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The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulation (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

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

Fundraising of up to approximately £29 million to re-capitalise the Group and accelerate the growth of Flow Energy
Disposal update and scaling back of the Flow Products division

Flowgroup plc (AIM: FLOW), which provides energy supply and energy services and has over 250,000 customer fuel accounts, is pleased to announce the termination of discussions regarding the sale of the Flow Energy business and a conditional Fundraising of up to approximately £29 million from new and existing Shareholders through a Placing of New Ordinary Shares of approximately £9.5 million, an Open Offer and PrimaryBid Offer of up to, in aggregate, approximately £4 million, as well as a Loan Note Subscription comprising the issue of £15.5 million in convertible unsecured loan notes. Flowgroup also announces that the Directors are pleased to confirm that the Company has successfully reached an agreement with Jabil that will terminate the Jabil Contract on mutually acceptable terms and at a significantly reduced cost for the Group.

In total, it is expected that, before expenses, approximately £25 million will be raised from the Placing and the Loan Note Subscription and, in aggregate, up to approximately £4 million from the Open Offer and the PrimaryBid Offer.

Highlights

- Discussions regarding the proposed sale of the Energy business terminated as a result of access to capital via the Fundraising enabling the Flow Energy business to be retained and grow
- Termination of the manufacturing services agreement with Jabil, with significantly reduced costs for the Group and resultant scaling back of the Flow Products division
- Conditional Placing to raise £9.525 million from new and existing Shareholders through the issue of 952.5 million New Ordinary Shares at 1 penny per Ordinary Share (the "Issue Price")
- Conditional Open Offer and PrimaryBid Offer to raise up to, in aggregate, approximately £4 million through the issue of New Ordinary Shares at the Issue Price
- Conditional Loan Note Subscription to raise £15.5 million through the issue of 7.5% PIK Convertible Unsecured Loan Notes to Palm Ventures and to Lombard Odier Investment Managers ("LOIM")
- Fundraising to raise, in total, up to approximately £29 million (before expenses and assuming the Open Offer and the PrimaryBid Offer are fully subscribed)
- Proposed Capital Reorganisation, changes to Articles of Association, authority to allot new shares and disapplication of pre-emption rights
- Funding to re-capitalise the Group and accelerate the growth of Flow Energy division
- Fundraising conditional on approval by Shareholders in General Meeting

Tony Stiff, Chief Executive of Flowgroup plc commented, "We believe that this transaction, led by Palm Ventures, is in the best interests of all of the Company's stakeholders as it will recapitalise our balance sheet and position our Flow Energy business for growth. We appreciate the enthusiasm and support that our Shareholders have shown as we embark on the next phase of our enterprise, unhampered by the capital constraints we have historically faced."

Unless otherwise defined, capitalised terms shall have the meaning as those set out in the 'Definitions' section of this announcement.

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IMPORTANT NOTICES

Cenkos, which is authorised and regulated in the United Kingdom by the FCA, is acting as nominated adviser, agent and broker to the Company and no-one else in connection with the Placing, the Open Offer and Admission. Cenkos is not acting for the Company in relation to the PrimaryBid Offer. Cenkos will not be responsible to anyone other than the Company for providing the regulatory and legal protections afforded to customers (as defined in the rules of the FCA) of Cenkos nor for providing advice in relation to the contents of this announcement or any matter, transaction or arrangement referred to in it. The responsibilities of Cenkos, as nominated adviser under the AIM Rules for Nominated Advisers, are owed solely to London Stock Exchange and are not owed to the Company or any director of the Company or to any other person in respect of their decision to subscribe for or purchase Placing Shares, New Ordinary Shares in the PrimaryBid Offer, Open Offer Shares or Loan Notes.

Forward-looking statements

Some of the statements in this announcement include forward looking statements which reflect the Directors' current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Group's products and services). These statements include forward looking statements both with respect to the Group and with respect to the sectors and industries in which the Group operates. Statements which include the words "expects", "intends", "plans", believes", "projects", "anticipates", "will", "targets", "aims", "may", "would", "could", "continue" and similar statements are of a forward looking nature.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and therefore are based on current beliefs and expectations about future events. Forward-looking statements are not guarantees of future performance and the Group's actual operating results and financial condition, and the development of the industry in which it operates may differ materially from those made in or suggested by the forward-looking statements contained in this announcement. In addition, even if the Group's operating results, financial condition and liquidity, and the development of the industry in which the Group operates are consistent with the forward looking statements contained in this announcement, those results or developments may not be indicative of results or developments in subsequent periods. Accordingly, prospective investors should not rely on these forward-looking statements.

These forward looking statements speak only as of the date of this announcement. The Company undertakes no obligation to publicly update or review any forward looking statement, whether as a result of new information, future developments or otherwise, unless required to do so by applicable law or the AIM Rules for Companies. All subsequent written and oral forward looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this announcement which could cause actual results to differ from those indicated or suggested by the forward looking statements in this announcement before making an investment decision.

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No representation or warranty, express or implied, is made by the Company or Cenkos as to any of the contents of this announcement, including its accuracy, completeness or for any other statement made or purported to be made by it or on behalf of it, the Company, the Directors or any other person, in connection with the Placing, the Open Offer, the PrimaryBId Offer, the Loan Note Subscription and Admission, and nothing in this announcement shall be relied upon as a promise or representation in this respect, whether as to the past or the future (without limiting the statutory rights of any person to whom this announcement is issued). Cenkos does not accept any liability whatsoever for the accuracy of any information or opinions contained in this announcement or for the omission of any material information from this announcement for which the Company and the Directors are solely responsible.

Introduction

The Board is pleased to announce the Placing in respect of approximately 950 million New Ordinary Shares at the Issue Price to raise approximately £9.5 million; the Open Offer and the PrimaryBid Offer to raise, in aggregate, up to approximately £4 million; and, further, the Loan Note Subscription by Palm Ventures and LOIM, raising further gross proceeds of £15.5 million. In addition to the Loan Note Subscription, Palm Ventures and LOIM have conditionally agreed to invest £0.9 million and £0.7 million, respectively, in the Placing. In total, the maximum proceeds receivable by the Group from the Fundraising (before expenses) amount to approximately £29 million (assuming full take-up under the Open Offer and the PrimaryBid Offer). The net proceeds of the Fundraising receivable by the Company are estimated to amount to between £24.1 million and £27.9 million (dependent upon the level of take-up under the Open Offer and the PrimaryBid Offer).

The Issue Price is at a discount of 11.1 per cent. to the closing middle market price of 1.125 pence per Existing Ordinary Share on 24 May 2017 (being the closing middle market price on the last practicable date prior to the date of this announcement).

In order to provide retail investors and existing Shareholders who have not taken part in the Placing, with an opportunity to participate in the Fundraising, the Company will enable private retail and other investors who are registered on the PrimaryBid platform, to subscribe for New Ordinary Shares, at the Issue Price, via the PrimaryBid Offer. In accordance with the indicative timetable set out in Appendix II, it is intended that the results of the PrimaryBid Offer be known prior to the formal launch of the Open Offer in order that the Company be able to calculate the number of Ordinary Shares to be offered in the Open Offer such that the aggregate amount proposed to be raised by both the PrimaryBid Offer and the Open Offer shall be a maximum of approximately £4 million.

