide range of UK boiler installers; develop integrated smart home connectivity, to be included in the combination boiler from the outset; and exploit intellectual property through licensing.

The Directors have produced business forecasts, which indicate that the Group has sufficient resources to operate for the foreseeable future continuing the development of the energy services and backup power businesses and taking the boiler through from initial installations during Summer 2015 to volume sales with cash generation in Q4 2015 and profitability during Q1 2016. Accordingly, the Directors have adopted the going concern basis in the preparation of the Financial Statements.

Financial Review

Set out below is an extract of the Group Financial Statements for the years ended 31 December 2014 and 2013 together with an analysis of the Group's key performance indicators.

	2014 £000	2013 £000
Revenue	33,359	13,790
Gross profit	2,222	1,808
Gross profit %	6.7%	13.1%
Operating loss	(9,963)	(7,675)
Loss before income tax	(10,096)	(10,240)
Loss attributable to equity shareholders	(9,439)	(10,032)
Intangible fixed assets	17,268	14,665
Tangible fixed assets	624	536
Cash at 31 December	8,357	17,361

Results

Revenue during the year ended 31 December 2014 of £33,359,000 arose primarily from the energy business and compares to £13,790,000 during 2013.

Gross margin during the year was 6.7% (2013: 13.1%) with a reduction in margins arising from weather variations and energy market conditions during the year.

Operating losses continued to increase due to increased staffing levels within all business areas as they geared up for the forecast growth in 2015 and the launch of the Flow boiler during January 2015.

Tax

The Group accounts for the receipt of tax relief on research and development expenditure when the amount to be received can be assessed with reasonable certainty. During 2014 amounts received in respect of 2011 and receivable in respect of 2012 have been recognised. Further claims are in preparation, and in accordance with the Group's accounting policy will be recognised when receipt can be assessed with reasonable certainty.

Trading losses of £45,492,000 (2013: £32,522,000) are being carried within the Group and are available for offset against future taxable trading profits.

Loss for the year and loss attributable to equity shareholders

The loss attributable to equity holders of Flowgroup plc amounts to £9,439,000 (2013: £10,032,000) giving a loss per share of 3.94p (2013: 7.43p).

Investment in intangible fixed assets

Investment in intangible assets being the continued development costs of the microCHP boiler, amounted to £3,162,000 (2013: £3,232,000). These comprise capitalised internally generated development costs and the production and installation costs of the initial production standard Flow boilers.

An additional £254,000 was spent on the development of computer software, mainly within the energy business.

Investment in property, plant and equipment

During the year £400,000 (2013: £437,000) was invested in property, plant and equipment.

The outsourcing arrangement with Jabil will enable the Group to minimise capital expenditure going forward. The investment required to establish the production facility will be funded by Jabil and recovered by them through additional boiler production costs.

Working capital

Growth of the energy services business has seen the level of trade and other receivables increase to £7,315,000 (2013: £4,341,000). The level of trade receivables is closely monitored within the Group as it seeks to ensure a tight control of working capital requirement.

Cash and cash equivalents

The Group manages its capital to ensure that all entities are able to continue as going concerns while minimising risk and cost.

At 31 December 2014 the Group had cash and cash equivalents of £8,357,000 (2013: £17,361,000).

Business outlook

Flow Energy took advantage of market conditions within the retail energy market and launched a market leading tariff during April 2015. This has been well received securing a significant number of customers without the need to pay commissions. As well as being price competitive the customer growth within the energy business will be supported by the sourcing of innovative smart technologies which will further differentiate the retail product offer.

The Flow boiler is the first affordable microCHP domestic heating boiler and gives the Group a unique opportunity to change domestic energy markets and achieve significant growth particularly with a combination version. The initial production boilers are now completing the rigorous internal validation and verification checks with a number of minor modifications. Accordingly a number of the initial production units will be released for installation in customer homes during June 2015. Available production will increase over the coming months with a corresponding increase in the marketing of the Flow boiler to support projected sales for the late 2015 peak period and beyond. These increased volumes will see the boiler business move to profitability during Q1 2016. The current international agreements provide the initial platform for medium term growth into the key European and North American markets.

During 2015 the Group has the clear opportunity to begin to revolutionise the home heating and home energy markets. All Group businesses will be taking advantage of the commercial opportunities available in their respective market places.

