19 September 2017

Flowgroup plc

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

Half-year Report

Flowgroup plc (AIM: FLOW), which provides residential gas and electricity supply and other energy services to over 250,000 customer fuel accounts, announces its unaudited Interim Results for the six months ended 30 June 2017.

Financial Highlights

- Revenues up 71.6% to £71.8m (H1 2016: £41.8m)
- Operating loss before exceptional items of £10.8m (H1 2016: £8.0m loss)
- Headline cash of £20.1m of which £3.9m in energy trading account (31 December 2016: £9.2m of which £3.4m in trading account)
- Successful re-capitalisation of the Company via a fundraise of £25.3m (net)

Operational Highlights

- Customer fuel accounts on supply as at 30 June 2017 of over 255,000
- Positive strategic change to focus on building a profitable, sustainable energy supply business
- Successful launch of direct acquisition channels aimed at enhancing Lifetime Value of each customer
- Improved value of our energy portfolio on an annualised basis as customers retained on new tariffs
- Focus on cost reduction across the business to drive to breakeven targets
- Churn higher in the first half of 2017, but has now returned to the expected range
- New Board members have strengthened the management of the business

Post period end

- Current customer base represents estimated £141m in annualised revenue
- Company launched energy customer referral programme to acquire new customers and enhance existing customer loyalty
- Company launched a solar PV and boiler installation offering
- Company is transitioning 100% of energy customers to 50% renewable electricity at no cost to our customers. This is more than twice the proportion in the national average energy mix
- Company on track to launch new Flow Green tariff in October 2017 - a 100% renewable electricity tariff and green gas offset available at a small premium
- Implementing plan to reduce cost to serve, including significant IT projects to drive operational efficiencies
- Senior management team strengthened with appointment of Chief Information Officer
- mCHP business significantly downsized, strategic review continues with outcome expected in Q1 2018

Tony Stiff, Group Chief Executive Officer, commented: *"We believe that we have created a firm foundation from which to drive growth and acquire customers moving into the winter period. Our strategy is clear and we have the resources and people in place to deliver it. Our market is large and valuable and undergoing significant change as challengers like Flow Energy attract customers by offering better value and better service. By balancing growth with sustainable prices and a tight control* *of costs, we believe we can build a profitable energy business and deliver significant value to shareholders."*

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Chief Executive Officer's review

For the first six months of 2017, Flowgroup was engaged in the continuation of a wide-ranging strategic review of its business. The conclusion of this review resulted in an investment into the Company of £25.3m, net of expenses, led by Palm Ventures and Lombard Odier. The Company is now exclusively focused on building a profitable energy supply business. The microCHP business has been significantly downsized and no longer represents a material cost to the Company.

The Company achieved high revenue and energy customer account growth of over 150% in 2016, which has allowed us to achieve greater scale. The focus of the business is to now achieve profitability as soon as possible by increasing the number of customer fuel accounts, lowering our Customer Acquisition Costs, lowering our Cost to Serve each customer, and increasing the Lifetime Value of each customer.

Macro Outlook

There are approximately 50 million customer accounts available in the British domestic energy market and we believe that we will continue to attract new customers. We have proven our ability to transition from a start-up to an established supplier and we have the trading, regulatory, technical, metering, service, marketing and finance teams in place that a growing energy business needs. Flow Energy has an outstanding reputation for customer service, which we believe will be a key differentiator in the energy supply business going forward. Furthermore, the Group has a wholesale energy trading agreement in place with Shell that affords our balance sheet significant protection from the movement in wholesale energy prices and provides, in conjunction with the funds raised in June, the working capital needed for the business to grow.

New Green Initiatives

The Company announces today that we are increasing our purchase of renewable electricity and will shortly transition all our energy customers to a 50% renewable electricity mix at no additional cost. With this achievement, Flow Energy will offer one of the highest proportions of renewable electricity for a standard electricity product in the market. Customers will also be able to upgrade to a new Flow Green 100% renewable electricity tariff and a carbon offset gas tariff for a small additional premium. Flow Energy will aim to be amongst the market leaders in renewable electricity offers that provide excellent value to our customers and increase the uptake of green tariffs.

