Flowgroup plc
(“Flowgroup” or the “Group”)

Preliminary Results

Flowgroup plc (AIM: FLOW), which provides a range of innovative energy technologies, energy supply and energy services announces its preliminary results for the year ended 31 December 2015.

Financial highlights

- Revenue of £40.4m (2014: £33.4m)
- Operating loss of £17.1m (2014: £10.0m) reflecting increased investment in staffing levels and infrastructure in preparation for further growth across the business
- Cash at 31 December 2015 of £18.8m (31 December 2014: £8.4m)

Operational highlights

- Signed Shell wholesale energy agreement in December for provision of gas and electricity with extended credit terms and without the requirement for cash security deposits
- 52% growth in energy customer fuel accounts (66,000 to 100,000)
- Initial launch of Flow boiler with strong customer response
- Significant growth in Flow Brand Ambassador network delivered to create a national sales network
- Successful fundraise completed raising £21.3 million (net of expenses) including an investment of £7.4 million from Jabil

Post year end highlights

- Flow Energy grows by 80% to 180,000 customer fuel accounts in the first four months
- First commercial installs of Flow boiler completed in customer homes
- Award of MCS Accreditation for the Flow boiler, meaning it attracts Feed-in Tariff payments for the electricity it generates
- Two agreements signed with Daikin Europe NV and its UK subsidiary for the provision of two additional cutting-edge heating products
- LOI signed with Italian consortium for assessment of Flow boiler for Italian market
- Flow Energy awarded Recommended Provider status by Which?, the consumer champion, for the quality of its customer service
- Launch of Flow Home, connected home product range

Tony Stiff, Chief Executive Officer of Flowgroup commented: *"We believe that both the UK energy market and the global heating market represent significant opportunity for the Group. With our disruptive products and approach, strong partnerships and leadership in place and growing brand awareness, we believe that we can deliver growth in 2016 and beyond."*

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A management webinar open to all investors will be hosted by Equity Development at 1.15pm on 4 May 2016. Please register at http://www.equitydevelopment.co.uk/index.php?p=news for the opportunity to hear the results presentation and ask questions.

Chairman’s statement

Strategy

Prior to 2015, Flowgroup had been almost exclusively focused on commercialising its electricity-generating Flow boiler. However, 2015 and the early part of 2016 saw a positive and prudent shift in strategic direction for the Group that the Board believes will allow it to deliver increased value for shareholders.

The Group now believes it is in a position to be a successful energy services business consisting of a global microgeneration and heating innovation business, built on the foundation of its core microCHP technology plus carefully selected additional heating products and connected home products, as well as a growing UK energy supply business, each business delivering shareholder value in its own right.

It is planned that these complementary businesses will deliver an overarching concept of Energy for Life. Energy for Life means the ability to offer any customer as complete a solution as possible in the energy space, including energy supply, microgeneration, smart heating and connected home (and, in the future, more). It means being able to do this on an enduring basis – creating long term customer relationships based on trust and sound advice. It means delivering value in energy to customers in new ways, and increasing the value of those customers to the Group. We believe it is a foundation to drive significant growth and shareholder returns.

Business overview

The Group’s home energy business, Flow Energy, was launched in 2013 to support the microCHP boiler business by providing a readymade pool of potential boiler customers. However, as the Group continued to monitor the market throughout 2014 and saw significant opportunities, the Board made the decision in 2015 to take advantage of attractive market conditions and grow Flow Energy. Therefore in December 2015 Flow Energy signed a significant deal with Shell Energy Europe Ltd to provide access to wholesale gas and electricity on extended credit terms and without the requirement for cash security deposits. This effectively removed one of the biggest barriers to growth for any small supplier – the need to place large amounts of collateral with wholesalers when acquiring new energy customers. With around 100,000 customer fuel accounts at the end of 2015, Flow Energy subsequently rapidly grew to around 180,000 customer fuel accounts by the end of April 2016. The Group believes that further significant growth is achievable in the current market, particularly considering Flow Energy’s growing brand awareness and reputation for customer service – Flow Energy was awarded Which? Recommend Provider status for energy in January 2016, one of only two UK supply businesses to hold the accolade.