The Open Offer will provide Qualifying Shareholders with an opportunity to participate in the proposed issue of the Open Offer Shares on a pre-emptive basis whilst providing the Company with additional capital to invest in the Group. A further announcement relating to the formal launch of the Open Offer, the terms and conditions of the Open Offer, and the timetable of principal events relating to the Open Offer, is currently expected to be made by the Company on or about 25 May 2017.

The Circular will set out further details of the Placing, the PrimaryBid Offer, the Loan Note Subscription and the Capital Reorganisation and will also contain the terms and conditions in respect of the Open Offer and set out the key dates in respect of the Fundraising. The Circular, which will also have attached to it the Notice of General Meeting, is expected to be sent to Shareholders on or about 25 May 2017.

An expected timetable of principal events in the Fundraising is set out in Appendix II to this announcement.

The Placing, the Open Offer, the PrimaryBid Offer, the Loan Note Subscription and the Capital Reorganisation are and will each be conditional on, and accordingly the Fundraising as a whole is and will be conditional on, amongst other things, the passing of the Resolutions to be proposed at the General Meeting. Shareholders should be aware that if the Resolutions are not approved at the General Meeting, the Fundraising will not proceed in its entirety.

Should the Fundraising not proceed, without access in the near term to alternative finance of an amount of similar size to that of the Fundraising, the working capital available to the Company will not be sufficient for its requirements and it may well have insufficient working capital to trade as a going concern.

Background to and Reasons for the Transaction

Flowgroup is comprised of two divisions, Flow Products and Flow Energy. Flow Products developed and sought to market a microCHP boiler for residential use. The Flow Energy division provides residential gas and electricity supply to over 250,000 fuel accounts in Great Britain.

As announced in February 2017, the Directors believe that due to i) a reduction by the government in the microCHP Feed-in Tariff (FiT); ii) a potential change in the Value Added Tax (VAT) and iii) increased manufacturing costs resulting from the post Brexit devaluation of Sterling, the Flow Products' microCHP boiler is currently uneconomic in the UK market. Accordingly, the Directors have concluded that Flow Products should limit its focus to ongoing pilots of the microCHP boiler in select European markets where financial support offered potentially favours microCHP through various installation and other available incentives. At the culmination of their strategic review, the Directors also concluded that the current uncertainty around the FiT made it a sub-optimal time to consider a sale of the Flow Products division and that the Company would incur significant costs if it were to exit the business.

The Company announced that, during this strategic review, the Board had received a number of approaches expressing an interest to acquire its Flow Energy business. Following a formal process to sell the Flow Energy business, a number of indicative offers were received and the Company had selected a preferred bidder and had entered into an exclusivity agreement with that party.

Whilst the formal process was ongoing, the Company was approached by Palm Ventures, a leading US investment company, which expressed an interest in making a significant investment into the existing Group, alongside other investors, with the goal of better capitalising the Flow Energy business with sufficient resources to fund its projected rapid growth in order to build value for all Shareholders. Palm Venture's proposed investment was therefore conditional, inter alia, on the Flow Energy business being retained and the Group's liability for ongoing costs in its Flow Products division being significantly reduced.

On receipt of Palm Venture's investment interest, the Directors entered into negotiations with its microCHP manufacturing partner, Jabil, regarding both parties terminating the existing manufacturing services agreement (the "Jabil Contract") should the Company be able to successfully execute a significant capital injection into the Group.

The Directors are pleased to confirm that the Company has successfully reached an agreement with Jabil that will terminate the Jabil Contract on mutually acceptable terms and at a significantly reduced cost for the Group. Such arrangements in respect of the Jabil Contract are conditional, inter alia, on completion of the Fundraising. Production was halted on 1 May 2017 and one payment of £4 million is to be made to Jabil by no later than three business days following Admission. The Directors had previously estimated the cost of exiting the Jabil Contract to be in the region of £10 million.

Following discussions with a number of the Company's leading Shareholders and given the agreement reached with Jabil referred to above, the Board believes that it is in the best interests of Shareholders as a whole to pursue the Fundraising and cease discussions with the preferred bidder for the Flow Energy business. This conclusion was reached in the context of the likely outcome of the process to dispose of the Flow Energy business and other funding options for the Group having been explored. Following completion of the Fundraising, which will result in at least circa £25 million of new capital being raised (before expenses) the Directors believe that the Group will have the requisite capital base to:

1. scale back the Flow Products division to exclusively focus on commercialisation of its technology in Europe while retaining its intellectual property; and
2. focus on growing the Flow Energy business from its current base of over 250,000 customer fuel accounts.

The Directors believe that achievement of the projected growth in the Flow Energy business should build significant long term value for all Shareholders that is significantly in excess of the value indicated by third parties in the current strategic review. The Directors have therefore concluded that the Fundraising is in the best interests of Shareholders as a whole and unanimously recommend that Shareholders vote in favour of the resolutions required to effect the Fundraising at a General Meeting as they have irrevocably undertaken to do in respect of their interests in Ordinary Shares which represent, in aggregate, approximately 1.6 per cent. of the Existing Ordinary Shares.

The microCHP business

Following the proposed termination of the Jabil manufacturing services agreement described above, the Group will exclusively pursue European commercialisation of its microCHP boiler with its existing European partners in France, Germany, Italy and Belgium or possible sale of the microCHP technology. The Directors expect pilots to start in Europe in the last quarter of 2017.

Flow Energy

On completion of the Fundraising and following the downsizing of the microCHP business described above, the Directors' primary focus will be on continuing to develop and grow Flow Energy, the Group's residential gas and electricity supply business, as they believe that this part of the Group is most likely to generate substantial returns for Shareholders over the medium to long term.

The Directors believe that Flow Energy has already delivered strong growth over the past four years. Launched in April 2013, Flow Energy grew to approximately 50,000 customer fuel accounts by the end of 2013 and to approximately 100,000 customer fuel accounts by the end of 2015. In late 2015, Flow Energy entered into a wholesale contract with Shell which provides access to energy procurement, hedging and more favorable collateral trading terms. Since then, Flow Energy has been able to accelerate growth by circa 150 per cent. and at the end of 2016 serviced approximately 250,000 customer fuel accounts.

The Directors believe that further investment into Flow Energy could allow it to grow to become a leading mid-tier energy supplier with over 1 million customer fuel accounts in the near to medium term. The Directors estimate that 1 million customer fuel accounts would generate circa £500 million of annual revenues and a business of this size would, the Directors believe, make Flow Energy a viable challenger to the 'Big Six' suppliers (including British Gas, Eon, EDF and npower) and have the potential to deliver significant value to both new and existing Shareholders.

