

YÜTILITY SIMPLICITY



GROUP PLC

YÜ GROUP PLC

Annual report and financial statements 2019

INNOVATIVE AND SIMPLE BUSINESS UTILITY SOLUTIONS

Yü Group PLC is driving innovation in energy and utility supply solutions for UK businesses.

We provide gas, electricity and water supply solutions to SMEs and corporate customers. Our multi-utility offering and excellent customer service is focused on making it easier for businesses to manage their utilities. Our agile approach allows us to quickly test new routes to market alongside product innovation to drive scale and differentiation.



“ We have established strong foundations, have implemented actions to mitigate the impact of Covid-19, and will be ready to scale up in what is a £35 billion B2B addressable market.”

FINANCIAL REVIEW

- » Revenue increased by 38 per cent. to £111.6m (2018: £80.6m). Statutory loss of £5.0m for FY 2019, an improvement of 20.7 per cent. on FY 2018 (£6.3m loss)
- » Gross margin improvement, with 4.9 per cent. for FY 2019 (2018 restated²: 4 per cent.), and 6.7 per cent. for H2 2019 (2.1 per cent. for H2 2018)
- » Adjusted EBITDA³ loss of £4.2m (2018 loss: £6.3m), above market expectations. H2 2019 losses less than 60 per cent. of H1 2019 loss as legacy, low margin contracts continue to expire
- » Overdue customer receivables of seven days at 31 December 2019, an improvement from nine days at 31 December 2018⁴
- » Net cash of £1.8m (net of lease liability under IFRS 16⁵) at 31 December 2019 (2018: £14.6m). Cash collateral of £10.4m, prior to the impact of the new £13.0m credit facility to support the Group's hedging activities
- » Contracted revenue for 2020, as at 31 December 2019, of £79.5m (£88m at 31 December 2018 contracted for 2019) based on estimated usage of customers (prior to any impact from Covid-19)
 - » Legacy, low margin contracts account for £35m of contracted revenue for FY 2020, and less than £5m for FY 2021
- » Financial impact from Covid-19, including available support from the Government, is evolving and is deemed to represent a material risk for the Group. Available cash at 31 March 2020 of £10.9m, with a further £6.1m in collateral deposits

OPERATIONAL REVIEW

- » Business continuity plan deployed in reaction to Covid-19. Proactive monitoring and forward analysis of business and financial risks together with rolling mitigation programmes have been undertaken and are being implemented
- » Reshaping of the Board finalised and senior management team strengthened in key areas
- » Business fully reset with stronger governance, internal control and management. Further investment in systems and technology to automate key processes
- » Reducing impact expected from legacy, low margin contracts in FY 2020. New contracts secured at higher margin
- » Sales bookings achieving higher gross margins and increasing in H2 2019. Significant market opportunity remains
- » Trustpilot score of 4.5 stars (2018: 3.5 stars), a leader in the B2B energy supply market
- » Commercial arrangements finalised for new Leicester office due to open in 2021 to support the Group's growth ambition

1 Source: independent analysis from Bfy Consulting of B2B energy supply market volumes, February 2020, at £0.14/MWh for electricity and £0.88/therm for gas.

2 The year ended 31 December 2018 has been restated to reclassify £2,625,000 of amounts payable to third-party intermediaries from operating costs to cost of sales.

3 Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation, and also before non-recurring items, share based payments and unrealised gains or losses on derivative contracts. For FY 2018, it also excludes the impact of first-time adoption of IFRS 9. See reconciliation in note 7 to the financial statements.

4 Overdue customer receivables is expressed in days of sales, and relates to the total balance, net of provisions, of accrued income which is outside of the normal billing cycle, plus overdue trade receivables (net of VAT and CCL).

5 IFRS 16 results in a lease liability and corresponding asset being booked, for assets used under operating leases.

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▶ Read more at yugroupplc.com

YÜ UTILITY SIMPLICITY FOR BUSINESS

Yü Group offers a fresh approach to business utilities, integrating innovation and simplicity into small and medium-sized businesses that have not traditionally been engaged in the utilities market.

