Flow Energy Limited
Annual Report and Accounts
For the year ended 31 December 2014

Company No. 7489062

Company Information

Company Registration number:	7489062
Registered office:	Felaw Maltings 48 Felaw Street Ipswich IP2 8PN
Directors:	A D Stiff A J Beasley M J Gibson
Company secretary:	P M Barry
Bankers:	HSBC Bank plc 4 Hardman Square Spinningfields Manchester M3 3EB
Solicitors:	Atticus Legal LLP 3rd Floor Castlefield House Liverpool Road Castlefield Manchester M3 4SB
Independent auditors:	PricewaterhouseCoopers LLP Chartered Accountants & Statutory Auditors 101 Barbirolli Square, Lower Mosley Street, Manchester M2 3PW

Index to the financial statements

Strategic Report

The directors present their strategic report for the year ended 31 December 2014.

Business review and future developments

After the significant success we enjoyed in 2013 with the launch of our home energy business, we entered the market again in April 2014. However, we took a different approach. In 2013 we grew quickly by paying commissions to price comparison sites for new customers (the traditional route to growth for energy businesses). In 2014 we did not pay commissions and instead attracted customers organically through general visibility for our competitive tariff thus growing the customer base without any acquisition costs. We grew our energy business to over 66,000 customer accounts and generated revenues for the year of £33m (2013: £14m).

While delivering growth we retained our excellent reputation for customer service. The energy industry releases quarterly complaint statistics which show the number of complaints per 100,000 customers. We consistently reported amongst the lowest levels of complaints in the entire industry, receiving 90% fewer complaints than some of our competitors. As the truly competitive domestic energy market continues to mature, and prices begin to converge, factors such as service begin to play a key role in attracting customers. Our reputation for good service, as well as our ability to deliver keen prices puts us in a strong position to win customers in a market that looks attractive.

Flow Energy took advantage of market conditions within the retail energy market and launched a market leading tariff during April 2015. This has been well received securing a significant number of customers without the need to pay commissions. As well as being price competitive the customer growth within the energy business will be supported by the sourcing of innovative smart technologies which will further differentiate the retail product offer.

Financial Review

Set out below is an extract of the Financial Statements for the years ended 31 December 2014 and 2013 together with an analysis of the key performance indicators.

	2014 **£000**	2013 £000
Revenue	**33,277**	13,745
Gross profit	**2,193**	1,794
Gross profit %	**6.6%**	13.1%
Operating loss	**(3,714)**	(2,375)
Tangible fixed assets	**559**	530
Cash at 31 December	**1,324**	701

Results

Revenue during the year ended 31 December 2014 was £33,276,927 and compares to £13,745,008 during 2013.

Gross margin during the year was 6.6% (2013: 13.1%) with a reduction in margins arising from weather variations and energy market conditions during the year.

Working capital

Growth of the energy services business has seen the level of trade receivables increase to £3,162,352(2013: £1,248,728). The level of trade receivables is closely monitored within the Company as it seeks to ensure a tight control of working capital requirement.

ON BEHALF OF THE BOARD

Tony Stiff
Director
3 July 2015

Report of the directors

The directors present their report and the audited financial statements of the company for the year ended 31 December 2014.

Principal activity

The principal activity of the Company during the year was energy supply.

Results and dividends

Turnover for the year was £33,276,927 (2013: £13,745,008). The loss for the year amounted to £3,736,115 (2013: £2,369,086). The directors do not recommend the payment of a dividend (2013: £nil).

Financial risk management

The Company manages its capital to ensure that it is able to continue as a going concern whilst maximising the return to its ultimate parent undertaking. The Company's strategy is dependent upon the continuing support of its ultimate parent company.

The capital structure of the Company consists of trade debtors, trade creditors, other loans, inter-group loans and share capital. On this basis, financial risk is considered minimal.

Other risk and uncertainties

The directors consider that the Company's other risk and uncertainties are: attraction and retention of key employees, energy pricing / procurement and the credit risk arising on trade debtors.