In June 2015, the full launch of the game-changing Flow boiler was delayed by a European Court of Justice ruling that had the potential to increase the rate of VAT payable on the Flow boiler and its installation from 5% to 20%, an increase in costs for Flowgroup and our customers which would have been inconsistent with our ‘boiler that pays for itself’ launch model. In order to reduce this risk, we accelerated our cost reduction programme for the Flow boiler to reduce the effect of any potential rise in VAT and made design and performance improvements in the same process. We returned to the market with a strengthened product in January 2016 and completed our first commercial installations in April 2016. We now plan to progressively increase installations over the next six months, aiming for higher volume sales in winter 2016/17.

Sales will be primarily delivered through our disruptive Flow Brand Ambassador network. We have created a national sales network of high quality installers to promote Flow’s products in the home. We will provide our Brand Ambassadors with a cutting-edge digital in-home sales tool, Flow BiT, and, crucially, we provide them with our heating products directly, cutting out wholesalers and improving margins. In an industry where wholesalers and distributors have traditionally wielded significant influence, this model has the potential to give us the flexibility and control that we need to take market share.

Concurrent with the first commercial installations of the Flow boiler, the European Commission published its VAT Action Plan which presented two options for modernising VAT rates which, the Directors believe, would both see the continuation of a reduced rate of VAT applying to Flow boiler sales and installations, which was positive news.

It is a key part of our strategy to supplement our Flow boiler offer with other innovative heating products. This will allow us to leverage our Brand Ambassador Network with a broader range of products and target more of the market more quickly as we continue to develop our core technology platform. Post year end we therefore signed two agreements with Daikin Europe NV and its UK subsidiary, under the terms of which Flow will be provided with two additional cutting edge products – a Hybrid which combines a gas boiler with heat pump technology to significantly reduce heating costs, and a range of Combination and System boilers that will be capable of remote diagnostics and can be controlled from a customer's smartphone. Daikin Europe NV is a part of Daikin Industries Ltd, a world leader in heating and cooling technology.

Working with Fifthplay, a connected home specialist, we launched Flow Home in February 2016, a range of connected home products. Flow Home includes a smart thermostat, smart plugs and a smart power monitor. Our strategy is to provide as wide a range as possible of connected home products and we will continue to develop further relationships.

Industry developments

The rate of change in the energy industry is accelerating as more and more customers switch away from the Big Six suppliers to new, challenger suppliers like Flow. Some industry predictions are that as many as 10m customer fuel accounts could switch to challenger suppliers by 2020. We believe that with a reputation for high quality customer service, growing brand awareness and a strong management team in place, we are in a position to take advantage of current market conditions and grow Flow Energy to, potentially, many times its current size, delivering significant benefits to the Group.

The heating industry continues to see low levels of innovation. With traditional approaches and business models being the norm, the Group's ground-breaking product range and disruptive Brand Ambassador model has the potential to allow the Group to experience significant growth.

Board and management changes

Andrew Beasley, Managing Director of Flow Energy, joined the Board in December 2015, reflecting both his hard work in playing a key role in the development of our business, and the growing importance of our energy supply business.

Alan Stevenson joined the Group as Sales Director of Flow Products in April 2015 and subsequently moved to become Managing Director of Flow Products in March 2016. Alan brings with him a wealth of experience in the heating industry of bringing new products to market and growing sales.

Funding

On 18 May 2015, shareholders approved the firm placing and open offer raising £21.3m (net of expenses). Jabil, the Group's manufacturing partner for the Flow boiler, invested £7.4m, illustrating its commitment to our business. The funds have been and will continue to be used to expand the scope of our core microgeneration platform (including a combination version); reduce supply chain costs and upgrade systems to reduce production costs; continue to develop our national sales infrastructure for heating products; develop the connectivity capability of our heating products; and exploit intellectual property through licencing.

Business prospects

We believe that we have now created multiple channels for growth and that realigning our strategic vision to the changing reality of the market and leveraging our existing strengths should allow us to create a large, successful energy services organisation.

Clare Spottiswoode

Non Executive Chairman

29 April 2016

Strategic review

Energy for Life

In 2015, we began to evolve our strategy for the Group. Seeing a significant opportunity in the energy market we took the decision to grow our home energy business, Flow Energy. Believing that the national sales network we had created for the Flow boiler had the potential to deliver sales of a broader range of products, we pursued relationships with other, innovative manufacturers. Knowing that products were starting to play a growing role in the energy market, we launched our connected home range, Flow Home. Our strategy is Energy for Life. We aim to deliver as comprehensive a solution as possible to customers in the energy space on an enduring basis, generating more value, more quickly for the Group. This positive shift in strategy has already yielded good results and we believe it is a foundation for significant future growth.