Trading under the brand Yü Energy, our multi-utility offer spans electricity, gas, water and other solutions for business customers across the UK. We are a direct supplier, not a broker, employing a range of routes to market in order to drive scale. We serve primarily small and medium-sized businesses across the UK – a huge market with 1.7 million¹ business meter points.

In the six years since we were founded, we have grown rapidly in a significant market and we now supply energy to thousands of sites across the UK. Our experienced management team has significant expertise across energy, utilities and other sectors. We employ an agile approach to rapidly test and roll out innovation and capitalise on the opportunities in the evolving business utility market.

¹ Source: independent analysis from Bfy Consulting of B2B energy supply market, February 2020.



“ We supply a wide range of market sectors from sport stadiums to retail, manufacturing facilities to care homes, offices to schools and many more.”

OUR SOLUTIONS

We supply businesses across the UK – a £35 billion market offering massive scope for growth.

WE PROVIDE THESE SOLUTIONS:



Gas, electricity and water supply

We are a licensed supplier of gas, electricity and water, offering great value, customer service and easy access.



EV charge points

We offer electric vehicle charge points to businesses, either funded by the end user or funded by us.



Up to three years' fixed prices



Hosted solutions

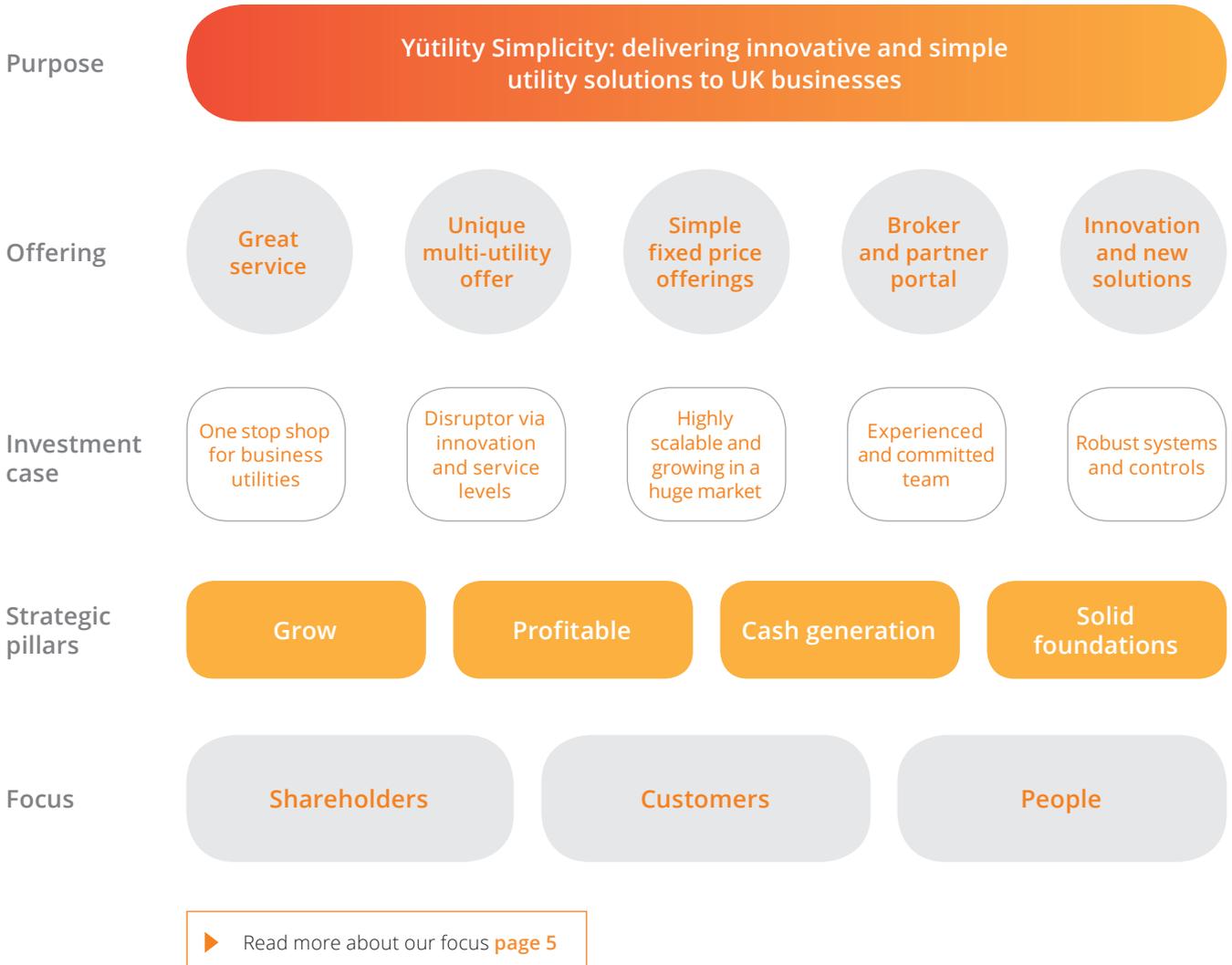


Green products



Multi-fuel savings

OUR APPROACH



Energy efficiency

We offer energy insight and advice to help our customers reduce their energy consumption, to save costs and carbon emissions.

 Energy data insight



Meter installations

We provide meter installations to connect properties under construction to a new utility supply, or to change the utility configuration in an existing building.

 New connections

WE SERVE:



Small and medium-sized businesses, multi-site corporates, third-party intermediaries and other partners.

 Online

 Outbound

 Inbound

BUSINESS UTILITY INNOVATORS

Developing a fresh approach to business utility supply.

Our unique multi-utility offering and agile approach to innovation is focused on developing a fresh approach to business utility supply in the UK.

Our customers are, often, time pressured small and medium-sized businesses which have been underserved by the incumbent suppliers. They are also significantly impacted by the recent Covid-19 outbreak, for which the Group is providing support. Our mission is to deliver a utility offering that addresses three fundamental issues for these businesses: **Trust, Hassle and Cost.**