Tony Stiff
Group Chief Executive Officer
26 May 2015

Group Income Statement
for the year ended 31 December 2014

	Note	**Year ended 31 December 2014 £'000**	Year ended 31 December 2013 £'000
Revenue	2	33,359	13,790
Cost of sales		(31,137)	(11,982)
Gross profit		2,222	1,808
Administrative expenses		(12,185)	(9,483)
Operating loss	2	(9,963)	(7,675)
Finance income		24	44
Finance costs		(157)	(39)
Impairment of investment		-	(2,570)
Loss before income tax	2	(10,096)	(10,240)
Income tax	3	657	208
Loss for the year		(9,439)	(10,032)
Attributable to:			
Equity holders of the Company		(9,439)	(10,032)
Basic and diluted loss per share:			
From continuing operations	4	(3.94)p	(7.43)p

The Group has no items of other comprehensive income in the current year or prior year and consequently no statement of other comprehensive income has been presented.

Group Statement of Changes in Equity
for the year ended 31 December 2014

	Share capital £'000	Share premium £'000	Retained earnings £'000	Reverse acquisition reserve £'000	Other reserves £'000	Total shareholders equity £'000
Balance at 1 January 2013	6,626	30,794	(13,234)	(821)	482	23,847
Proceeds from shares issued	5,342	12,023	–	–	–	17,365
Share issue costs	–	(990)	–	–	–	(990)
Share-based payments	–	–	–	–	548	548
Transactions with owners for the year	5,342	11,033	–	–	548	16,923
Loss for the year and total comprehensive income	–	–	(10,032)	–	–	(10,032)
Balance at 31 December 2013	11,968	41,827	(23,266)	(821)	1,030	30,738
Proceeds from shares issued	7	23	–	–	–	30
Share-based payments	–	–	–	–	692	692
Transactions with owners for the year	7	23	–	--	692	722
Loss for the year and total comprehensive income	–	–	(9,439)	–	–	(9,439)
Balance at 31 December 2014	11,975	41,850	(32,705)	(821)	1,722	22,021

Group Statement of Financial Position
as at 31 December 2014

	Note	**As at 31 December 2014 £'000**	As at 31 December 2013 £'000
ASSETS			
Non-current assets			
Intangible assets	5	17,268	14,665
Property, plant and equipment		624	536
		17,892	15,201
Current assets			
Inventories		160	15
Trade and other receivables		7,315	4,341
Current tax receivable		416	–
Cash and cash equivalents		8,357	17,361
		16,248	21,717
Total assets		34,140	36,918
LIABILITIES			
Non-current liabilities			
Borrowings	6	1,135	1,917
		1,135	1,917
Current liabilities			
Borrowings	6	1,024	107
Trade and other payables		9,960	4,156
		10,984	4,263
Total liabilities		12,119	6,180
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		11,975	11,968
Share premium		41,850	41,827
Retained earnings		(32,705)	(23,266)
Reverse acquisition reserve		(821)	(821)
Other reserves		1,722	1,030
Total shareholders' equity		22,021	30,738
Total equity and liabilities		34,140	36,918

Group Statement of Cash Flows
for the year ended 31 December 2014

	Note	**Year ended 31 December 2014 £'000**	Year ended 31 December 2013 £'000
Cash flows from operating activities			
Cash consumed by operations	7	(5,242)	(7,102)
Cash flows from investing activities			
Expenditure on intangible assets		(3,416)	(3,608)
Purchases of property, plant and equipment		(400)	(437)
Investments		-	(59)
Interest received		24	44
		(3,792)	(4,060)
Cash flows from financing activities			
Net proceeds from the issue of ordinary shares		30	16,375
		30	16,375
Net (decrease)/ increase in cash and cash equivalents		(9,004)	5,213
Cash and cash equivalents at the beginning of the year		17,361	12,148
Cash and cash equivalents at the end of the year		8,357	17,361

Notes

1. Basis of preparation

The Group Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, IFRS IC interpretations and the Companies Act 2006.

The Group Financial Statements have been prepared under the historical cost convention, except that they have been modified to include the revaluation of certain non-current liabilities at fair value through profit and loss.

While the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The accounting policies used in preparation of this preliminary announcement have remained unchanged from those set out in the Group's 2013 statutory financial statements. They are also consistent with those in the Group's statutory financial statements for the year ended 31 December 2014 which have yet to be published. The preliminary results for the year ended 31 December 2014 were approved by the Board of Directors on 26 May 2015.

The financial information set out in this preliminary announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2014 but is derived from those financial statements which were approved by the Board of Directors on 26 May 2015. The auditors have reported on the Group's statutory financial statements and the report was unqualified and did not contain a statement under section 498 (2) or 498 (3) Companies Act 2006. The statutory financial statements for the year ended 31 December 2014 have not yet been delivered to the Registrar of Companies and will be delivered following the Company's Annual General Meeting.