The UK domestic energy market

The UK domestic energy market is significant, with around 50 million customer fuel accounts and it is currently undergoing rapid and fundamental change. While full competition was introduced into the UK domestic energy market in 1998 for gas and 1999 for electricity, the 'Big Six' suppliers have largely maintained their dominant position and still had a 98 per cent. share of the market in 2013 (Cornwall Q416 Domestic Supplier Insight report). But by October 2016, this had fallen to 84.2 per cent. (Cornwall Q416 Domestic Supplier Insight report) with around 7 million customer fuel accounts having switched away to 'challenger' suppliers, including Flow Energy, who have entered the market. However, the Directors believe that over 66 per cent. of customers are still on the more expensive standard variable tariffs (Ofgem 14 December 2016 – standard variable tariffs). With leading 'challenger' tariffs currently around £200 a year cheaper than the Big Six standard variable tariffs and a reputation for enhanced customer service over the larger suppliers, the Directors believe that this represents a continuing opportunity for Flow Energy to grow its business.

As part of their manifesto for the forthcoming UK General Election, the Conservative Party has undertaken, should they win the election, to impose a 'price cap' on the Standard Variable Tariff (SVT) which are used to determine the price energy suppliers can charge consumers for their energy supplies. If implemented, the price cap will set a ceiling price, which will be adjusted every six months by Ofgem, the energy regulator, to take account of wholesale price movements. The Directors' believe that energy suppliers that have high SVTs may have to increase their fixed rate tariffs to recover margin from such price caps. As Flow Energy competes mainly on fixed rate tariffs, the Directors view the potential implementation of such price caps as an opportunity for the Group. In addition, the Labour Party has recently published their manifesto for the same election, including within it an undertaking to nationalise the UK energy industry. The Directors believe that that the Labour Party manifesto proposals, whilst quite radical, proposes the nationalisation of asset based elements of the industry and whilst it further proposes publicly owned regional supply businesses, these in many areas already exist under council ownership and have not shown any material impact on the competitive nature of the market.

The Directors believe that Flow Energy is well placed to grow and that it is in a stronger position to do so than many of its competitors. The Directors believe that many of the smaller 'challenger' suppliers lack the necessary resources to hedge their energy trading positions and therefore cannot protect themselves against wholesale market volatility. A recent example of an unhedged energy company failure was GB Energy, which entered into administration in November 2016 after stating that its unhedged trading strategy was a significant contributory factor.

Flow Energy also has what the Directors believe to be a key differentiator in the quality of its customer service. In addition, the Directors believe that Flow Energy has built a reputation for outstanding customer service, including:

- joint first overall rating (Oct – Dec 2016) from Citizens Advice on complaints, ease of contact, bill clarity and ease of switching;
- highly rated for the 3rd year running in the Which? annual energy customer satisfaction survey;
- a Trustpilot score of 8.4 out of 10; and
- a Net Promoter Score of +39.

The Directors believe that a significant number of Flow Energy's competitors suffer from a poor reputation for customer service. Service levels are consistently reported by customers as an important consideration when choosing an energy company and the Directors believe that Flow Energy's strong reputation for customer service is an integral part of its brand and is a key strength.

Acquiring customers

The Directors believe that investing in customer acquisition and maintaining excellent service quality at the same time will generate sustainable, profitable growth. The Directors intend to use a broad range of acquisition channels to attract customers with a combination of competitive prices and strong service to continue to build the Company's brand. To achieve this growth the Directors intend to develop the following acquisition channels:

- **Price comparison sites:** Price comparison web sites are an efficient way to acquire customers. These sites traditionally advertised every deal in the market, but they have recently been granted the possibility of new flexibility by the Competition and Markets Authority moving towards allowing them to offer exclusive deals to commission paying customers like Flow Energy.

- **Outbound telephone campaigns:** When combined with the right offer to the right customers, the Directors believe that this channel has significant potential for Flow Energy.

- **Digital:** The ongoing digitisation of both energy and consumer behaviour allows Flow Energy to engage and acquire customers online using social media like Facebook, Twitter, Instagram and LinkedIn.

- **Brand Ambassador network:** Flow Products has developed a national network of heating engineers who have been trained to deliver Flowgroup's home heating offer. The Directors believe that this channel has the potential to deliver energy sales in the home.

- **Partnerships:** Flow Energy will seek to partner with businesses who share Flow Energy's values and who are looking to maximise the revenue potential of their own customer bases with cross-selling opportunities.

- **Direct mail:** Even in the increasingly digital world, the Directors believe that direct mail can be an effective means of reaching customers in the home.

- **Referrals:** Referrals can offer an efficient marketing channel and Flow Energy plans to test this channel in the future.

Customer profitability

While acquiring domestic energy customers, Flow Energy incurs a Customer Acquisition Cost (CAC). This CAC is expensed over the first year of a customer contract and typically results in that customer achieving break even in year one. Profitability of a Flow Energy customer is currently typically achieved in year two and the longer Flow Energy can retain a customer, the more profitable the customer becomes. The lifetime value (LTV) of each retained customer is typically significantly higher than the CAC.

The Directors believe that the key drivers to build the LTV of a customer in the Flow Energy business are:

- providing a value-added offer so that customers are keen to remain with Flow Energy;
- maintaining low customer acquisition costs;
- maintaining and reducing the costs of servicing each customer;

- reducing churn and retaining customers successfully;
- minimising bad debt;
- employing a robust trading strategy; and
- the ability to offer customers additional products and services.

A key element of Flow Energy's strategy to reduce its cost to service is to employ self-service using online digital tools. Approximately 72 per cent. of Flow Energy customers are registered to manage their account online, which provides a lower cost of service to those customers than call centres. Flow Energy plans to release a new account management smartphone app before the end of 2017 to further increase digital engagement. As another important part of its digital strategy, Flow Energy's launch of its smart meter service is planned for the last quarter of 2017.

The Directors believe that the Flow Energy business provides exceptional customer service which maintains and enhances loyalty. This has been demonstrated by the 150 per cent. growth in customer fuel accounts achieved in 2016. In addition, The Directors believe that Flow Energy's customer retention levels are strong. By way of example, approximately 61 per cent. of customers who joined Flow Energy in 2014 remain on supply, which is less than 1.1 per cent. churn per month. In addition, the Directors believe that Flow Energy has a robust and hedged trading strategy which puts it at a significant advantage to many of its competitors.

Foundation for growth

The Directors believe that Flow Energy has the infrastructure and senior management capabilities in place to achieve its near term targets. Flow Energy is based in Ipswich, Suffolk. Its office has around 36,000 square feet of space over 7 floors and the capacity to grow to 450 staff (currently 261) which the Director's believe will be sufficient to service around 500,000 customer fuel accounts, representing approximately 1,100 customer fuel accounts per employee. The senior team at Flow Energy provides significant energy experience. Flow's local employer brand facilitates recruitment for volume customer service roles. Flow Energy enjoys an engaged and committed workforce where 72 per cent. would recommend Flow as a place to work and the annual staff retention rate is 86 per cent. Additionally, the Company plans to utilise limited elements of outsourcing in both the UK and offshore where this brings cost benefits and greater flexibility to growth plans.

In order to drive growth in the business, the Directors have set the following Key Performance Indicators for 2017:

- customer fuel account growth of greater than 60 per cent.;

- cost to service reduced by at least 5 per cent. and current customer retention levels maintained or improved in order to improve gross margins;

- staff retention levels of 86 per cent. maintained or improved; and

- Which? annual energy customer satisfaction score of 73 per cent. maintained or improved upon and Net Promoter Score of +39 maintained or improved in order to ensure our reputation for outstanding customer service remains strong.