We're reducing hassle and cost by developing solutions that can make it quick and easy for businesses to manage their utilities, allowing them to free up time and money to drive the success of their own business. For example, our multi-fuel plan allows businesses to have their gas, electricity and water in one place whilst benefiting from a saving on their overall bill.

We build trust through our commitment to delivering excellent customer service and relationship management, helping to drive renewal rates and lifetime customer value.

We're developing innovative routes to market that allow us to reach these businesses quickly, efficiently and at scale, utilising new technologies such as our broker and partner portal which allows a quick and easy quote and sign-up process.

Our experienced, dynamic and committed team has a wealth of expertise in the utilities market, combined with fresh thinking from other sectors. Using an agile approach to innovation, we are able to rapidly test and roll out new routes to market and product offerings, based on strong foundations for controlled, sustainable and profitable growth.

We employ robust systems and processes to ensure effective governance and compliance, whilst our trading and hedging policy ensures we effectively manage and reduce the risk from energy market volatility.

▶ Read about our strategy [page 14](#)

▶ Read about our people [page 29](#)

HOW WE DEVELOP OUR BUSINESS

We obtain revenue from our customers through the supply of gas, electricity and water to their properties, and by providing ancillary services such as energy efficiency reports. For utility supply, we typically receive a variable income, based on the units (kWh for electricity and gas, or m³ for water) of consumption and a standing charge typically based on the size of the customer's utility connection.

Our fixed price and fixed duration contracts provide a subscription model with good visibility of forward revenues on which to build.

We target small and medium-sized businesses, making it easy for customers to switch their energy supplier. We engage with customers via multiple channels.

Direct sales

Our direct sales team operates from an expanding outbound and inbound contact centre in Leicester, giving customers the benefit of a quick and easy quote and sign-up process. This channel benefits from a new quoting and sales platform to increase speed and efficiency and targeted campaigns demonstrating the benefits of the offer.

Online

We've expanded our online offering, both direct via our own website and via price comparison sites, providing an efficient and low cost to acquire channel. We increase traffic through the use of digital marketing.

Brokers

We work with carefully selected third-party intermediaries ("TPIs") aligned to our commitment to transparency and service. Our new broker portal allows TPIs to quickly and easily quote and contract online. We engage directly for larger, more complex accounts, providing a rapid turnaround and bespoke service.