Higher Value Growth

Our growth was slower in the first half of 2017 versus the first half of 2016 due to constraints on our balance sheet which were eliminated with the successful fundraise. Our first focus post the refinancing was to retain and renew existing customers with underlying margins of at least 10% based on current cost projections. The Board is now focused on profitable growth and our current energy customer base stands at circa 260,000 customer fuel accounts.

Our new customer acquisition strategy is to develop and use a range of direct sales channels that can deliver customers with a higher Lifetime Value. Our goal is to diversify away from our past reliance on the price comparison websites to acquire new customers, instead using direct channels that we believe will result in better margins and lower churn. We have successfully launched a direct sales operation and have already driven acquisition costs to below the commissions paid to price comparison websites while still offering excellent value to our customers. We believe taking the time to develop these new direct sales channels will result in a slower but more sustainable and profitable sales ramp with lower customer acquisition costs and enhanced retention. While we are focused on attracting new customers with higher Lifetime Values, we are also focused on renewing existing customers as their current tariffs expire. Along with other energy suppliers, we recently increased the price of our Standard Variable Tariff, which is still competitive with other medium and large suppliers.

Overall, we believe our strategy will significantly increase the Lifetime Value of each of our customers, improving our margins and allowing us to accelerate the drive towards profitability.

Retention
A key variable increasing the Lifetime Value of each customer is the length of time we retain them.

We grew energy customer fuel accounts by 120% in the first half of 2016 using a range of very competitive offers which has allowed the business to achieve increased scale. We continued to drive customer acquisition in the first half of 2017. However, as we annualised our promotional activity from 2016 and because wholesale energy prices had increased, some of our customers experienced significant price rises as their older, lower priced tariffs expired. Therefore, our churn was higher in the first half of 2017 than it had been historically, which reduced our growth. However, our retention rate has now returned to the expected range and we continue to invest in the engagement and retention of our customers through strong communications and outstanding service.

Reducing cost to serve
Reducing our cost to serve KPI is a key component of our drive to profitability. We have made good progress with some key early wins. Many of the costs of running an energy business cannot be influenced – wholesale energy prices, transmission costs, and the Government's environmental and consumer schemes. This means that reducing the costs of servicing each customer, as the key element of our cost base that we can influence, is vital. We have outsourced some simple back office functions to reduce costs, have launched a new online customer portal to further increase the proportion of customers who self-serve, and are enhancing our IT systems to automate more customer service processes. We employ a continuous improvement approach to process development and every member of our team is focused on finding efficiencies. We aim to drive down our costs, also taking advantage of economies of scale as we grow. We have strengthened our senior management team with the recent appointment of a Chief Information Officer to drive data and technology change.

Flow Home Services
Flow Home Services cross sells additional energy products and services which we believe will further increase the Lifetime Value of customers, enhance retention, and build our brand. Flow Home Services currently offers boilers, solar panels and smart thermostats by referring our customers to third party installers and providers. We will continue to add further products and services to assist our customers in achieving a modern, efficient, connected home.

Flow Home Services employs a light-touch strategy with a small internal team working with carefully-selected installation partners to deliver energy products and services. This allows the Group to generate revenue while adding only a limited amount to our cost base.

We believe that offering more than energy to our customers has two key benefits – enhancing revenue per customer and positively impacting retention. We believe that customers enjoying the benefits of additional products will be more likely to stay with Flow Energy for their home energy, increasing their Lifetime Value.

The marketplace
The energy supply market continues to be a very competitive environment but also continues to offer significant opportunity. New, smaller energy suppliers have entered the market and the Big Six suppliers continue to lose customers - according to Cornwall Insight, the Big Six share of the domestic energy supply market fell from 98% in 2013 to 84% in 2016 and, by April 2017, to 82%. We believe Flow Energy has a well-funded energy business plan and the people, systems and infrastructure in

place to continue to grow sustainably, achieve profitability, and build significant value for shareholders.