The Fundraising

Details of the Placing

The Company has conditionally raised £9.525 million before expenses by the Placing of 952.5 million Placing Shares at the Issue Price to the Placees. The Issue Price presents a discount of approximately 11.1 per cent. to the closing middle market price per Existing Ordinary Share on 24 May 2017, being the latest practicable date prior to the publication of this announcement.

The Placing is conditional on the conditions to the Loan Note Subscription being satisfied or waived and, *inter alia*, upon:

a) the passing of the Resolutions at the General Meeting by Shareholders;

b) the Placing and Open Offer Agreement becoming or being declared unconditional in all respects and not having been terminated in accordance with its terms prior to Admission;

c) the Capital Reorganisation becoming effective; and

d) Admission becoming effective by no later than 8.00 a.m. on 13 June 2017 or such later time and/or date (being no later than 8.00 a.m. on 27 June 2017) as Cenkos and the Company may agree.

If any of the conditions are not satisfied, the Placing Shares will not be issued and all monies received from the Placees will be returned to the Placees (at the Placees' risk and without interest) as soon as possible thereafter. The Placing is not being underwritten.

As part of the Placing, and in addition to their respective investments in the Loan Note Subscription, Palm Ventures and LOIM have conditionally agreed to subscribe for 90 million Placing Shares and 70 million Placing Shares respectively, representing investments in the Placing of £0.9 million and £0.7 million respectively.

It is intended that the Directors (with the exception of Clare Spottiswoode) will, in aggregate, subscribe in the Placing for approximately £125,000 of Placing Shares (representing 12.5 million Placing Shares in aggregate). A further announcement detailing such intended subscriptions will be made once the Placing has completed. As described below, Clare Spottiswoode and John Johnston intend to take up their entitlements to Open Offer Shares in full.

The Placing Shares will be issued free of all liens, charges and encumbrances and will, when issued and fully paid, rank pari passu in all respects with the Existing Ordinary Shares, including the right to receive any dividends and other distributions declared, made or paid after the date of their issue.

If the Placing proceeds, the Placing Shares will comprise approximately 57 per cent. of the enlarged issued share capital immediately following Admission, not taking into account any conversion of the Loan Notes (or Preference Shares) but assuming full take-up under the Open Offer and the PrimaryBid Offer.

Details of the PrimaryBid Offer

Pursuant to the PrimaryBid Offer and the Open Offer, the Company is proposing to raise up to approximately £4 million in aggregate (before expenses) by the issue of up to approximately 400 million New Ordinary Shares, in aggregate, at the Issue Price. The minimum investment amount under the PrimaryBid Offer for any investor is £1,000. Any investment request over £50,000 will require the consent of the Company. The PrimaryBid Offer will be made in accordance with an available exemption against the requirement to produce an FCA approved prospectus.

The PrimaryBid Offer is open to private retail investors subscribing via PrimaryBid.com. The allocation of Ordinary Shares will be filled on a "first come, first served" basis. The terms and conditions on which the PrimaryBid Offer will be made, including the procedure for application and payment for New Ordinary Shares, is available to all persons who register with PrimaryBid.com and who receive communication to that effect from PrimaryBid.com.

The PrimaryBid Offer will be conditional on the Fundraising being or becoming wholly unconditional. This announcement does not constitute an offer in respect of the PrimaryBid Offer.

The New Ordinary Shares issued pursuant to the PrimaryBid Offer will be free of all liens, charges and encumbrances and will, when issued and fully paid, rank pari passu, in all respects with the Existing Ordinary Shares.

Any scale back of subscriptions (where necessary) will be made at the discretion of PrimaryBid in consultation with the Company. The PrimaryBid Offer is not underwritten. The PrimaryBid Offer has been arranged by PrimaryBid and will be open from 5.00 p.m. to 9.00 p.m. on 24 May 2017.

Details of the Open Offer

The Company is proposing to raise, in total, a maximum of approximately £4 million from the Primary Bid Offer and the Open Offer. Consequently, the size of the Open Offer will be such New Ordinary Shares as will, when taken together with the level of take-up under the PrimaryBid Offer by investors on the PrimaryBid platform, amount to up to approximately £4 million. It is anticipated that the Company will announce the results of the PrimaryBid Offer and, accordingly, the resulting size and weighting of the Open Offer on 25 May 2017.

The Open Offer Shares will be available to Qualifying Shareholders, pro rata to their existing holdings of Ordinary Shares, pursuant to the Open Offer at the Issue Price, payable in full on acceptance. The Open Offer will not be underwritten and will not be subject to a minimum amount being raised. The Open Offer will be conditional on, inter alia, the Placing becoming unconditional in all respects and not being terminated before Admission. Accordingly, if the conditions to the Placing are not satisfied or waived (where capable of waiver under the terms of the Placing and Open Offer Agreement), the Open Offer will not proceed.

Given the approximately £125,000 intended participation, in aggregate, by the Directors (with the exception of Clare Spottiswoode) in the Placing, the Directors (with the exception of Clare Spottiswoode and John Johnston) do not intend to subscribe for their entitlements under the Open Offer. Clare Spottiswoode and John Johnston intend to take up their entitlements to Open Offer Shares in full.

A further announcement relating to the formal launch of the Open Offer is currently expected to be made by the Company on 25 May 2017. The Circular, containing the terms and conditions of the Open Offer, is expected to follow that announcement shortly afterwards and in any event in accordance with the indicative timeline set out in Appendix II to this announcement.

Details of the Loan Note Subscription

Loan Notes

The Company has entered into a conditional subscription agreement with Palm Ventures pursuant to which Palm Ventures is to conditionally subscribe for £9 million of Loan Notes. In addition, LOIM is to conditionally subscribe for £6.5 million of Loan Notes. The Loan Note Subscription is conditional, inter alia, on Admission of the Placing Shares and the Open Offer Shares. It is also conditional upon none of the three main political parties indicating any new manifesto pledge or confirmed party policy in respect of the forthcoming UK General Election to enact legislation to enforce absolute price controls or price limitations on the whole of the UK residential energy sector, such legislation that, in the opinion of either the management of the Company or Palm Ventures, each acting reasonably and in good faith, having a material adverse effect on the margins or business prospects of Flow Energy Limited.

The Loan Notes carry compound interest (for the first three years following their issue) at the rate of 7.5 per cent. per annum (payable quarterly) on the principal amount outstanding, compounded quarterly. Interest is to be satisfied by the issue of additional Loan Notes at par. The Loan Notes are repayable in full on the third anniversary of their issue to the extent not then converted. Interest is payable in full on a change of control of the Company and on exercise of a conversion right (in respect of those Loan Notes converted) for the period from the date of the change of control or exercise of the conversion right to the maturity date (being three years from the issue of the Loan Notes).