Group performance

We delivered strong growth in Flow Energy in 2015 and post year end. Whilst still loss making, the growth in energy customers has reduced the costs to serve on a per customer basis, helping drive towards profitability. We completed the first commercial installs of the game-changing electricity-generating Flow boiler in April 2016. We launched our connected home product range and invested in growing our teams and further strengthening our management.

Flow Energy

Flow Energy performed extremely well in 2015 and in the early part of 2016. By the end of 2015 we had registered 100,000 customer fuel accounts. By April 2016 we had already increased to 180,000 customer fuel accounts. The accelerated growth we experienced followed our agreement with Shell Energy Europe Ltd in December 2015 which provided access to wholesale gas and electricity on extended credit terms and without the requirement for cash security deposits. We believe that by maintaining competitive pricing, growing our brand awareness and our reputation for good customer service, and modest investment in customer acquisition, systems and people, we can continue to add more customers.

Customer service

While price will always be a factor in a customer’s decision to switch energy supplier, according to our own research customer service is also a consideration for a significant proportion of people. That being the case, we were pleased to be awarded Which? Recommended Provider status for energy in January 2016 following the annual Which? energy customer satisfaction survey.

The results of this survey are a key indicator of energy company performance in the eyes of consumers. Flow Energy was one of only two energy suppliers to be awarded Which? Recommended Provider status this year and received the award following comprehensive analysis of Flow Energy's policies, pricing, communications, customer service and complaint handling. The assessment process also included a survey of Flow Energy's customers which generated a Which? customer score of 73%, significantly higher than the overall industry average of 53%. Flow Energy is now licenced to use the Which? Recommended Provider logo on its website and in its customer communications and the Group believes that being able to advertise Flow Energy's Which? Recommended Provider status gives Flow Energy a distinct advantage over other energy suppliers and should allow the business to acquire more energy customers at a lower cost.

Future prospects - energy

We believe that the current structure of the energy market is changing rapidly. Traditionally, there have been six big players and a raft of smaller, newer suppliers. However, it is now the case that several of the smaller suppliers have become big enough to be classed as mid-tier. Over time, we believe it may be possible that some of the Big Six lose enough customers that they drop into this mid-tier. We believe that we have put ourselves in a position to grow significantly in what is currently an extremely attractive marketplace. Mindful of the competitiveness of the marketplace and the growing propensity of customers to switch providers, we will continue to invest in price, service and customer experience to take up our position as one of the leading players in an industry in flux.

Flow Home

We launched a range of connected home products post year end, initially targeted at our energy customer base. Called Flow Home, the range includes: a smart thermostat that lets customers control their central heating via an app on their smartphone, smart plugs that let customers turn electrical appliances off and on remotely and also monitor energy consumption of each device via the same app, and a smart power monitor that tracks overall electricity usage in the home to help customers understand more about their energy consumption, with a view to making changes and saving money.

Launching Flow Home has three main aims. Firstly, it keeps us competitive in an energy market where many of the major players offer a connected home range. Secondly, it opens a new revenue stream. And, thirdly, it allows us to create, closer, longer term relationships with our customers (a core element of our Energy for Life strategy). Where customers enjoy the benefits of a range of products and services, we believe they are more loyal and are less likely to switch to another energy provider.

Our connected home range is provided by Fifthplay, a Belgian connected home specialist which is part of Niko Group. We were introduced to them by our manufacturing partner, Jabil. We will continue to investigate alternative and additional partnerships in order to provide the most competitive connected home product range to our customers.

The connected home is a market with huge potential and being active in this market with a core product range is an important first step.

Flow Products

The first commercial installs of the Flow boiler were completed in April 2016. We now plan to progressively increase installations over the next six months, aiming for higher volume sales in winter 2016/17.

VAT ruling

We initially started installing boilers in mid 2015. However, on 4 June 2015 the European Court of Justice ruled that the UK's reduced 5% rate of VAT on energy-saving products was in breach of EU laws. Since this had the potential to add £500 to the sale price of the Flow boiler and 15% to the installation cost for customers, potentially making our launch offer the 'boiler that pays for itself' unviable, we made the prudent decision to withdraw the Flow boiler from the market and work on accelerating our long-term cost reduction programme, working closely with Jabil, to ensure that customers would be as little affected as possible by any potential increase in VAT, and that, as a Group, we were exposed to as little risk as possible from any rise in VAT.