Partners

Our partner channel offers innovative routes to market to connect with harder to reach, less engaged businesses. Our portal allows partners to quickly and easily quote and contract online.

Average contract term: **22 months**

Renewals and relationship management

We maximise the opportunity to retain customers via our dedicated renewals team, complemented by excellent customer service through our relationship management team, building strong and enduring relationships.

1 Transport & Environment study: Recharge EU, January 2020.

WHAT MAKES US DIFFERENT

Our unique multi-utility offer brings gas, electricity and water together in one place, making it easier for time pressured businesses to manage their business utilities.

Leading customer service

We're focused on delivering excellent customer service via our UK based relationship management team. Our three-ring pick up ensures customers can quickly and easily resolve their queries, so they can get on with running their business. Our customer service performance places us as a leading business to business energy supplier, with a Trustpilot score of 4.5 stars at 31 December 2019.

Average call answer time: **8 seconds**

Fixed price, bundled utility plans

Our simple fixed price utility plans provide simplicity and certainty for businesses, so they know how much they'll pay. For example, our multi-fuel plan allows customers to save when they combine two or more utility supplies across energy and water.

Simple to deal with

Our record on customer service is supplemented by technology to make it simple for customers, brokers and partners to engage with us. We provide speedy quotes through an online portal and a quick sign-up process.

Innovation and growing product offering

We are helping small businesses get smarter with their energy management with SMETS2 smart meters whilst our power usage reporting helps customers understand their energy consumption and take action to improve efficiency. Our EV charge point services help businesses improve facilities for their staff and customers, whilst supporting sustainability and creating new revenue streams in a significant market.

Number of UK public EV charge points required by 2030: **500,000**¹

Our history and values

The business was founded by Bobby Kalar, who remains majority shareholder and CEO. As a busy owner of care homes, Bobby felt let down by the poor service he received from his energy supplier. He founded Yü Energy with the mantra to make it simple for businesses to access excellent services for fair prices, and that still lives on today.

OUR KEY STAKEHOLDERS

Shareholders

Our business has great potential to grow in a controlled way, benefits from experienced management and has a recurring revenue stream. UK businesses are facing significant challenges related to Covid-19, with significant pressure on SMEs. The Board believes that the Group is well positioned to navigate this turbulent period, supporting its customer base, and will be able to grow as and when the economy recovers from the economic trauma being inflicted by Covid-19.

The scale of the market opportunity is significant, and the Group is well placed to drive value over the medium to long term.

Yü Group's share of business to business energy supply market:

0.2%

Customers

We deliver Yü Utility Simplicity for our customers via competitive fixed prices, bundled offerings, great service and product innovation. This combination is helping SMEs to overcome the barriers to trust, hassle and cost, freeing up their time to focus on running their business.

Trustpilot rating: **4.5 stars**

People

Our talented team is based across our offices in Nottingham and Leicester. We have expanded our Leicester office to bring together our sales, marketing and product innovations team and intend to further expand our presence in the region in our new purpose-built office. We employ local apprentices, develop our people through a culture of continuous learning and engage our teams to work towards our common business purpose.

Number of employees at 31 December 2019: **129**

REINFORCING MANAGEMENT



Robin Paynter Bryant
Chairman

A clearly defined governance framework which is designed to enable robust, well-challenged and effective decision-making behaviours, these being the indispensable drivers for achieving sustainable growth and increased profitability, as well as for managing abnormal times of difficulty and challenge.

Introduction

Since joining Yü Group PLC as Chairman in January 2020, I have been impressed by the progress, resilience and determination to succeed, as demonstrated during the recent “reset” of the business. Systems and processes have been improved, the Executive Management Team has been strengthened, new partnerships have been established which support the Group's cash position and ability to hedge risks, and there is a clear strategy to scale in a £35 billion business to business (“B2B”) addressable market.

To further support this, the Board has taken action to provide very strong

foundations upon which we can seek to effectively manage the current economic turmoil with a view to driving growth once the market recovers.