The holders of the Loan Notes have the right to convert, at par, some or all of their Loan Notes into zero coupon convertible preference shares of £1 each in the Company ("Preference Shares") at any time in the three years following the issue of the Loan Notes. Accordingly, if converted in full, the Loan Notes are capable of being converted into a maximum of 19,612,736 Preference Shares and assuming interest for the full term of the Loan Notes is paid and is satisfied by the issue of further Loan Notes (including those to be issued pursuant to the arrangement fee referred to below).

The subscription agreement for the Loan Notes and the instrument under which the Company has constituted the Loan Notes, contain warranties from the Company and events of default which, if they occur, will result in the holders of Loan Notes being able to demand immediate cash payment together with all interest for the full three year period. Failure by the Company to pay such amounts will result in default interest being charged at a compound rate of 11 per cent. per annum. Default interest is payable in cash.

The holders of more than 50 per cent. of the principal amount of the Loan Notes outstanding (an "Investor Majority") may require the appointment of two non-executive Directors of the Company and one person as an observer to attend and speak at meetings of the Board of the Company. In addition, the holders of more than 33.3 per cent. of the principal amount of the Loan Notes outstanding (which is not also an Investor Majority) (an "Investor Significant Minority") may require the appointment of one non-executive director of the Company.

The subscribers for the Loan Notes in the Loan Note Subscription will receive an arrangement fee equal to 1.25 per cent. of the principal amount of the Loan Notes subscribed for. This arrangement fee is to be taken in the form of additional Loan Notes.

If Palm Ventures convert their Loan Notes into Preference Shares and/or convert their Preference Shares into new Ordinary Shares, their interest, when taken with any existing interest in Ordinary Shares, could represent 30 per cent. or more of the voting rights of the Company and, if so, would oblige Palm Ventures to make a general offer to Shareholders under Rule 9 of the City Code on Takeovers and Mergers.

If LOIM convert their Loan Notes into Preference Shares and/or convert their Preference Shares into new Ordinary Shares, their interest, when taken with any existing interest in Ordinary Shares, could represent 30 per cent. or more of the voting rights of the Company and, if so, would oblige LOIM to make a general offer to Shareholders under Rule 9 of the City Code on Takeovers and Mergers.

Preference Shares

To the extent that the Loan Notes are converted into Preference Shares, the holders of the Preference Shares shall have the right, at any time in the five years following Admission, to convert at a price of 1.2p for each Preference Share (subject to adjustment) held into approximately 83.33 new Ordinary Shares (subject to adjustment). If the Loan Notes are fully converted after three years and assuming all interest is satisfied by the issue of further Loan Notes and taking into account the arrangement fee referred to above and before any adjustment to the conversion price, the resultant Preference Shares will convert into 1,634,394,668 new Ordinary Shares representing approximately 49.5 per cent. of the enlarged issued share capital of the Company immediately following Admission and the full conversion of the Preference Shares referred to above (assuming that the Fundraising completes and assuming full take-up under the Open Offer and the PrimaryBid Offer).

The holders of the Preference Shares will be entitled to receive notice of, attend, speak and vote (in person or by proxy) at all general meetings of the Company as if the Preference Shares had been fully converted into New Ordinary Shares. The Preference Shares are freely transferable. The Preference Shares will not be admitted to trading on any securities exchange. The Preference Shares shall not be entitled to participate in any dividend or other distribution of the Company. On a winding up or liquidation of the Company the holders of the Preference Shares shall be entitled to be paid 100 per cent. of their nominal value in seniority and preference to the holders of the Ordinary Shares.

The holders of 50 per cent. or more of the Preference Shares (a Preference Share Majority") may require the appointment of two non-executive Directors of the Company and one person as an observer to attend and speak at meetings of the Board of the Company. In addition, the holders of 33.3 per cent. or more of the Preference Shares (who are not also a Preference Share Majority) (a "Preference Share Minority") may require the appointment of one non-executive Director of the Company. Such appointment rights are in substitution for, and not additional to, the appointment rights of holders of the Loan Notes.

A holder of Preference Shares will also have the benefit of wide-ranging anti-dilution protections in certain circumstances including where there are, inter alia, further issues of capital, re-organisations, sub-divisions and consolidations of the Company’s share capital.

Use of Proceeds of the Fundraising

The net proceeds of the Fundraising receivable by the Company are estimated to amount to between £24.1 million and £27.9 million (dependent upon the level of take-up under the Open Offer and the PrimaryBid Offer) and will, subject to the final amount raised pursuant to the Fundraising, be applied towards:

- funding Flow Energy (including existing financing arrangements) and accelerating its growth to become a mid-tier energy business, by developing a number of acquisition channels and continuing to improve the customer experience (circa £15 million);
- pursuing commercialisation of the Flow microCHP with its European partners or to sell the microCHP technology (circa £1 million);
- terminating the Jabil Contract at a significantly reduced cost for the Group, with production halted on 1 May 2017 and payments totaling £4 million to be made to Jabil no later than three business days following Admission; and
- with any remainder to be applied towards general working capital purposes.

Application for Admission to AIM

Application will be made to the London Stock Exchange for the admission of the New Ordinary Shares to trading on AIM and such Admission is expected to become effective at 8.00 a.m. on 13 June 2017 or such later time and/or date (being no later than 8.00 a.m. on 27 June 2017) as Cenkos and the Company may agree. An announcement of such application will be made at the appropriate time.

Proposed Capital Reorganisation

The issue of new Ordinary Shares at a discount to the nominal value of those shares is prohibited under the Act. The nominal value of the Ordinary Shares is currently 5 pence and the Issue Price is 1 penny. Accordingly, it will be necessary to undertake the Capital Reorganisation to enable the Company to issue New Ordinary Shares in the future (including the New Ordinary Shares it is proposed to be issued pursuant to the Fundraising) at a price which is less than the current nominal value of an existing Ordinary Share. The interests of existing Shareholders (both in terms of their economic interest and voting rights) will not be diluted by the implementation of the Capital Reorganisation.

At the date of publication of this announcement, the issued ordinary share capital of the Company consists of 317,529,078 ordinary shares of 5 pence each. Accordingly, it is proposed that each of the Existing Ordinary Shares at the time of the General Meeting be sub-divided into:

i. one new ordinary share of 0.1 penny each in the capital of the Company, such shares having the same rights and being subject to the same restrictions (save as to nominal value) as the Existing Ordinary Shares; and

ii. one deferred share of 4.9 pence each.

Immediately following the Capital Reorganisation becoming effective and prior to the issue of the New Ordinary Shares, the Company's issued share capital will comprise:

i. 317,529,078 new ordinary shares of 0.1 penny each; and

ii. 317,529,078 Deferred Shares of 4.9 pence each.

The Deferred Shares created will be effectively valueless as they will not carry any voting or dividend rights and will have no effect on the economic interest of the Shareholders (on the basis that holders of the Deferred Shares shall be entitled only to the repayment of the amounts paid up on the Deferred Shares after the repayment of the capital paid up on the Preference Shares and the Ordinary Shares and the payment of £1,000,000 on each Ordinary Share). The New Ordinary Shares shall have the same rights and shall be subject to the same restrictions (save as to nominal value) as the Existing Ordinary Shares. The rights attaching to the aforementioned shares will be set out in the amended Articles.