MicroCHP

The Group has significantly downsized our Products business in line with our strategic focus on the energy supply business. The microCHP business does not now represent a material cost to the Group. A very small team is continuing to work on a limited basis with our European partner, Engie, to potentially develop our microCHP boiler for the European market. Concurrently, we are finalising strategic options for our microCHP technology and will report on the conclusion of this review in Q1 2018.

Board remuneration

As previously communicated, Tony Stiff, Chief Executive, David Grundy and John Johnson, both Non-Executive directors, have agreed to take a proportion of their salary or fee in the form of Flowgroup ordinary shares.

Additionally, the non-executive directors have agreed a reduction in fees, effective immediately. This represents an annual aggregate saving of approximately 50%, totalling £110,000.

Combined the above represents a cash cost saving to the Group of approximately £190,000 per year.

Outlook

We believe that we have created a firm foundation from which to drive growth and acquire new customers moving into the winter period. Our goal is to build a profitable energy supply business and we believe we have the resources and people in place to deliver that goal. Our market is large and valuable and undergoing significant change as challengers like Flow Energy attract customers by offering better value and better service. By balancing growth with sustainable prices and a tight control of costs, we believe we can build a profitable energy business and deliver significant value to shareholders.

As we continue to deliver on our strategy through 2018, we will engage regularly with investors, analysts and the market.

Unaudited Group Income Statement

	Note	Unaudited 6 months to 30 June 2017 Before exceptional items	Unaudited 6 months to 30 June 2017 Exceptional items (Note 4)	Unaudited 6 months to 30 June 2017 Total	Unaudited 6 months to 30 June 2016	Audited Year to 31 December 2016 Before exceptional items	Audited Year to 31 December 2016 Exceptional items (Note 4)	Audited Year to 31 December 2016 Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	3	**71,816**	**-**	**71,816**	41,841	98,796	-	98,796
Cost of sales		**(67,991)**	**-**	**(67,991)**	(36,732)	(91,732)	(3,277)	(95,009)
Gross profit		**3,825**	**-**	**3,825**	5,109	7,064	(3,277)	3,787
Administrative expenses		**(14,614)**	**(1,975)**	**(16,589)**	(13,107)	(30,612)	(18,823)	(49,435)
Operating loss	3	(10,789)	(1,975)	**(12,764)**	(7,998)	(23,548)	(22,100)	(45,648)
Net finance costs				**(864)**	(46)			(119)
Loss before income tax				**(13,628)**	(8,044)			(45,767)
Income tax				**-**	-			1,129
Loss for the financial period / year				**(13,628)**	(8,044)			(44,638)
Attributable to:								
Equity holders of the Company				**(13,628)**	(8,044)			(44,638)
Basic and diluted loss per share	5			**(3.19p)**	(2.53p)			(5.31p)

The Group has no items of other comprehensive income in any period above and consequently no statement of other comprehensive income has been presented.

The notes are an integral part of these Unaudited Group Interim Financial Statements

Unaudited Group Statement of Financial Position

	Unaudited as at 30 June 2017 £'000	Unaudited as at 30 June 2016 £'000	Audited as at 31 December 2016 £'000
Assets			
Non-current assets			
Intangible assets	**1,812**	19,738	1,973
Property, plant and equipment	**619**	581	658
	2,431	20,319	2,631
Current assets			
Inventories	**398**	1,268	495
Trade and other receivables	**24,322**	15,308	20,631
Current tax receivable	**1,231**	1,075	1,231
Cash and cash equivalents	**16,155**	11,389	5,850
	42,106	29,040	28,207
	44,537	49,359	30,838
Liabilities			
Non-current liabilities			
Borrowings	**16,644**	2,004	2,182
Provisions	**232**	-	-
	16,876	2,004	2,182
Current liabilities			
Trade and other payables	**42,951**	25,765	43,402
Borrowings	**-**	200	-
Provisions	**1,743**	-	-
	44,694	25,965	43,402
Total liabilities	**61,570**	27,969	45,584
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	**16,983**	15,876	15,876
Share premium account	**67,981**	59,238	59,238
Accumulated losses	**(106,256)**	(56,034)	(92,628)
Reverse acquisition reserve	**(821)**	(821)	(821)
Other reserves	**5,080**	3,131	3,589
Total shareholders' equity	**(17,033)**	21,390	(14,746)
Total equity and liabilities	**44,537**	49,359	30,838

The notes are an integral part of these Unaudited Group Interim Financial Statements.

