



26 August 2015

Company Announcements Office
Australian Securities Exchange Limited

COMPANY UPDATE

Redflow Limited ("Redflow") is pleased to provide this important update on its status and future directions.

Sales Performance

Small orders for our ZBM products have recently been received from Europe and Australia, with further progressive orders expected. We are also conducting ongoing field trials in Africa, South America, Europe, Asia and Australia.

While we remain actively and positively engaged with major Telco sector system integrators in key markets, our expected and intended progression into significant recurrent battery sales volume has not yet occurred.

Redflow advises that, in light of the continued delay in achieving substantial recurrent volume sales, we are no longer in a position to support our previously stated target of achieving an operating cash-flow breakeven status by December 2015.

In response, Redflow has commenced a variety of important new initiatives as described below and we expect to be in a position to provide further guidance once the initiatives noted below have been completed.

New manufacturing initiatives in conjunction with Flextronics

Redflow has already outsourced the majority of the manufacturing process for its key product, the ZBM, to global scalable manufacturing specialist Flextronics in North America. However, the ZBM electrode is still manufactured in Brisbane.

In accordance with our strategic intent to maximise the scalability of our production process, Redflow has commenced the outsourcing of the electrode components of our ZBM to Flextronics.

In a related development, and following substantial R&D work over the last 12 months, Redflow announces that it has also commenced the transition to the use of its latest electrode surface coating, ACN13, in our production batteries.

In-house testing has shown a substantial improvement in physical operating characteristics and projected lifetime through the use of ACN13.

The transition to the use of ACN13 in production will be integrated with the outsourcing of electrode manufacture to Flextronics, which is discussed in more detail below.

All other components of the ACN13 ZBM electrode stack are the same as currently used in the ACN7 version. Accordingly, inventory obsolescence for raw materials is not expected to be material.

We anticipate the production of fully outsourced ACN13 batteries will commence at Flextronics in December 2015.

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To allow for the full outsourcing to be completed efficiently, and to maximise the benefits of the transition to ACN13, the production rate of ZBM products by Flextronics will be substantially reduced until the full electrode outsourcing process is concluded.

Sufficient stocks of our product range are held by Redflow to meet our supply requirements in the interim, based on forward projections provided by our current and prospective customers.

The reduction in production volume during this transition process will deliver substantial operating cost reductions to Redflow. Ongoing operating cost reductions in Brisbane will also be realised once the full outsourcing transition is completed.

The capability to build ZBM's in quantities appropriate for R&D purposes is being retained in Brisbane, to support our internal roadmap of further product developments. This ongoing R&D work will continue to drive future cost reductions and energy density increases.

The precise financial impacts of these decisions are still being refined in conjunction with Flextronics.

However, based upon our current estimates of the cashflow benefits of these initiatives over this transitional period, Redflow anticipates having sufficient operating cash reserves for the next 12 months, even with minimal sales over that period.

ZBM Product Warranty, Pricing and Levelised Cost of Energy (LCOE) Improvements

Redflow is pleased to announce substantial enhancements to our ZBM2 and ZBM3 electrode lifetime expectations, manufacturing warranty and base pricing.

These enhancements build upon the continued success of our battery testing programme, our migration to ACN13, and continued progress in reducing the manufacturing cost of our products.

This table summarises the latest product offering of our ZBM product range:

| | TELCO & COMMERCIAL | | COMMERCIAL & LSB |
|---|--------------------|---------------|------------------|
| | 48V | | 53V |
| | ZBM | ZBM2 | ZBM3 |
| RRP Base Price (USD) FOB Flextronics North America | \$7,000 | \$8,000 | \$8,800 |
| kW (nominal/peak) | 3/5 | 3/5 | 5/6 |
| Nominal kWh output - 100% discharge | 8 | 10 | 11 |
| Manufacturing warranty | 1 year | 1 year | 1 year |
| Energy throughput warranty - kWh | 10,000 | 30,000 | 33,000 |
| Expected energy throughput - kWh | 20,000 | 40,000 | 44,000 |
| Expected levelised cost of energy (USD) per kWh (LCOE) | \$0.35 | \$0.20 | \$0.20 |

This new electrode energy throughput warranty applies for a maximum period of ten (10) years from date of purchase, or until the stated total energy throughput is reached (whichever comes first).

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The electrode energy warranty applies specifically to the electrode stack, with the balance of the ZBM modular component set maintaining a one year warranty against manufacturing defects. It is based upon adherence to published battery operational specifications and a maximum of one daily 100% charge/discharge duty cycle (or equivalent).

Redflow is pleased to offer this improved warranty on all new ZBM2 and ZBM3 product sales.