Indeed, we are already seeing the impact of implementing the actions required to achieve our strategic priorities. In FY 2019, prior to the outbreak of Covid-19, sales increased 38 per cent. to £111.6m supported by a substantial improvement of gross margin on new business now booked at “high single digit” levels. Losses reduced from £2.7m in H1 2019 to £1.6m in H2 2019 as legacy, low margin contracts continued to expire from the contract book, and we have managed down the impact of bad debt to 2.7 per cent. in FY 2019 (from 4.5 per cent. in FY 2018). We believe the platform is now in place for the Group to weather the current economic storm and grow in a controlled manner at the appropriate juncture.

Strengthening of the Board will support, mentor and challenge an ambitious Executive

I joined the Board as Independent Chairman with the mission to ensure that the Group takes an effective, mature and well-considered approach to implementing the “best in class” governance structures required in order to move the Group on to the next stages in its evolution.

One of my principal roles is to ensure collegiate adherence to a clearly defined governance framework which is designed to enable robust, well-challenged and effective decision-making behaviours, these being indispensable to securing the Group's future and achieving sustainable growth in due course.

The Board and the Executive have recently undergone a “refresh” and I am joined on the Board by two further Independent Non-executive Directors who will significantly increase the Board's ability to support and mentor Yü Group's wider Executive Management Team. My new colleagues are:

Tony Perkins, who was also appointed in January 2020, joins the Group as our Senior Independent Director. Tony was

previously at accountants BDO where he was appointed a partner in 1990, having joined in 1980. He has acted for many fully listed and AIM companies in the professional services, natural resources, technology, manufacturing and retail sectors. He has extensive experience in financial, governance and risk management and has advised on corporate strategy, transactions and expansion of businesses in the UK and internationally. Tony has held senior management positions at BDO as a member of the firm's leadership team including head of its London operations and national head of audit. Tony brings vastly significant finance, audit and compliance expertise to the Board. He also serves as Chairman of the Audit Committee whose remit now includes a revitalised focus on risk and opportunity assurance.

John Glasgow continues as an Independent Non-executive Director and serves as Chairman of the Remuneration Committee and, with me, will serve on the Audit Committee. John brings deep industry, commercial and technical knowledge to the Board, having been head of strategy at the establishment of the new E.ON energy services business, E.ON director of new connections & metering and director of operations and asset management at E.ON Central Networks. During this time John was also a board member of the Energy Networks Association and a member of the DECC Energy Emergencies Executive Committee (E3C). Upon leaving E.ON John became managing director of Sterling Power Utilities Ltd. John is also a board member of the St Modwen Environmental Trust.

The Board is therefore now rebalanced, and complying with best practice, is comprised of three Independent Non-executive Directors with two Executive Directors:

Bobby Kalar, Executive Director, Board member and Chief Executive Officer, now also chairs a redesigned Executive Committee (“ExCo”) and is responsible to the Board for the day to day management and implementation of the agreed Board strategies, to which he is a major strategy contributor.

THE IMPACT OF COVID-19

This pandemic is clearly a worrying time for the global population, for people in the UK, and, of course, the wider economy and our business customers.

The business priority has, rightly, been on ensuring our colleagues', customers' and other stakeholders' health and safety is considered. We have closely followed official health advice, taken steps to mitigate the impact on our employees, and successfully implemented our business continuity plan.

The impact on the Group's financial performance and liquidity is dependent on a variety of factors: from the time for which the virus materially impacts society; the Government action to protect the UK economy, particularly the support it provides to small and medium-sized entities; and the ability for our customers to continue their operations through this difficult period and beyond.

The Group's revenues are generated from activities across various business customers' market segments, from retail, education, leisure and offices through to care homes, manufacturers and data centres. The Board has assessed its contracted revenue for the year to 31 March 2021 and has identified 43 per cent. is generated from sectors which may be at higher risk of impact from Covid-19; 41 per cent. from customers with a medium risk profile; and 16 per cent. from lower risk customers.

The anticipated reduction in revenue and, potentially, margin within various customer segments (resulting from a lower energy consumption) combined with potential for delay in the collection of customer receivables, and anticipated increased levels of bad debt, represents a significant risk to the Group. Any potential breach of covenants related to the new trading facility and the level of commercial credit which it affords will

require close management in order to mitigate any potentially adverse impact on the Group's financial performance.

