



16 June 2015

Flowgroup PLC
("Flowgroup" or the "Company")

Reduction of boiler installations for 2015
Acceleration of cost reduction programme

Flowgroup plc (AIM: FLOW), which develops and commercialises alternative and efficient energy products for the global market, announces a substantial reduction in the expected number of boiler installations in 2015. The European Court of Justice ruled on 4 June that the UK's reduced 5% rate of VAT on energy-saving products is in breach of EU laws. The Company is accelerating its cost reduction programme for the Flow boiler to offset these costs, with VAT now expected to be applied on these products at the usual 20% rate.

While the UK Government has yet to clarify the ongoing position, in the light of this ruling, the Company has decided to take the prudent step to focus the Flow Products business on its cost reduction programme, already initiated with Jabil, ensuring that customers remain unaffected by any potential increase in VAT and maintaining the long term viability of the 'Boiler that pays for itself' model. In the short term it is expected this will result in a substantial reduction in boiler installations for the remainder of 2015. The Company expects to accelerate its cost reduction programme and will make further refinements to product specifications as part of its continuing validation process, so as to re-launch the 'Boiler that pays for itself' campaign in Q4 2015.

The reduced VAT rate was a UK Government initiative to encourage energy efficiency and to meet energy reduction targets under the UK's Green Deal and applied to micro-generation products such as the Company's Flow boiler. The Company understands that the UK Government remains committed to providing incentives to encourage the adoption of products like the Flow boiler and has said that it will study the judgement carefully and consider the next steps.

The Company previously communicated that it was targeting to be net cash flow generative by Q4 2015 and profitable by Q1 2016, it is expected that these targets will take longer to achieve.

The Flow Energy business continues to perform well and is ahead of market expectations with slightly higher numbers than originally targeted.

Tony Stiff, CEO of Flowgroup, said: *"Clearly this is a short term blow to Flowgroup and the UK's Green energy plan and we now have to wait to see how the Government will interpret this and how they will react. That said, we are confident that the Government will still seek to promote energy efficient products and we still expect that Flow customers will benefit from this."*

"The long term expectation of a successful roll out of our technology remains unchanged, but it is clear that launching during a time when consumers might have to pay over £500 more for the Flow boiler and see installation costs rise by 15% would be inconsistent with our initial roll out plans."

"The EU ruling has no impact on our plans to develop and launch a combination version of the Flow boiler in-line with our timescale. We remain on track to deliver this additional product as an extension of our range."

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