The comparative figures are derived from the Group's statutory financial statements for the year ended 31 December 2013 which carried an unqualified audit report, did not contain a statement under section 498 (2) or 498 (3) Companies Act 2006 and have been filed with the Registrar of Companies.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Strategic Report. The financial position of the Group, its cash flows and liquidity position are described in the Strategic Report.

In January 2015 the Group launched the Flow boiler. Subsequently there has been significant market interest in both the Flow boiler and the initial sales proposition with there now being a number of confirmed sales orders. The Flow boiler is in production and both the boiler and the production line have received CE approval. Initial installation of the Flow boiler will commence during June 2015.The issue of additional share capital which was approved by the shareholders on 18 May 2015 raised further funding of £21.3m. This has secured the Group's cash requirements for the acceleration of the development of a combination boiler, production efficiency programmes and the investment in staff and processes to support the anticipated expansion of the business.

In December 2014 the Manufacturing Services Agreement with Jabil Circuit Inc was extended to cover the production of 500,000 units. Subsequently Jabil Circuit Inc participated in the May 2015 fundraising investing £7,363,000 and now have a shareholding of 8.14%.

The Directors have produced business forecasts which indicate that the Group has sufficient resources to operate for the foreseeable future continuing the development of the energy services and backup power businesses and taking the boiler through from initial installations during Summer 2015 to cash generation during Q4 2015 and profitability during Q1 2016. Accordingly, the Directors have adopted the going concern basis in the preparation of the Financial Statements.

Critical accounting estimates and judgements

The preparation of the Group Financial Statements in conformity with IFRS as adopted by the European Union requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the present circumstances.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group Financial Statements are disclosed below.

Impairment of intangible assets

Management have assessed indicators of impairment and conducted an impairment review of intangible assets. They have to make judgements as to the likelihood of them generating future cash flows, the period over which those cash flows will be received and what costs are attributable against them. The recoverable amount is determined using the value in use calculation. The use of this method requires the estimation of future cash flows and the selection of a suitable discount rate in order to calculate the present value of these cash flows.

In support of the assumptions, management use a variety of sources. In addition, management have undertaken scenario analyses, including a reduction in sales forecasts which would not result in the value in use being less than the carrying value of the cash generating unit. However, if the business model is not successful, the carrying value of the intangible assets would be impaired and would require writing down.

Revenue recognition

Revenue for the supply of energy is recognised using customer tariff rates and industry settlement data specific to the energy business net of estimated supplies that are not billable based on historical patterns. Industry settlement data is the estimated quantity that the relevant system operator deems individual suppliers to have supplied. In determining the revenue management have estimated the amounts likely to be billed following the reconciliation of industry settlement data to customer meter read data.

Impairment of trade receivables

Impairments against trade receivables are recognised where a loss is probable. As the energy business has a short trading history there is little historical evidence available to assess the likely level of bad debts and management have therefore based their assessment of the level of impairment on prior industry experience as well as the collection rates being experienced. The estimates and assumptions used to determine the level of provision will be regularly reviewed and such a review could lead to changes in assumptions which may impact the income statement in future periods.

Financial liabilities

Management have considered the terms of agreement with Battelle Memorial Institute and consider the obligation for future repayments based on a percentage of mainstream sales to be a non-financial item which is inherently linked to the business model. Due to the instrument containing an embedded derivative, the Group has designated the entire instrument as fair value through profit or loss ("FVTPL").

2. Segmental result

The segment results for the year ended 31 December 2014 are as follows:

	Flow Products £'000	Flow Battery £'000	Flow Energy £'000	Total £'000
Revenue				
From external customers	-	82	33,277	33,359
Segment revenues	-	82	33,277	33,359
Operating loss	(5,955)	(524)	(2,514)	(8,993)
Finance costs	(135)	-	(22)	(157)
Loss before income tax	(6,090)	(524)	(2,536)	(9,150)
Income tax credit	657	-	-	657
Loss for the year	(5,433)	(524)	(2,536)	(8,493)

This segment results for the year ended 31 December 2013 are as follows:

	Flow Products £'000	Flow Battery £'000	Flow Energy £'000	Total £'000
Revenue				
From external customers	-	45	13,745	13,790
Segment revenues	-	45	13,745	13,790
Operating loss	(4,785)	(349)	(1,826)	(6,960)
Finance costs	(39)	-	-	(39)
Loss before income tax	(4,824)	(349)	(1,826)	(6,999)
Income tax credit	208	-	-	208
Loss for the year	(4,616)	(349)	(1,826)	(6,791)

The totals presented for the Group's operating segments reconcile to the entity's key financial figures from continuing operations as presented in its financial statements as follows:

	2014 £'000	2013 £'000
Revenue from operations		
Total segment revenues from operations	33,359	13,790
Group revenues from operations	33,359	13,790
Loss from operations		
Segment operating loss from operations	(8,993)	(6,960)
Other expenses not allocated	(4,132)	(3,947)
Capitalised development costs	3,162	3,232
Group operating loss from operations	(9,963)	(7,675)
Net finance (costs) / income	(133)	5
Impairment of investment	-	(2,570)
Group loss before income tax from continuing operations	(10,096)	(10,240)

Other expenses not allocated represent unallocated Group costs and amortisation of intangible assets.