The risk we could have been exposed to was illustrated by the size of our supply chain exposure, which stood at £29m when we made our announcement in June. Working with our supply chain partners, who were accepting and supportive of our decision, we reduced this to just over £6m.

VAT resolution

Immediately following the first commercial installs of the Flow boiler, the European Commission published its VAT action plan which presented two options for modernising VAT rates. The Group believes that both options would see the continuation of a reduced rate of VAT applying to Flow boiler sales and installations. Any legislative changes arising from the VAT Action Plan are not expected to be implemented until 2017. The first installs were conducted with 5% payable on the boiler and installation and the Group believes that it will be able to continue to install at this VAT level.

CE certification and MSC accreditation

As part of our accelerated cost reduction programme, we made some further enhancements to the design of the boiler. This required us to reapply for CE Certification, which was granted in December 2015.

MCS Accreditation was granted in April 2016. This means that the electricity that the Flow boiler generates will qualify for the Feed-in Tariff scheme, a UK Government scheme that provides payments for the use of small-scale renewable or low-carbon electricity generation technologies in the home. MCS accreditation has been applied to the first stage production version of the Flow boiler. Planned improvements in the manufacturing process over the next six months will potentially increase performance and output. Current gross electrical output of the first stage production version is 970W with a target range of 1.1kW to 1.3kW as part of the continuous improvement programme and production optimisation. Achieving this level of electrical output would allow the Flow boiler to be targeted at a wider range of homes with lower run hours required to achieve payback.

Jabil

Our working relationship with Jabil has strengthened through the year and Jabil illustrated their ongoing commitment to the Group by taking an 8% equity stake in our business in 2015's fundraise, investing £7.4m. Our teams are working closely together on our cost reduction programme and are continuing to optimise and improve the design of the Flow boiler.

Combination boiler update

As we said in our half yearly statement, in order to ensure that the design process of the Combination version of the Flow boiler is as efficient as possible, we will not accelerate the development cycle for the Combination version until we have the System version of the boiler in full production and installed in a range of customer homes with electricity output optimised. Therefore, the timing for release of the Combination boiler project milestones will be determined and announced later in 2016.

Expanded product range

While we believe that the Flow boiler has the potential to become the de facto heating system in appropriate global markets over time, we also know that the launch version is not appropriate for every home, and that customers, of course, like choice. So it is a key element of our product strategy to add additional innovative heating products to our portfolio, supplied by carefully chosen partners, in order to accelerate sales. We were therefore pleased to announce two agreements with Daikin Europe NV and its UK subsidiary to provide additional cutting-edge heating products. The first is a Hybrid system which combines a System boiler with a heat pump and intelligently switches between the two technologies to minimise running costs. It also attracts Renewable Heat Incentive payments. The second is a range of System and Combination boilers that come cloud-enabled, offering remote control for consumers as standard and will be upgradeable in the future to offer remote diagnostics, to reduce call out costs. Both products fit perfectly with the Group's focus on intelligently different technologies.

Flow Brand Ambassador Network – disruptive model

The Flow Brand Ambassador network is the cornerstone of our sales strategy. We have created a national sales network comprised of high quality, motivated and forward-thinking heating engineers who will offer the Flow boiler, and our expanded heating range, in customer homes. Selling in the home is the key to success in the heating industry where customers rely on sound advice from trusted tradespeople who they invite into their home to assist in what can be a complex decision.

In order to assist our Brand Ambassadors in the sales process, we will supply them with Flow BiT, the Flow Business Integration Tool. This is a software package that gives each Brand Ambassador access to an application on a tablet which they can use to survey the customer's home, provide product information in a range of formats, provide a product and installation quote and introduce finance. This is a cutting-edge solution that fits with our technologically advanced product range. Flow BiT can also be used to quote for home energy, something that Brand Ambassadors will offer in every customer home they visit, whether they make a boiler sale or not.