Unaudited Group Statement of Changes in Equity

	Share capital £'000	Share premium £'000	Accumulated losses £'000	Reverse acquisition reserve £'000	Other reserves £'000	Total shareholders' equity £'000
Balance at 1 January 2016	15,876	59,238	(47,990)	(821)	2,686	28,989
Share based payments	-	-	-	-	445	445
Transactions with owners	-	-	-	-	445	445
Loss for the financial period	-	-	(8,044)	-	-	(8,044)
Balance at 30 June 2016	**15,876**	**59,238**	**(56,034)**	**(821)**	**3,131**	**21,390**
Share based payments	-	-	-	-	458	458
Transactions with owners	-	-	-	-	458	458
Loss for the financial period	-	-	(36,594)	-	-	(36,594)
Balance at 31 December 2016	**15,876**	**59,238**	**(92,628)**	**(821)**	**3,589**	**(14,746)**
Proceeds from shares issued	1,107	9,954	-	-	-	11,061
Share issue costs	-	(1,211)	-	-	-	(1,211)
Issue of convertible unsecured loan notes	-	-	-	-	1,038	1,038
Share based payments	-	-	-	-	453	453
Transactions with owners	1,107	8,743	-	-	1,491	11,341
Loss for the financial period	-	-	(13,628)	-	-	(13,628)
Balance at 30 June 2017	**16,983**	**67,981**	**(106,256)**	**(821)**	**5,080**	**(17,033)**

The notes are an integral part of these Unaudited Group Interim Financial Statements.

Unaudited Group Statement of Cash Flows

	Note	Unaudited 6 months to 30 June 2017 £'000	Unaudited 6 months to 30 June 2016 £'000	Audited Year to 31 December 2016 £'000
Cash flows from operating activities				
Cash consumed by operations	6	**(13,363)**	(6,108)	(6,839)
Cash flows from investing activities				
Expenditure on intangible assets		**(1,509)**	(966)	(5,524)
Purchase of property, plant and equipment		**(173)**	(388)	(644)
Interest received		**-**	7	13
Net cash used in investing activities		**(1,682)**	(1,347)	(6,155)
Cash flows from financing activities				
Net proceeds from the issue of ordinary shares		**9,850**	-	-
Issue of convertible unsecured loan notes		**15,500**	-	-
Net cash generated from financing activities		**25,350**	-	-
Net (decrease) / increase in cash and cash equivalents		**10,305**	(7,455)	(12,994)
Cash and cash equivalents at beginning of period		**5,850**	18,844	18,844
Cash and cash equivalents at end of period		**16,155**	11,389	5,850

The notes are an integral part of these Unaudited Group Interim Financial Statements.

Notes to the Unaudited Group Interim Financial Statements

1 Nature of operations and general information
Flowgroup plc ("the Company") and its subsidiaries (together "the Group") supply energy and provide a range of innovative energy technologies and services. Our businesses are:

- Flow Energy – energy supply and services
- Flow Products – smart energy solutions and microCHP energy generation
- Flow Battery – compressed air back-up for the protection of essential systems

Flowgroup plc is the Group's ultimate parent company and is incorporated in England and Wales. The address of the registered office is Castlefield House, Liverpool Road, Castlefield, Manchester M3 4SB. The Group's principal place of business is North Kiln, Felaw Maltings, 46 Felaw Street, Ipswich, IP2 8PN. Flowgroup plc's shares are quoted on the AIM Market of the London Stock Exchange.

Flowgroup plc's Unaudited Group Interim Financial Statements are presented in pounds sterling (£).

2 Basis of preparation and accounting policies
These Unaudited Group Interim Financial Statements are for the six months ended 30 June 2017. They have not been prepared in accordance with IAS 34, Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the Group Financial Statements for the year ended 31 December 2016.