The RRP price for our ZBM2 and ZBM3 products has also been reduced significantly from US\$9,500 (16%) and US\$9,750 (10%) respectively. Wholesale product pricing is negotiated with system integrators based on their requirements and volume commitments.

As a result of these improvements, the nominal Levelised Cost Of Energy (LCOE) for the delivery of energy from ZBM2 and ZBM3 batteries has reduced by over 50% to US\$0.20/kWh (derived from the US\$8,000 list price and the expected 40,000 kWh electrode stack lifetime).

New Product Developments

The global energy storage market has seen a dramatic increase in customer interest regarding the deployment of energy storage systems in the residential and small to medium enterprise ("SME") sectors.

Redflow, in turn, has seen substantial direct interest from potential customers asking us to enter and support these market segments with our ZBM products.

Redflow is now developing appropriate additional products and deployment documentation to allow for the easy integration of ZBM products with a variety of existing AC battery inverter and DC battery control products by system integrators, to address worldwide residential and SME energy storage markets.

The first supported deployment of ZBM products into this important market sector will be with inverter/charger products from European inverter manufacturer, Victron Energy (<http://www.victronenergy.com>). These innovative and technically capable products are electrically approved and widely deployed by system integrators around the world.

To enable 'plug and play' inverter integration and management of the ZBM into multiple energy storage systems, Redflow is currently developing a new Redflow Battery Management System (BMS) product.

The Redflow BMS is a compact unit that will plug in to a string of 1 to 8 Redflow ZBMs. It will feature web based, automated battery string management and performance monitoring. Simple interfacing with a wide variety of AC and DC energy management systems will be enabled through the provision of appropriate I/O ports and signalling protocols.

Development work for the commercial Redflow BMS product will be undertaken in Adelaide under the guidance of Redflow director Simon Hackett. He will oversee the development and delivery of the BMS to Redflow under a commercial contract undertaken with Base64 Pty Ltd. Redflow will own all Intellectual Property developed by Base64 Pty Ltd under this contract.

This deployment approach offers the shortest time-to-market path for this important new product development work. Mr Hackett and his team have access to world-class expertise in this realm, they have the appropriate motivation and they have access to appropriate technical resources on an immediate basis.

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Redflow expects the first version of this product to be released in the first calendar quarter of 2016. It will be available to new and existing ZBM customers, and will work with all production versions of the ZBM.

New Global Sales Director

Redflow has recently appointed Andrew Kempster to the position of Global Sales Director.

Andrew will lead the structuring of new sales channels with system integrators to ensure that Redflow can prosecute our new opportunities in the residential and SME space from early in 2016, while continuing to work with our global sales team to pursue our active leads and trials around the world in the Telco and LSB markets.

Andrew has joined Redflow following over 16 years of success in sales and sales management positions with national Internet Services companies Internode Pty Ltd and iiNet Limited.

Board Composition

Following an internal strategic review at Redflow, the decision has been made by the Redflow board to appoint Redflow director (and major shareholder) Simon Hackett as the Chairman of the board of Redflow Limited, effective today.

Howard Stack will remain on the board and will take up the position of deputy chairman, providing ongoing support for Mr Hackett's role.

The composition of the board will be further reviewed by the incoming Chairman, with the potential to bring in additional board level expertise or to further adjust board composition if deemed appropriate.

This decision, supported unanimously by the board and CEO, reflects the recognition that the transition to supporting a broader customer base for Redflow products is contingent on the successful execution of a technically advanced and customer-centric delivery strategy, and that Mr Hackett is the best placed board member to lead and inspire this effort.

Conclusion

Incoming chairman Simon Hackett said the initiatives and decisions announced today would expand the market segments accessible to Redflow at just the right time.

"Howard Stack, Stuart Smith and the board have led the transition of Redflow from an R&D-centric organisation through to managing the production of high quality, hardy, long-lifetime batteries.", said Mr Hackett.

"The package of new initiatives announced today will combine to allow Redflow to address a much broader market. These initiatives are also great news and offer great benefit to existing and prospective Telco and LSB customers."

"I thank Howard sincerely for his efforts and achievements as Chairman. I look forward to working with the board, with CEO Stuart Smith, and with our entire team to help us to deliver products that are capable and deserving of significant success around the world."

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Howard Stack said, “Simon has a long history of successful innovation in the technology services sector. He has also demonstrated his business skills and his capacity to build business value by taking Internode Pty Ltd from inception in 1991 through to its successful sale to iiNet Limited in 2012 for \$105m. We were thrilled to have him join our board, and we see his appointment as Chairman as the next logical step”

“He undertakes this new board role and he oversees the development of the Redflow BMS with our full support”

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