As shown above, the number of Ordinary Shares in issue following the Capital Reorganisation (but before completion of the Fundraising) will be unchanged from the number of Existing Ordinary Shares in issue immediately prior to the Capital Reorganisation.

The Capital Reorganisation is subject to approval of Shareholders at the General Meeting to be convened in respect of the Fundraising, the date of which will be notified to Shareholders in due course.

For Shareholders who currently hold Existing Ordinary Shares in certificated form, no new share certificates will be issued and the certificates currently held will remain valid; the new nominal value will be shown on any new certificates issued from the date of the Capital Reorganisation becoming effective following the passing of the resolution to approve the Capital Reorganisation at the General Meeting (the "**Capital Reorganisation Effective Date**"). Holders of Existing Ordinary Shares in certificated form on the Capital Reorganisation Effective Date will retain the same number of shares following the Share Capital Reorganisation. Shareholders who hold their Existing Ordinary Shares in uncertificated form through CREST will retain their Existing Ordinary Shares and the security description will be updated to reflect the new nominal value of the Ordinary Shares from the Capital Reorganisation Effective Date. The ISIN and SEDOL numbers of the New Ordinary Shares will be the same as the Existing Ordinary Shares.

No application will be made to the London Stock Exchange for the Deferred Shares to be admitted to trading on AIM nor will any such application be made to any other exchange. No CREST accounts of Shareholders will be credited in respect of any entitlement to any Deferred Shares. No share certificates will be issued for the Deferred Shares.

Summary of the unaudited results for 2016

Set out below are the summary unaudited results for the financial year ended 31 December 2016. The Company expects to issue the full audited 2016 results following completion of the Fundraising.

The Company expects to report that in the year ended 31 December 2016, its revenues increased by 145% to £98.8 million (2015: £40.4 million) and a gross profit (before exceptional items) of £7.1 million (2015: £3.5 million). After exceptional items totalling approximately £22.1 million, the Group expects to report a loss before taxation of approximately £45.8 million (2015: £17.1 million loss). As at 31 December 2016, net liabilities were £14.7 million (31 December 2015: Net assets of £29.0 million).

The Company incurred £22.1 million of exceptional items during 2016 as it took the prudent view to impair and make provisions against certain assets of the microCHP product and certain business reorganisation costs. These being:

- £18.2 million of impairment against the historic investments in the microCHP development asset;
- £3.3 million provision against supply chain commitments and inventory; and
- £0.6 million of adjustments to recognised assets and liabilities.

The summary unaudited financial statements are set out in Appendix I to this announcement.

Changes to the Board of Directors

With effect from Admission, both Clare Spottiswoode and Henry Cialone will be standing down as Directors of the Company. John Johnston will become Non-Executive Chairman immediately following Admission. It is also intended that Brad Tirpak and Brian Carroll, who are both representatives of Palm Ventures and Jamie Brooke of LOIM, will be appointed to the Board in a non-executive capacity with effect from Admission. Further announcements relating to their intended appointments will be made prior to such appointments becoming effective.

Board remuneration

In addition to their commitment to participate in the Placing and the Open Offer referred to above and in order to demonstrate further alignment with both existing Shareholders and incoming investors, certain of the Directors have undertaken to receive part of their salary or fees, for the twelve months following Admission, in the form of new Ordinary Shares at the Issue Price. Tony Stiff, Chief Executive, has agreed to receive £50,000 of his gross salary in the form of new Ordinary Shares at the Issue Price. In addition, David Grundy and John Johnston, Non-Executive Directors, have agreed to take half their fees in new Ordinary Shares. Further, shortly after completion of the Transaction, the Board (as enlarged by the Proposed Directors) will review existing remuneration and incentivisation arrangements. Further announcements will be made as appropriate following completion of the Transaction and such review.

The General Meeting and Recommendation

The Directors do not currently have authority to carry out the Capital Reorganisation or to allot all of the New Ordinary Shares. Accordingly, the Board is seeking the approval of Shareholders at the General Meeting to effect the Share Capital Reorganisation, allot and issue the New Ordinary Shares in connection with the Fundraising and to disapply statutory preemption rights (including for the issue of Preference Shares should any Loan Notes be converted by the Loan Note holders).

It is expected that the Circular will be posted to Shareholders as soon as is practicable, setting out further details of, inter alia, the Placing, the Open Offer, the PrimaryBid Offer, the Loan Note Subscription and the Capital Reorganisation which will contain a notice of General Meeting and will include key relevant dates. The Company will notify Shareholders once this document has been posted, which is expected to be on or around 25 May 2017.

The Directors consider that the Fundraising and the related resolutions to be put to Shareholders at the General Meeting are in the best interests of the Company and its Shareholders and unanimously recommend that Shareholders vote in favour of the Resolutions, as they have irrevocably undertaken to do in respect of their own interests in Ordinary Shares, which represent, in aggregate, approximately 1.6 per cent. of the Existing Ordinary Shares.

The Fundraising is conditional, inter alia, upon the passing of the Resolutions to be proposed at the General Meeting. Shareholders should be aware that if the Resolutions are not approved at the General Meeting, the Fundraising will not proceed in its entirety. Should the Fundraising not proceed and, without access to alternative finance of an amount similar in size to that of the Fundraising in the near term, the working capital available to the Company will not be sufficient for its requirements and it may well have insufficient working capital to trade as a going concern.

DEFINITIONS

The following definitions apply throughout this announcement, unless the context requires otherwise:

“Act”	Companies Act 2006 (as amended)
“Admission”	the admission of the New Ordinary Shares to trading on AIM becoming effective in accordance with the AIM Rules for Companies
“AIM”	AIM, the market of that name operated by London Stock Exchange
“AIM Rules for Companies”	the AIM Rules for Companies and guidance notes as published by the London Stock Exchange from time to time
“Application Form”	the non-CREST Application Form
“Articles”	the Articles of Association of the Company
"Board” or “Directors"	the directors of the Company as at the date of this announcement
"Business Day"	a day other than a Saturday, Sunday or public holiday in England when banks in London are open for ordinary banking business
“Capital Reorganisation”	the sub-division and reclassification of the Existing Ordinary Shares, resulting in the sub-division of each Existing Ordinary Share into 1 ordinary share of 0.1p and 1 deferred share of 4.9p as described in this announcement and to be approved at the General Meeting
“Circular”	the document detailing the Transaction to be posted to Shareholders along with the Notice of General Meeting
“Cenkos”	Cenkos Securities plc
“Company” or “Flowgroup”	Flowgroup plc
“CREST	the relevant system (as defined in the CREST Regulations) in respect of which Euroclear is the operator (as defined in the CREST Regulations)
“CREST Manual”	The CREST Manual as issued by CREST as amended from time to time
“CREST member”	a person who has been admitted to CREST as a system-member (as defined in the CREST Manual)
“CREST member account ID”	the identification code or number attached to a member account in CREST
“CREST participant”	a person who is, in relation to CREST, a system-participant (as defined in the CREST regulations)
“CREST participant ID”	shall have the meaning given in the CREST Manual issued by Euroclear