The financial information set out in these Unaudited Group Interim Financial Statements does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group Statement of Financial Position as at 31 December 2016 and the Group Income Statement, Group Statement of Changes in Equity, Group Statement of Cash Flows and associated notes for the year then ended have been extracted from the Group's Financial Statements as at 31 December 2016 which have been delivered to the Registrar of Companies. The auditors' report on these Financial Statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498(2) or section 498(3) of the Companies Act 2006. The Unaudited Group Interim Financial Statements for the six months ended 30 June 2017 have not been audited or reviewed in accordance with International Standard on Review Engagement 2410 issued by the Auditing Practices Board.

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

These Unaudited Group Interim Financial Statements have been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year to 31 December 2016 which have been applied consistently throughout the Group.

The Unaudited Group Interim Financial Statements have been approved by the Board of Directors on 18 September 2017.

Going concern
The directors have produced business forecasts which indicate that the Group has sufficient resources to operate for at least twelve months from the date of approving the Unaudited Group Interim Financial Statements.

Accordingly, the Directors continue to adopt the going concern basis in preparing the Unaudited Group Interim Financial Statements.

3 Segmental results

The segment results are as follows:

	Unaudited 6 months to 30 June 2017 £'000	Unaudited 6 months to 30 June 2016 £'000	Audited Year to 31 December 2016 £'000
Revenue			
Flow Products	110	87	349
Flow Battery	-	14	47
Flow Energy	71,706	41,740	98,400
	71,816	**41,841**	**98,796**
Operating Loss			
Flow Products	2,519	5,715	14,413
Flow Battery	1	8	(1)
Flow Energy	5,886	522	7,583
	8,406	**6,245**	**21,995**
Unallocated costs	2,383	2,443	4,533
Exceptional items not allocated	1,975	-	18,823
Capitalisation of development costs	-	(690)	297
	12,764	**7,998**	**45,648**

4 Exceptional items

	Unaudited 6 months to 30 June 2017 £'000	Unaudited 6 months to 30 June 2016 £'000	Audited Year to 31 December 2016 £'000
Writedown of inventories	**-**	-	3,277
Adjustments to recognised assets and liabilities	**165**	-	648
Impairment of intangible assets	-	-	18,175
Reorganisation costs	**1,810**	-	-
	1,975	**-**	22,100

Exceptional items recognised during the year ended 31 December 2016 arise from the scaling back of the operations of the Flow 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 comprising redundancy, empty property and contract settlements have been recognised during the 6 months ended 30 June 2017.

5 Loss per ordinary share
The calculation of the loss per ordinary share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the period.

The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares and the post-tax effect of dividends and/or interest, on the assumed conversion of all dilutive options and other dilutive potential ordinary shares. As the diluted loss per share is less than the basic loss per share the impact of the share option awards has been ignored

	Unaudited 6 months to 30 June 2017	**Unaudited 6 months to 30 June 2016**	**Audited Year to 31 December 2016**
Loss for the period (£'000)	**(13,628)**	(8,044)	(44,638)
Weighted average number of ordinary shares in issue	**427,523,470**	317,529,078	317,529,078
Basic and diluted loss per share (pence)	**(3.19)**	(2.53)	(14.06)

6 Cash consumed by operations

	Unaudited 6 months to 30 June 2017 £'000	**Unaudited 6 months to 30 June 2016 £'000**	**Audited Year to 31 December 2016 £'000**
Cash flows			
Loss before income tax	**(13,628)**	(8,044)	(45,767)
Adjustments for:			
Exceptional items	**1,975**	-	22,100
Depreciation	**212**	188	367
Amortisation	**1,670**	455	4,603
Finance Income	**-**	(7)	(13)
Finance costs	**-**	22	-
Share based payments	**453**	445	903
Tax received	**-**	-	973
Movements in working capital			
Decrease / (Increase) in inventories	**97**	(795)	(3,299)
Increase in trade and other receivables	**(3,691)**	(7,939)	(13,262)
(Decrease) / Increase in trade and other payables	**(451)**	9,567	26,556
Total cash consumed by operations	**(13,363)**	**(6,108)**	**(6,839)**