Directors

The directors who held office during the year and up to the date of signing the financial statements are given below:

A D Stiff
A Beasley (resigned 31 May 2014, reappointed 11 September 2015)
M Gibson (appointed 31May 2014)

Report of the directors

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors

Statement of Directors' responsibilities

The directors are responsible for preparing the Strategic Report, Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the directors

Statement of disclosure of information to auditors

In so far as each of the directors is aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors

PricewaterhouseCoopers LLP, having expressed their willingness to continue in office as independent auditors and will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the Company receives notice under section 488(1) of the Companies Act 2006.

ON BEHALF OF THE BOARD

Tony Stiff
Director
3 July 2015

Independent auditors' report to the members of Flow Energy Limited

Report on the financial statements

Our opinion

In our opinion Flow Energy Limited (the 'financial statements'):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Flow Energy Limited's financial statements comprise:

- the balance sheet as at 31 December 2014;
- the profit and loss account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of Flow Energy Limited

Other matters on which we are required to report by exception.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK & Ireland) ('ISAs(UK & Ireland)'). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Independent auditors' report to the members of Flow Energy Limited

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK and Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the director's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.
We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

H. Macnamara

Hazel Macnamara (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Manchester

3 July 2015

Profit and loss account

	Note	2014	2013
		£	£
Turnover	2	**33,276,927**	13,745,008
Cost of sales		**(31,083,737)**	(11,950,951)
Gross profit		**2,193,190**	1,794,057
Administrative expenses		**(5,907,541)**	(4,169,430)
Operating loss		**(3,714,351)**	(2,375,373)
Interest receivable and similar income		-	6,287
Interest payable and similar charges		**(21,764)**	-
Loss on ordinary activities before taxation	2	**(3,736,115)**	(2,369,086)
Tax on loss on ordinary activities	5	-	-
Loss for the financial year	11	**(3,736,115)**	(2,369,086)

There were no recognised gains or losses other than the loss for the financial year.

All activities are derived from continuing operations.

There is no material between the loss on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalents.

Balance sheet

	Note	2014 £	2013 £
Fixed assets			
Tangible assets	6	**559,043**	529,686
		559,043	529,686
Current assets			
Debtors	7	**11,674,142**	5,046,045
Cash at bank and in hand		**1,324,482**	700,795
		12,998,624	5,746,840
Creditors: amounts falling due within one year	8	**(20,833,986)**	(9,886,897)
Net current liabilities		**(7,835,362)**	(4,140,057)
Total assets less current liabilities		**(7,276,319)**	(3,610,371)
Net liabilities		**(7,276,319)**	(3,610,371)
Capital and reserves			
Called up share capital	10	**1**	1
Other reserves	11	**105,322**	35,155
Profit and loss account	11	**(7,381,642)**	(3,645,527)
Total Shareholders' deficit	12	**(7,276,319)**	(3,610,371)

These financial statements on pages 13 to 21 were approved by the directors and authorised for issue on 3 July 2015 and are signed on their behalf by:

Tony Stiff

Director

Flow Energy Limited

Company No: 7489062

Notes to the financial statements

Principal accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards in accordance with the Companies Act 2006 and under the historical cost convention.

The principal accounting policies of the Company have remained unchanged from the previous period and are set out below. The directors have reviewed the accounting policies in accordance with FRS 18 and consider them to be the most appropriate to the Company's circumstances.

Going concern

The continuation of the Company's activities is dependent upon the continuing support of its ultimate parent company, Flowgroup plc.

In January 2015 Flowgroup plc (the 'Group') launched the Flow boiler. Subsequently there has been significant market interest in both the Flow boiler and the initial sales proposition with there now being a number of confirmed sales orders. The Flow boiler is in production and both the boiler and the production line have received CE approval. Initial installation of the Flow boiler commenced during June 2015 with increasing product availability from Q4 2015 to support the relaunched boiler marketing campaign. The issue of additional share capital which was approved by the shareholders on 18 May 2015 raised further funding of £21.3m. This has secured the Group's cash requirements for the acceleration of the development of a combination boiler, production efficiency programmes and the investment in staff and processes to support the anticipated expansion of the business.

In December 2014 the Manufacturing Services Agreement with Jabil Circuit Inc was extended to cover the production of up to 500,000 units. Subsequently Jabil Circuit Inc participated in the May 2015 fundraising investing £7.4m and now have a shareholding of 8.14%.

