



30 June 2015

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

AGM Statement

Flowgroup plc (AIM: FLOW), which develops and commercialises alternative and efficient energy products for the global market, will hold its Annual General Meeting today at 10am at Castlefield House, Liverpool Road, Castlefield, Manchester, M3 4SB.

Following the formal proceedings of the meeting the Chief Executive, Tony Stiff, will issue the following statement:

I am pleased to announce that, prior to this AGM, we have completed the first installations of the Flow boiler. We aim to install a limited number of boilers over the summer months into pilot and new customer homes. However, as you will all be aware we made the decision to reduce our overall installation targets for this year in the light of the European Court of Justice ruling which raises the prospect of an increase in VAT on the Flow boiler and its installation from 5% to 20%. Consequently, the start of our volume installation campaign has been delayed until later this year.

This delay in no way impacts on the validity of our ground-breaking technology nor does it impact our long-term business model. We still aim to capture a significant part of the UK heating market over the coming years, the development of our combination boiler remains on schedule for the fourth quarter of 2016, and we continue to work with major partners to explore the potential of launching our technology in the US and mainland Europe. Most importantly we remain well funded to deliver on all of these and to bring the business to cash generation and profitability using our current resources.

I acknowledge that the EU judgement was unforeseen, not only by us, but also by UK Government and industry alike. Whilst the Government has yet to clarify its position, we understand that it remains committed to providing incentives to encourage the adoption of products like the Flow boiler. Our Chairman, Clare Spottiswoode, will use her extensive connections to lobby for a more beneficial enduring solution, pushing for direct subsidies as a replacement for the previously lower rate of VAT.

We felt it was crucial to maintain the viability of our unique 'boiler that pays for itself' model as we believe this will prove to be a very attractive consumer offering. Given that this ruling could potentially add significant cost to an installed Flow boiler for our UK customers, we have taken the decision to reduce the number of boilers manufactured this year and concentrate on accelerating our cost reduction programme. Our plan is to execute this cost reduction jointly, alongside Jabil, our manufacturing partner, and to re-launch our boiler offering in Q4 this year, to ensure that customers remain unaffected by any potential rise in VAT.

We are working very closely with our manufacturing partner Jabil and this current situation has encouraged an even closer collaboration, demonstrating more clearly the value of a strategic partnership with an experienced global manufacturing company, with the scale of its resources. Jabil has extensive experience in driving cost reductions and will be bringing its engineering, design and manufacturing expertise to bear on this project. Jabil is committed to the Flow boiler project and its interests are aligned to the future success of Flowgroup. Not only has it increased the exclusivity threshold on the manufacture of Flow boilers from 390,000 to 500,000, but also took an 8.14% equity stake through its Dutch subsidiary in Flowgroup in the recent fundraise.

As I mentioned earlier it's important to note that our long term plans remain unaffected and we still plan to expand overseas as rapidly as possible. It's worth highlighting that the potential increase in VAT only applies in the UK and that in the European market subsidies are often provided directly. Key European markets therefore remain attractive. As you will know, Flowgroup has entered into agreements for testing projects with a major global utility for the European market, and with NRG Energy for the US market. Both of these retain the potential to be converted into significant commercial agreements following successful conclusion.

We remain confident that we have sufficient resources to fund the business through the re-launch and to the point when we are profitable and generating cash. We are confident that we can achieve this goal by the end of 2016 and at the close of business on Friday 26 June 2015, we had cash on hand of £23.5m. The funds raised in May 2015 were to accelerate the development of the combination Flow boiler for a commercial launch in Q4 2016. Nothing has changed this plan and as mentioned already we remain on target to deliver according to this timetable.

I am delighted to say that Flow Energy has consistently exceeded our expectations since its launch in 2013. We issued a new competitive growth tariff in April of this year and have seen our customer base grow steadily since. We currently have approximately 77,000 gas and electricity customer accounts and this equates to an annualised revenue figure of £40m.

As I mentioned in our Final Results statement we believe that there is an opportunity to considerably accelerate our customer uptake in Flow Energy over the next three years and that in order to do this we would need to put in place the kind of collateral arrangements that would allow us to deliver that growth under a less cash-intensive model. We are currently in negotiations with a well-known global supplier around this requirement. In the current market, a successful energy supply company has the potential to be of significant value and to provide a platform for ongoing growth in energy and additional growth in product supply.

Nothing has changed our over-arching ambition for Flowgroup, and our unique technology, to become a major force in the heating and energy markets around the world. The recent reaction in the share price has been very disappointing and I have increased my own shareholding as I believe the current share price significantly undervalues the potential of our business, particularly given that our ability to deliver our long term strategy for growth remains unchanged.

On behalf of the Board I thank you for your continued support and we will continue to develop Flowgroup into a major new player in the energy supply and energy generation market.

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