Our strategy is to provide our products directly to Brand Ambassadors, cutting out the wholesalers. This approach increases the available margin, since there is no middleman taking a cut, and it also provides both Flow and the Brand Ambassadors with a higher level of control. Operating outside the normal channels in the heating industry is a disruptive approach that we believe will make it easier to make gains in the marketplace.

Sales potential

The Flow boiler is appealing to able-to-pay customers looking for the clever alternative to a standard boiler, and a return on investment. It is also attractive to social housing landlords, as well as, we believe, developers and self-build. We have installed several boilers in social housing and believe that this represents a potentially attractive target market. Social housing landlords have both environmental and social obligations and the Flow boiler, with its ability to reduce both household bills and household carbon emissions, could therefore be an appropriate solution.

Launch model

Our launch model for the Flow boiler remains the same: to maximise customer acceptance of an innovative technology with the 'boiler that pays for itself' offer. Customers installing a Flow boiler are required to switch their home energy to Flow and assign Feed-in Tariff payments for the electricity the Flow boiler generates to Flow. In return, they receive a fixed monthly reduction in their home energy bill of £80, which equates to £960 a year, or £4,800 after the first five years. This more than covers the cost of the Flow boiler and represents a strong incentive for customers to choose to install one. In addition, since the home energy tariff linked to the boiler is one of the cheapest on the market, it could save a customer with above average energy consumption hundreds of pounds a year on top of the fixed £960 rebate. We believe this is a compelling launch offer.

Once the Flow boiler is established in the market we expect to offer a range of packages, from outright purchase to part-funded models.

Bundled packages

We believe that bundled packages combining home energy with our products are attractive to customers generally and we will therefore always aim to offer a bundle, delivering increased value to the customer and increasing the value of that customer to our business.

International expansion

The market for microCHP overseas is very attractive and we continue to work diligently on our previously announced testing contracts with NRG and a major global utility in Europe. We have also expanded this work to cover opportunities in Italy with the recently announced Letter of Intent with Trillary Srl and ongoing work in Germany. Updates on these initiatives are expected in due course.

Flow Battery

During the year Flow Battery completed projects at various sites carrying out a variety of refurbishment and replacement work, with a mixture of compressed air battery units and some conventional systems. Although revenue increased sales have been lower than anticipated with action being taken by management to reduce the cost base accordingly. We continue to monitor performance and a strategic decision on the long term future of the business will be made in due course.

People

As in 2014, headcount across the Group increased significantly in 2015, primarily because we expanded our energy customer service department. We ended March 2016 with a total headcount across the Group of 265.

Our belief in the importance of the people who comprise our business still holds and we invest in the continuing development of all our teams.

Andrew Beasley, Managing Director of Flow Energy, joined the Board in December 2015, reflecting both his hard work in playing a key role in the development of our business, and the growing importance of our energy supply business.

Alan Stevenson joined the Group as Sales Director of Flow Products in April 2015 and was subsequently promoted to become Managing Director of Flow Products in March 2016. Alan brings with him a wealth of experience in the heating industry of introducing new products to market and growing sales.

Fundraising

On 18 May 2015 shareholders approved the firm placing and open offer raising £21.3m (net of expenses). Jabil, the Group's manufacturing partner for the Flow boiler, invested £7.4m, illustrating its commitment to our business. The funds have been and will continue to be used to expand the scope of our core microgeneration platform (including a combination version); reduce supply chain costs and upgrade systems to reduce production costs; continue to develop our national sales infrastructure for heating products; develop the connectivity capability of our heating products; and exploit intellectual property through licencing.

Outlook

We believe that both the UK energy market and the global heating market represent significant opportunity for the Group. With our disruptive products and approach, strong partnerships and leadership in place and growing brand awareness, we believe that we can deliver growth in 2016 and beyond. The Directors and I would personally like to thank everybody at Flowgroup for their hard work and dedication over the past year.

Tony Stiff

Group Chief Executive Officer

29 April 2016

Financial Review

Set out below is an extract of the Group Financial Statements for the years ended 31 December 2015 and 2014 together with an analysis of the Group's key performance indicators

	2015 £'000	2014 £'000
Revenue	40,394	33,359
Gross profit	3,458	2,222
Gross profit %	8.6%	6.7%
Operating loss	(17,080)	(9,963)
Loss before income tax	(17,116)	(10,096)
Loss attributable to equity shareholders	(15,285)	(9,439)
Intangible fixed assets	19,227	17,268
Tangible fixed assets	381	624
Cash at 31 December	18,844	8,357

Results

Revenue during the year ended 31 December 2015 of £40,394,000 arose primarily from the energy business and compares to £33,359,000 during 2014, an increase of 21.1% year over year.