“CREST payment”	shall have the meaning given in the CREST Manual issued by Euroclear
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/3755) (as amended)
“CREST sponsor”	a CREST participant admitted to CREST as a CREST sponsor
“CREST sponsored member”	a CREST member admitted to CREST as a sponsored member
“Deferred Shares”	deferred shares of 4.9 pence each in the capital of the Company following the Capital Reorganisation
“Enlarged Share Capital”	the entire issued ordinary share capital of the Company on Admission, following completion of the Placing, the Open Offer and the PrimaryBid Offer
“EU”	the European Union
“Euroclear”	Euroclear UK & Ireland Limited
“Excess Application Facility”	the arrangement pursuant to which Qualifying Shareholders may apply for additional Open Offer Shares in excess of their Open Offer Entitlement in accordance with the terms and conditions of the Open Offer
“Excess CREST Open Offer Entitlements”	In respect of each Qualifying CREST Shareholder, the entitlement (in addition to his Open Offer Entitlement) to apply for Open Offer Shares pursuant to the Excess Application Facility, which is conditional on him taking up his Open Offer Entitlement in full
“Ex-entitlement Date”	The date on which the Existing Ordinary Shares are expected to be marked “ex” for entitlement under the Open Offer, being 26 May 2017
“Excess Shares”	Open Offer Shares applied for by Qualifying Shareholders under the arrangement pursuant to which Qualifying Shareholders may apply for additional Open Offer Shares in excess of their Open Offer Entitlement in accordance with the terms and conditions of the Open Offer
“Existing Ordinary Shares”	the 317,529,078 existing ordinary shares of 5 pence each in the capital of the Company in issue at the date of this announcement, all of which are admitted to trading on AIM
"FCA"	the Financial Conduct Authority of the UK
“FSMA”	Financial Services and Markets Act 2000 (as amended)
“Fundraising”	together, the Loan Note Subscription, the Placing, the Open Offer and the PrimaryBid Offer
“General Meeting”	the general meeting of the Company convened for 10.00 a.m. on 12 June 2017
"Group"	the Company and its subsidiaries
“HMRC”	Her Majesty’s Revenue and Customs

“Issue Price”	1 penny per New Ordinary Share
"Jabil"	Jabil Circuit, Inc.
“Loan Notes”	Convertible Unsecured Loan Notes which carry a 7.5% paid in kind (or PIK) coupon (payable quarterly) and are convertible into an equivalent number of Preference Shares of £1 each
“Loan Note Subscription”	the conditional subscription by each of Palm Ventures and LOIM for Loan Notes totalling, in aggregate, £15.5 million
“Lombard Odier Investment Managers” or “LOIM”	Lombard Odier Investment Managers Group (LOIM) in respect of funds or accounts managed by LOIM entities
“London Stock Exchange”	London Stock Exchange plc
“microCHP” or “mCHP”	micro combined heat and power
“Money Laundering Regulations”	Money Laundering Regulations 2007, the money laundering provisions of the Criminal Justice Act 1993 and the Proceeds of Crime Act 2002
“New Ordinary Shares”	together, the Placing Shares, the Open Offer Shares and the New Ordinary Shares to be issued pursuant to the PrimaryBid Offer, or any of them as the context shall require or permit
“Notice of General Meeting”	the notice convening the General Meeting attached to this document
“Open Offer”	the conditional invitation made to Qualifying Shareholders to apply to subscribe for Open Offer Shares at the Issue Price
“Open Offer Entitlement”	the entitlement of Qualifying Shareholders to subscribe for Open Offer Shares allocated to Qualifying Shareholders pro rata to their holding of existing Ordinary Shares on the Record Date pursuant to the Open Offer
“Open Offer Shares”	the New Ordinary Shares to be made available to Qualifying Shareholders pursuant to the Open Offer
“Ordinary Shares”	ordinary shares of 5 pence each in the capital of the Company or, as the case may be, ordinary shares of 0.1 penny each following the Capital Reorganisation becoming effective
“Overseas Shareholders”	a Shareholder with a registered address outside the United Kingdom
“Palm Ventures”	Palm Ventures LLC
“Placees”	subscribers for Placing Shares
“Placing”	the conditional placing by the Company of the Placing Shares with certain investors, existing Shareholders (or their associated investment vehicles) otherwise than on a pre-emptive basis, at the Issue Price
“Placing and Open Offer Agreement”	the conditional agreement entered into between the Company and Cenkos in respect of the Placing and Open Offer dated 24 May 2017 , as described in this announcement

“Placing Shares”	the 952,500,000 New Ordinary Shares, the subject of the Placing
“PrimaryBid”	PrimaryBid Limited, which is an appointed representative of Darwin Strategic Limited which is authorised and regulated by the Financial Conduct Authority with register number 513358
“PrimaryBid Offer”	The PrimaryBid Offer of New Ordinary Shares to be made to private and other investors on the PrimaryBid platform
“Preference Shares”	zero coupon preference shares of £1 each in the capital of the Company that shall each have the right to convert into, initially, approximately 83.33 new Ordinary Shares
“Proposed Directors”	Brad Tirpak and Brian F. Carroll, both representatives of Palm Ventures and Jamie Brooke of LOIM
"Prospectus Rules"	the Prospectus Rules made in accordance with the EU Prospectus Directive admission of securities to trading on a regulated market
“Qualifying Shareholders”	holders of Existing Ordinary Shares on the register of members of the Company at the Record Date (but excluding any Overseas Shareholder who has a registered address in any Restricted Jurisdiction)
“Qualifying CREST Shareholders”	Qualifying Shareholders holding Existing Ordinary Shares in a CREST account
“Qualifying non-CREST Shareholders”	Qualifying Shareholders holding Existing Ordinary Shares in certificated form
“Receiving Agents”	Neville Registrars Limited, being the Company’s registrars
“Record Date”	6.00 p.m. on 24 May 2017 , in respect of the entitlements of Qualifying Shareholders under the Open Offer
“Resolutions”	the resolutions to be proposed at the General Meeting as will be set out in the Notice of General Meeting
“Restricted Jurisdiction"	the United States of America, Canada, Australia, Japan, New Zealand or the Republic of South Africa or any other jurisdiction where the extension or availability of the Placing and Open Offer would breach any applicable law
“Securities Act”	the United States Securities Act of 1933, as amended
“Shareholders	holders of Ordinary Shares
“Transaction”	The Placing, the Open Offer, the PrimaryBid Offer, the Loan Note Subscription, the General Meeting and Admission
"United Kingdom" or “UK”	the United Kingdom of Great Britain and Northern Ireland

APPENDIX I

SUMMARY UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Unaudited Group Income Statement
for the year ended 31 December 2016

	Year ended 31 December 2016 £'000 Before exceptional items	**Year ended 31 December 2016 £'000 Exceptional items Note 2**	**Year ended 31 December 2016 £'000 Total after exceptional items**	Year ended 31 December 2015 £'000 Total
Revenue	98,796	–	98,796	40,394
Cost of sales	(91,732)	(3,277)	(95,009)	(36,936)
Gross profit	7,064	(3,277)	3,787	3,458
Administrative expenses	(30,612)	(18,823)	(49,435)	(20,538)
Operating loss	(23,548)	(22,100)	(45,648)	(17,080)
Finance income			13	24
Finance costs			(132)	(60)
Loss before income tax			(45,767)	(17,116)
Income tax			1,129	1,831
Loss for the year			(44,638)	(15,285)