The Directors of Flowgroup plc have produced business forecasts which after taking account of the fundraising and subsequent expected future cash outflows indicate that the Group has sufficient resources to operate for the foreseeable future continuing the development of the energy services and backup power businesses and taking the boiler through from initial installations during Summer 2015 to subsequent cash generation and profitability.

The directors of Flowgroup plc have given assurances that the ultimate parent company will continue to support the Company and accordingly the directors have adopted the going concern basis in preparing the Company's financial statements.

Notes to the financial statements

Principal accounting policies

Turnover

Turnover comprises of the fair value of the consideration received or receivable for the supply of energy in the ordinary course of the Company's activities excluding VAT and trade discounts and is recognised on the related costs are incurred. Such revenue is derived from end user consumption extracted from industry settlement data and contractual tariff rates net of any supplies that are not billable.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Property, plant & equipment - 33 ⅓% on cost

Share based payments

All share-based payment arrangements granted after 7 November 2002 that have not vested prior to the year end are recognised in the financial statements in accordance with FRS 20.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payment, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

The share based payment charges for share options granted in Flowgroup plc shares have been recognised within these financial statements with a corresponding increase in equity, as the services provided by the employees were in respect of this Company.

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Notes to the financial statements

Principal accounting policies

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions. In addition, contracts which result in the entity delivering a variable number of its own equity instruments are financial liabilities. Shares containing such obligations are classified as financial liabilities.

Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

An equity instrument is any contract that evidences a residual interest in the assets of the group/company after deducting all of its liabilities. Dividends and distributions relating to equity instruments are debited directly to reserves. The Company minimises it's exposure to energy price fluctuation using forward energy purchase contracts. The liability of such contracts is recognised as energy is delivered. Such contracts are not used for speculative purposes.

Compound instruments comprise both a liability and an equity component. The elements of a compound instrument are classified in accordance with their contractual provisions. At the date of issue, the liability component is recorded at fair value, which is estimated using the prevailing market interest rate for a similar debt instrument without the equity feature. Thereafter, the liability component is accounted for as a financial liability in accordance with the accounting policy set out above. The residual is the equity component, which is accounted for as an equity instrument.

Current taxation

The tax currently payable is based on taxable profits for the year. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Notes to the financial statements

Principal accounting policies

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured on an undiscounted basis using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Pension costs

The Company operates a defined benefit pension scheme covering certain employees. The assets of the scheme are held in separately administered funds from the Company. The pension charge represents contributions payable by the Company to the fund.

Cash flow statement

The Company is a wholly-owned subsidiary of Flowgroup plc and is included in the consolidated financial statements of Flowgroup plc, which are publically available. Consequently the Company has taken advantage of the exemption in FRS 1 (Revised 1996) from including a cash flow statement in the financial statements.

Related party transactions

The Company, as a wholly owned subsidiary of Flowgroup plc, is exempt from the requirements of the Financial Reporting Standards (FRS 8) to disclose transactions within the group headed by Flowgroup plc.

The directors do not consider there to be a controlling party of the ultimate parent company.

Notes to the financial statements

2 **Turnover and loss on ordinary activities before taxation**

Turnover and loss on ordinary activities before taxation are attributable to the principal activity of the company and arose entirely within the United Kingdom.

The loss on ordinary activities before taxation is stated after charging:

	2014	2013
	£	£
Depreciation of owned fixed assets	**262,299**	175,048
Operating lease payments:		
Land and buildings	**118,435**	58,067

Auditors' remuneration has been borne without recharge by the ultimate parent undertaking Flowgroup plc.

3 **Employee information**

Staff costs, including directors, during the year were as follows:

	2014	2013
	£	£
Wages and salaries	**1,727,646**	1,002,772
Social security costs	**167,586**	90,962
Other pension costs	**28,434**	16,916
	1,923,666	1,110,650

The monthly average number of employees of the Company during the year was 68 (year ended 2013: 32) all of which were engaged in sales and administrative activities.

The cost of share options granted to employees during the year was £70,167 (2013: £25,286)

Notes to the financial statements

4 Directors emoluments

	2014	2013
	£	£
Aggregate emoluments	**113,837**	148,871

Two directors (2013: one) did not receive any remuneration in respect of his services to the company in respect of the current or the previous year. The remuneration they receive is borne by another group company.