Gross margin during the year was 8.6% (2014: 6.7%) increasing due to more favourable energy market conditions.

Operating losses grew due to our increased investment in staffing levels and infrastructure as we prepare for further growth in our energy business, following the completion of the Shell deal in December 2015, and the launch of the Flow boiler during early 2016.

The Directors have produced business forecasts, which indicate that the Group has sufficient resources to operate for at least the next twelve months continuing the development of the energy services and energy supply businesses and taking the boiler from initial installations through to increasing sales during 2017. Accordingly, the Directors have adopted the going concern basis in the preparation of the Financial Statements.

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 2015 amounts received in respect of 2013 and receivable in respect of 2014 and 2015 have been recognised. Tax credits on research and development expenditure, in 2015 were £1,831,000 (2014: £657,000).

Unrelieved trading tax losses of £50,411,000 (2014: £45,492,000) are being carried within the Group and remain available for offset against future taxable trading profits. No deferred tax asset has been recognised in respect of the losses as recoverability remains uncertain.

Loss for the year and loss attributable to equity shareholders

The loss attributable to equity holders of Flowgroup plc amounts to £15,285,000 (2014: £9,439,000) giving a loss per share of 5.31p (2014: 3.94p).

Investment in intangible fixed assets

Investment in intangible assets represents the continued development costs of the microCHP boiler, amounted to £2,377,000 (2014: £3,162,000). These comprise internally generated development costs and the production and installation costs of the initial production standard Flow boilers.

An additional £205,000 was spent on the development of computer software, mainly within the energy business.

Investment in property, plant and equipment

During the year £160,000 (2014: £400,000) was invested in property, plant and equipment.

The outsourcing arrangement with Jabil will enable the Group to minimise capital expenditure going forward.

Working capital

Growth of the energy supply business has seen the level of trade and other receivables increase to £7,369,000 (2014: £7,315,000). The level of trade receivables is closely monitored within the Group as it seeks to ensure a tight control of working capital requirements.

Cash and cash equivalents

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

The funds raised are to be used to:

- accelerate the development of a combination boiler to increase the addressable market in the UK and provide early entry into European markets
- reduce supply chain costs and upgrade systems to reduce production costs
- expand the sales team to turn installers into resellers – creating the Flow Brand Ambassador network
- upgrade systems and processes to enable management of a wide range of UK boiler installers – development of the Flow BiT application
- develop integrated smart home connectivity - to be included in the combination boiler from the outset
- exploit intellectual property through licencing

In the year ended 31 December 2015 we had invested £1.0m of the funds raised in these growth breakthroughs.

On 4 June 2015 the European Court of Justice ruled that the UK's reduced 5% rate of VAT on energy-saving products was in breach of EU laws. We subsequently made the prudent decision to withdraw the Flow boiler from the market and work on accelerating our long-term cost reduction programme, working closely with Jabil, to ensure that customers would be as little affected as possible by any potential increase in VAT, and that, as a Group, we were exposed to as little risk as possible from any rise in VAT.

The European Commission's VAT Action Plan was published on 7 April 2016 and presents two options for modernising VAT rates which, we believe, would both see the continuation of a reduced rate of VAT applying to Flow boiler sales and installations. The first option is to amend the existing VAT directive while maintaining the current list of goods and services eligible for reduced rates, and regularly reviewing this list. The Flow boiler would be expected to qualify for the reduced rate as an energy-saving product. The second option is to abolish the list of goods and services that can benefit from reduced rates and instead give Member States direct control of the number and level of reduced rates. The Government has previously confirmed that energy-saving products, like the Flow boiler, will continue to benefit from the UK's 5% reduced VAT rate. As previously stated, the Group is installing Flow boilers with 5% VAT payable on both the boiler and installation.

This delay in the launch of the microCHP system boiler required us to re-evaluate the appropriate timing and allocation of our resources on this product development. Once the launch version of the microCHP system boiler has been further established in customer homes our technical and design teams will accelerate development of a Combination version of the boiler to target more of the market. We will communicate the status of this project later in 2016.