Unaudited Group Statement of Changes in Equity
for the year ended 31 December
2016

	Share capital £'000	Share premium £'000	Retained earnings £'000	Reverse acquisition reserve £'000	Other reserves £'000	Total shareholders' equity £'000
Balance at 1 January 2015	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
Share-based payments	–	–	–	–	903	903
Transactions with owners for the year	-	-	–	--	903	903
Loss for the year and total comprehensive income	–	–	(44,638)	–	–	(44,638)
Balance at 31 December 2016	15,876	59,238	(92,628)	(821)	3,589	(14,746)

Unaudited Group Statement of Financial Position
as at 31 December 2016

	As at 31 December 2016 £'000	As at 31 December 2015 £'000
ASSETS		
Non-current assets		
Intangible assets	1,973	19,227
Property, plant and equipment	658	381
	2,631	19,608
Current assets		
Inventories	495	473
Trade and other receivables	20,631	7,369
Current tax receivable	1,231	1,075
Cash and cash equivalents	5,850	18,844
	28,207	27,761
Total assets	30,838	47,369
LIABILITIES		
Non-current liabilities		
Borrowings	2,182	1,982
Current liabilities		
Borrowings	-	200
Trade and other payables	43,402	16,198
	43,402	16,398
Total liabilities	45,584	18,380
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	15,876	15,876
Share premium	59,238	59,238
Retained earnings	(92,628)	(47,990)
Reverse acquisition reserve	(821)	(821)
Other reserves	3,589	2,686
Total shareholders' equity	(14,746)	28,989
Total equity and liabilities	30,838	47,369

Unaudited Group Statement of Cash Flows
for the year ended 31 December 2016

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Cash flows from operating activities		
Cash consumed by operations	(6,839)	(8,084)
Cash flows from investing activities		
Expenditure on intangible assets	(5,524)	(2,582)
Purchases of property, plant and equipment	(644)	(160)
Interest received	13	24
	(6,155)	(2,718)
Cash flows from financing activities		
Net proceeds from the issue of ordinary shares	-	21,289
	-	21,289
Net increase / (decrease) in cash and cash equivalents	(12,994)	10,487
Cash and cash equivalents at the beginning of the year	18,844	8,357
Cash and cash equivalents at the end of the year	5,850	18,844

Notes

1. Basis of preparation

The financial information for the year ended 31 December 2016 has been extracted from unaudited management accounts and does not constitute the Group's statutory financial statements. Statutory financial statements for the year ended 31 December 2016 have not yet been prepared, audited or delivered to the Registrar of Companies.

The comparative figures are derived from the Group's statutory financial statements for the year ended 31 December 2015 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.

This unaudited financial information has been computed in accordance with IFRS but does not contain sufficient information to fully comply with IFRS.

The accounting policies used in preparation of the unaudited financial information are consistent with those used in the interim report for the 6 months ended 30 June 2016.

2. Exceptional items

Exceptional items comprise:

	2016 £'000	2015 £'000
Write down of inventories	3,277	-
Adjustments to recognised assets and liabilities	648	-
Impairment of intangible assets	18,175	-
	22,100	-

Exceptional items arise from the scaling back of the operations of the Products division and comprise reductions in the balance sheet value of inventories and intangible assets together with adjustments to the carrying values of directly related prepayments and liabilities. Further reorganisation costs will be recognised during 2017 as the Group restructures the Products division in line with the current market opportunity.

The Directors have carried out an impairment review of the microCHP technology derived intangible assets which, after allowing for the uncertainty of the amount and timing of the future cash inflows, gives a negligible value in use. Accordingly, the carrying value of the technology has been impaired in full. However, the Directors continue to believe that the microCHP technology has the potential to be market leading and that the related intangible assets have a continuing value to the Group.

APPENDIX II

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Announcement of the Transaction including the PrimaryBid Offer	5.00 p.m. on 24 May 2017
PrimaryBid Offer open from	5.00 p.m. on 24 May 2017
Record date for entitlements under the Open Offer	6.00 p.m. on 24 May 2017
PrimaryBid Offer closed at	9.00 p.m. on 24 May 2017
Announcement of results of PrimaryBid Offer and the size and weighting of the Open Offer	25 May 2017
Publication and posting of the Circular and posting of the Application Forms to Qualifying Shareholders holding certificated Ordinary Shares	25 May 2017
Ex-Entitlement Date for the Open Offer	26 May 2017
Open Offer Entitlements enabled in CREST and credited to stock accounts of Qualifying CREST Shareholders in CREST	26 May 2017
Latest time and date for splitting Application Forms (to satisfy *bona fide* market claims only)	3.00 p.m. on 7 June 2017
Recommended latest time for requesting withdrawal of Open Offer Entitlements and Excess Ordinary Shares from CREST	4.30 p.m. on 7 June 2017
Latest time and date for depositing Open Offer Entitlements into CREST	3.00 p.m. on 8 June 2017
Latest time and date for acceptance of the Open Offer and receipt of completed Application Forms and payment in full under the Open Offer or settlement of relevant CREST instruction (as appropriate)	11.00 a.m. on 9 June 2017
Latest time and date for receipt of completed Forms of Proxy to be valid at the General Meeting	10.00 a.m. on 10 June 2017
General Meeting	10.00 a.m. on 12 June 2017
Admission of the New Ordinary Shares to AIM	8.00 a.m. on 13 June 2017

If any of the details contained in the timetable above should change, the revised times and dates will be notified by means of an announcement through a Regulatory Information Service. All references are to London time unless stated otherwise.

APPENDIX III

INDICATIVE FUNDRAISING STATISTICS

Placing Statistics	
Number of Existing Ordinary Shares	317,529,078
Number of Placing Shares	952,500,000
Issue Price	1 penny
Gross proceeds from the Placing	£9.525 million
PrimaryBid Offer and Open Offer Statistics	
Number of New Ordinary Shares in the PrimaryBid Offer and the Open Offer	up to c. 400 million
Issue Price	1 penny
Maximum gross proceeds from the PrimaryBid Offer and the Open Offer	up to c. £4 million
Loan Note Subscription Statistics	
Gross Proceeds from issue of the Loan Notes	£15.5 million
Conversion price of each Loan Note into a Preference Share	£1.00
Conversion price of Preference Shares into Ordinary Shares (subject to adjustments)	1.2 pence
Maximum number of resulting Ordinary Shares following conversion of the Loan Notes into Preference Shares and Preference Shares into new Ordinary Shares	c. 1.63 billion
Approximate Share Capital Statistics	
Enlarged issued share capital immediately following Admission [1]	c.1.27 billion
Enlarged issued share capital immediately following Admission [2]	c. 1.67 billion

[1] excluding the Open Offer and the PrimaryBid Offer
[2] assuming that the Open Offer and the PrimaryBid Offer are fully subscribed