5 Taxation

	2014	2013
	£	£
Current tax charge	**-**	-

The tax assessed for the year is higher than (year ended 2013: higher) the standard rate of corporation tax in the United Kingdom of 21.5% (year ended 2013: 23.25%). The differences are explained as follows:

	2014	2013
	£	£
Loss on ordinary activities before taxation	**(3,736,115)**	(2,375,373)
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax in the United Kingdom of 21.5% (year ended 2013: 23.25%)	**(803,264)**	(552,244)
Effect of:		
Expenses not deductible for tax purposes	**5,586**	7,254
Capital allowances	**-**	40,669
Losses carried forward	**797,678**	504,321
Current tax charge for year	**-**	-

Unrelieved tax losses of £5,602,667 (year ended 2013: £3,187,205) remain available to offset against future taxable trading profits. No deferred tax asset has been recognised in respect of the losses as the recoverability is uncertain (note 9).

Notes to the financial statements

6 Tangible fixed assets

	Property, plant & equipment £
Cost	
At 1 January 2014	720,096
Additions	291,656
At 31 December 2014	**1,011,752**
Accumulated depreciation	
At 1 January 2014	190,410
Charge for the year	262,299
At 31 December 2014	**452,709**
Net book value	
At 31 December 2014	**559,043**
At 31 December 2013	529,686

7 Debtors

	2014 £	2013 £
Trade debtors	**3,162,352**	1,248,728
Amounts owed by holding company	**320,834**	-
Amounts owed by fellow subsidiary undertakings	**4,306,058**	901,292
Other debtors	**3,741,424**	2,835,180
Prepayments and accrued income	**143,474**	60,845
	11,674,142	5,046,045

Amounts owed by the holding company and fellow subsidiary undertakings are unsecured, interest free, repayable on demand and have no fixed repayment date.

Notes to the financial statements

8 Creditors: amounts falling due within one year

	2014 £	2013 £
Trade creditors	**308,916**	362,342
Amounts owed to holding company	**12,722,986**	4,666,484
Amounts owed to fellow subsidiary undertakings	**38,679**	2,706,445
Accruals and deferred income	**7,763,405**	2,151,626
	20,833,986	9,886,897

Amounts owed to the holding company and fellow subsidiary undertakings are unsecured, interest free, repayable on demand and have no fixed repayment date.

9 Deferred taxation

The unprovided deferred tax asset at 20% (2013: 20%) comprises:

	2014 £	2013 £
Short term timing differences	**(282,064)**	-
Accelerated capital allowances	**(28,338)**	(51,469)
Trade losses	**(1,120,533)**	(637,441)
	(1,430,935)	(688,910)

10 Called up share capital

Allotted and fully paid.

	2014 £	2013 £
1 (2013:1)Ordinary share of £1 each	1	1
	1	1

Notes to the financial statements

11 Reserves

	Other reserves £	Profit and loss account £
At 1 January 2014	**35,155**	(3,645,527)
Loss for the financial year	**-**	(3,736,115)
Share options granted to employees	**70,167**	-
At 31 December 2014	**105,322**	**(7,381,642)**

Other reserves relate to share based payment charges for share options granted in Flowgroup plc. As noted in the accounting policies, details of the share options are disclosed within the financial statements of Flowgroup plc.

12 Reconciliation of movement in shareholders' (deficit) / funds

	2014 £	2013 £
Loss for the financial year	**(3,736,115)**	(2,369,086)
Share options granted to employees	**70,167**	25,286
	(3,665,948)	(2,343,800)
Shareholders' deficit at 1 January	**(3,610,371)**	(1,266,571)
Shareholders' deficit at 31 December	**(7,276,317)**	(3,610,371)

13 Financial commitments

As at 31 December 2014 the Company had forward contracts for energy delivery through 2015 totalling £10,866,000 (2013: £16,304,000).

The Company also had an annual commitment under operating leases for land and buildings under a lease expiring within 2 to 5 years of £87,000 (2013: £48,000).

14 Ultimate parent company and controlling related party

The immediate and ultimate parent undertaking of this Company is Flowgroup plc, which is the only company to consolidate the company financial statements. Consolidated Financial Statements for Flowgroup plc are available from the Company Secretary, Flowgroup plc, 3rd Floor Castlefield House, Liverpool Road, Castlefield, Manchester, M3 4SB.