The Group funded the Products business during this time as it strove to decrease product costs to reduce any potential VAT rise as well as planned enhancements. During the year the Energy business required minimal funding as it utilised the positive cash flow inherent in this business plus the return of energy related cash security deposits. The Group has managed its resources effectively while minimising risk and cost, by prudently managing expenditure.

At 31 December 2015 the Group had cash and cash equivalents of £18,844,000 (2014: £8,357,000).

During 2015 the Group managed costs and funds effectively and, when necessary, dynamically re-allocated resources accordingly in response to the changing needs of the business and the impact outside influences might have on it.

Nigel Canham

Chief Financial Officer

29 April 2016

Group Income Statement

for the year ended 31 December 2015

	Note	**Year ended 31 December 2015 £'000**	Year ended 31 December 2014 £'000
Revenue	2	40,394	33,359
Cost of sales		(36,936)	(31,137)
Gross profit		3,458	2,222
Administrative expenses		(20,538)	(12,185)
Operating loss	2	(17,080)	(9,963)
Finance income		24	24
Finance costs		(60)	(157)
Loss before income tax	2	(17,116)	(10,096)
Income tax	3	1,831	657
Loss for the year		(15,285)	(9,439)
Attributable to:			
Equity holders of the Company		(15,285)	(9,439)
Basic and diluted loss per share:	4	(5.31)p	(3.94)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 2015

	Share capital £'000	Share premium £'000	Retained earnings £'000	Reverse acquisition reserve £'000	Other reserves £'000	Total shareholders equity £'000
Balance at 1 January 2014	11968	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
Proceeds from shares issued	3,901	18,339	–	–		22,240
Share issue costs	-	(951)	-	-		(951)
Share-based payments	–	–	–	–	964	964
Transactions with owners for the year	3,901	17,388	–	--	964	22,253
Loss for the year and total comprehensive income	–	–	(15,285)	–		(15,285)
Balance at 31 December 2015	15,876	59,238	(47,990)	(821)	2,686	28,989

Group Statement of Financial Position

as at 31 December 2015

	Note	**As at 31 December 2015 £'000**	As at 31 December 2014 £'000
ASSETS			
Non-current assets			
Intangible assets	5	19,227	17,268
Property, plant and equipment		381	624
		19,608	17,892
Current assets			
Inventories		473	160
Trade and other receivables		7,369	7,315
Current tax receivable		1,075	416
Cash and cash equivalents		18,844	8,357
		27,761	16,248
Total assets		47,369	34,140
LIABILITIES			
Non-current liabilities			
Borrowings	6	1,982	1,135
		1,982	1,135
Current liabilities			
Borrowings	6	200	1,024
Trade and other payables		16,198	9,960
		16,398	10,984
Total liabilities		18,380	12,119
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		15,876	11,975
Share premium		59,238	41,850
Retained earnings		(47,990)	(32,705)
Reverse acquisition reserve		(821)	(821)
Other reserves		2,686	1,722
Total shareholders' equity		28,989	22,021
Total equity and liabilities		47,369	34,140

Group Statement of Cash Flows
for the year ended 31 December 2015

	Note	**Year ended 31 December 2015 £'000**	Year ended 31 December 2014 £'000
Cash flows from operating activities			
Cash consumed by operations	7	(8,084)	(5,242)
Cash flows from investing activities			
Expenditure on intangible assets		(2,582)	(3,416)
Purchases of property, plant and equipment		(160)	(400)
Interest received		24	24
		(2,718)	(3,792)
Cash flows from financing activities			
Net proceeds from the issue of ordinary shares		21,289	30
		21,289	30
Net increase / (decrease) in cash and cash equivalents		10,487	(9,004)
Cash and cash equivalents at the beginning of the year		8,357	17,361
Cash and cash equivalents at the end of the year		18,844	8,357

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 2014 statutory financial statements. They are also consistent with those in the Group's statutory financial statements for the year ended 31 December 2015 which have yet to be published. The preliminary results for the year ended 31 December 2015 were approved by the Board of Directors on 29 April 2016.

The financial information set out in this preliminary announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2015 but is derived from those financial statements which were approved by the Board of Directors on 29 April 2016. 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 2015 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 2014 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 Review. The financial position of the Group, its cash flows and liquidity position are described in the Financial Review.