3. Income tax

	2014 £'000	2013 £'000
Current tax	-	-
Credit in respect of prior years	657	208

Total income tax	657	208

The adjustment in respect of prior years originates from a tax credit received in cash arising from research and development activities.

Unrelieved tax losses of £45,492,000 (2013: £35,522,000) remain available to offset against future taxable trading profits. No deferred tax asset has been recognised in respect of the losses as recoverability is uncertain.

4. Loss per ordinary share

The loss per ordinary share is based on the loss of £9,439,000 (2013: £10,032,000) and 239,449,617 (2013: 134,994,040) ordinary shares of 5 pence each being the weighted average number of shares in issue during the year.

All shares have been included in the computation based on the weighted average number of days since issuance.

	2014	2013
Loss for the year (£'000)	(9,439)	(10,032)
Weighted average number of ordinary shares in issue	239,449,617	134,994,040
Diluted average number of ordinary shares (including share options)	253,016,595	148,915,509
Basic and diluted loss per share (pence)	(3.94)	(7.43)

5. Intangible assets

	Intellectual property £'000	MicroCHP development asset £'000	Compressed air battery development asset £'000	Other intangible assets £'000	Total £'000
Cost					
At 1 January 2013	5,787	7,476	2,046	349	15,658
Additions	-	3,232	-	376	3,608
At 31 December 2013	5,787	10,708	2,046	725	19,266
Additions	-	3,162	-	254	3,416
At 31 December 2014	5,787	13,870	2,046	979	22,682
Accumulated amortisation					
At 1 January 2013	2,218	-	1,403	88	3,709
Charge for the year	336	-	392	164	892
At 31 December 2013	2,554	-	1,795	252	4,601
Charge for the year	336	-	251	226	813
At 31 December 2014	2,890	-	2,046	478	5,414
Net Book Value					
At 31 December 2014	2,897	13,870	-	501	17,268
At 31 December 2013	3,233	10,708	251	473	14,665

All additions to the MicroCHP development asset arise from internal development.

Intangibles include internally generated product development costs capitalised in accordance with IAS 38 and purchased intellectual property held at cost less amortisation following the disposal of Energetix Micropower Limited. Other intangibles relate to purchased software.

Management have reviewed the carrying value of the intangible assets and concluded that no reasonably possible business and financial assumptions would result in their value in use being less than their carrying value.

6. Borrowings

	2014 £'000	2013 £'000
Current		
Financial liabilities designated at fair value through profit or loss	1,024	107
	1,024	107
Non-current		
Financial liabilities designated at fair value through profit or loss	1,135	1,917
	2,159	2,024

7. Cash Consumed by operations

	2014 £'000	2013 £'000
Continuing operations		
Loss before income tax	(10,096)	(10,240)
Adjustments for:		
– Depreciation	312	181
– Amortisation	813	892
– Finance income	(24)	(44)
– Finance costs	135	39
– Share-based payments	692	548
– Tax received	241	208
– Impairment of investment	-	2,570
Changes in working capital:		
– Increase in inventories	(145)	(2)
– Increase in trade and other receivables	(2,974)	(4,006)
– Increase in trade and other payables	5,804	2,752
Cash consumed by continuing operations	(5,242)	(7,102)

8. Forward looking statements

Certain statements in this preliminary announcement are forward-looking. The terms 'expect', 'should be', 'will be' and similar expressions identify forward looking statements. Although the Board believes that the expectations reflected in these forward-looking statements are reasonable, such statements are subject to a number of risks and uncertainties and actual results and events could differ materially from those expressed or implied by these forward-looking statements.

9. Availability of financial statements

Copies of the full statutory financial statements will be available on 30 June 2015 from the registered office and will also be available from the Group's website at www.flowgroup.uk.com

10. Annual General Meeting

The Annual General Meeting will be held at 10.00am on 30 June 2015 at the Company's registered office Castlefield House, Liverpool Road, Castlefield, Manchester, M3 4SB.