In May 2015, the Group issued additional share capital raising funds of £21.3m, The Group’s manufacturing partner Jabil Circuit Inc participated in this fundraising investing £7.4m resulting in a shareholding of 8.14%. In December 2015, the Group entered a wholesale energy supply agreement with Shell Energy Europe Limited which provides funding, by way of extended credit facilities, and energy purchase capacity for the anticipated growth of the energy supply business. The Shell agreement also released working capital for further deployment within the Group as the level of required cash security deposits was significantly reduced. Accordingly at 31 December 2015 the Group had cash and cash equivalents of £18,844,000.

The Directors have produced trading and cash flow forecasts for the Group which reflect management’s expectations for the continued growth in the energy services and energy supply businesses as well as the launch of boiler installations and sales in 2016, with increasing sales through 2017. The cash flow forecasts take account of the facilities available to the Group under both current agreements and those expected to be available through the forecast period.

Having taken account of the Group's strategy, the risks and opportunities facing the Group, and the trading and cash flow forecasts described above, the Group will have sufficient resources to continue operating for a period of at least 12 months from the date of approving the Annual Report. Accordingly the Directors have continued to adopt the going concern basis in preparing the Group 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 the 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 2015 are as follows:

	Flow Products £'000	Flow Battery £'000	Flow Energy £'000	Total £'000
Revenue				
From external customers	-	315	40,079	40,394
Segment revenues	-	315	40,079	40,394
Operating loss	(10,005)	(679)	(4,126)	(14,810)
Finance costs	(23)	-	(37)	(60)
Loss before income tax	(10,028)	(679)	(4,163)	(14,870)
Income tax credit	1,831	-	-	1,831
Loss for the year	(8,197)	(679)	(4,163)	(13,039)

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)

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:

	2015 £'000	2014 £'000
Revenue from operations		
Total segment revenues from operations	40,394	33,359
Group revenues from operations	40,394	33,359
Loss from operations		
Segment operating loss from operations	(14,810)	(8,993)
Other expenses not allocated	(4,647)	(4,132)
Capitalised development costs	2,377	3,162
Group operating loss from operations	(17,080)	(9,963)
Net finance costs	(36)	(133)
Group loss before income tax from continuing operations	(17,116)	(10,096)

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

3. Income tax

	2015	2014
	£'000	£'000
Current tax	427	-
Credit in respect of prior years	1,404	657
Total income tax	1,831	657

Both the current tax and the credit in respect of prior years arises from tax credits on research and development expenditure.

Unrelieved tax losses of £50,411,000 (2014: £45,492,000) 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 £15,285,000 (2014: £9,439,000) and 288,024,829 (2014: 239,449,617) 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.

	2015	2014
Loss for the year (£'000)	(15,285)	(9,439)
Weighted average number of ordinary shares in issue	288,024,829	239,449,617
Diluted average number of ordinary shares (including share options)	306,230,589	253,016,595
Basic and diluted loss per share (pence)		(3.94)

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 2014	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
Additions	-	2,377	-	205	2,582
At 31 December 2015	5,787	16,247	2,046	1,184	25,264
Accumulated amortisation					
At 1 January 2014	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
Charge for the year	336	-	-	287	623
At 31 December 2015	3,226	-	2,046	765	6,037
Net Book Value					
At 31 December 2015	2,561	16,247	-	419	19,227
At 31 December 2014	2,897	13,870	251	501	17,268

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

	2015 **£'000**	2014 £'000
Current		
Financial liabilities designated at fair value through profit or loss	200	1,024
	200	1,024
Non-current		
Financial liabilities designated at fair value through profit or loss	1,982	1,135
	2,182	2,159

7. Cash Consumed by operations

	2015 **£'000**	2014 £'000
Continuing operations		
Loss before income tax	(17,116)	(10,096)
Adjustments for:		
– Depreciation	403	312
– Amortisation	623	813
– Finance income	(24)	(24)
– Finance costs	23	135
– Share-based payments	964	692
– Tax received	1,172	241
Changes in working capital:		
– Increase in inventories	(313)	(145)
– Increase in trade and other receivables	(54)	(2,974)
– Increase in trade and other payables	6,238	5,804
Cash consumed by continuing operations	(8,084)	(5,242)

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 2016 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 23 June 2016 at South Kiln, Felaw Maltings, 42 Felaw Street, Ipswich, IP2 8SQ.