As at 31 March 2020 the Group had £10.9m cash at bank, plus a further £6.1m in cash collateral which is expected to become available in Q2 2020 due to the new structured trading arrangement. The Board is currently comfortable, based on analysis to date and announcements by the Government to support businesses, that there is sufficient headroom (and levers, if required) in the Group's cash position without recourse to seeking additional equity to support the Group's capital base.

Nonetheless, unpredictability regarding the possible future impacts of Covid-19 on our business is highly complex to accurately model and this, in and of itself, constitutes a potential material uncertainty regarding the ability to wholly and unreservedly affirm the forward-looking statement of going concern. As such, the Directors have made an appropriate disclosure to this effect in the published audited annual accounts of the Group.

Whilst our priority is on playing our part in ensuring the world can recover from the de-stabilisation caused by Covid-19, the business consequences for the Group are still evolving, and are being closely and actively monitored by the Board.

- ▶ See more around the business risk related to Covid-19 in the Finance Review, the risks and uncertainties section of the Strategic Report on [page 21](#), and the basis of preparation note in the financial statements on [page 51](#)

“ I'm proud of my team's response to date and thank them for their continued efforts to value health and safety, whilst keeping the business running to serve our customers and key partners. The extent of the business impact remains uncertain, and we continue to monitor the situation carefully.”

Bobby Kalar
CEO

Strengthening of the Board will support, mentor and challenge an ambitious Executive continued

Paul Rawson, Executive Director, Board member, also serves as our Chief Financial Officer and Company Secretary. Paul has significant industry and financial experience, as part of the Engie Group (ex GDF-Suez) and has been instrumental in implementing our "reset" as well as the embedding and enhancement of various "best practice" processes also suggested in the PwC reports which the Group commissioned.

Whilst we have recently focused on strengthening the effectiveness of our governance and the implementation of strengthened and joined-up internal controls across the business, it is vital for us to continue ensuring that the business retains an agile, pivotable "industry disruptive" mindset.

I believe that the Board now has the appropriate structure, balance and blend of skills together with the expertise and experience that will enable appropriate challenge, constructive strategic debate and the promotion of the best interests of all of our shareholders and stakeholders.

I am delighted to have joined this young, robust and now well-structured Group, which I believe has a bright future, a fresh outlook and a significant and value-generating market to address.

An experienced Executive Management Team

Reporting to the Board via the CEO, a strong and experienced management team has now been re-engineered and tasked with implementing the business plan as agreed by the Board. The ExCo, led by the CEO, consisting of the management team of Executive Directors and senior managers, will drive the day to day activities of the business, reporting to and seeking counsel from the Board.

The Group has strengthened its management team during FY 2019, including the appointment of a Sales and Marketing Director and a Head of Commercial

Operations to improve the bill to cash cycle of the Group. A new Group Operations and Transformation Director has also been appointed to digitalise key sales and operational processes, and to further enhance the Group in preparation for future growth. As part of this Garry Pickering, previously COO, has taken a new role on this newly formed ExCo to ensure continued focus on the Group's hedging of commodity risks.

The strength-in-depth of the Executive Management Team will help the continuing evolution of our business, ultimately enabling a lower cost to serve, improved gross margins and a great service for our customers.

This strength has been recently and amply demonstrated in the efficient and level-headed response to undertaking the extensive planning required to put in place effective mitigation action plans in order to address the varied challenges occasioned by the coronavirus outbreak.

Covid-19

In response to the recent outbreak of the coronavirus disease, Covid-19, we have successfully deployed the Group's business continuity plan. Whilst there has been little material financial or operational impact to date, my colleagues across the business are working tirelessly with key partners and stakeholders to ensure continued and effective delivery of our services to customers. Our seasoned and mature teams' proven professional ability to model, hedge and risk manage abnormal movements in commodity prices and partner and customer behaviours is complemented and supported by our new trading arrangements as well as robust working capital and cash positions.

The Group remains debt free and the Board remains focused on ensuring that, whilst we may be required to temporarily flex our planned rates of ambitious organic growth, we will remain well positioned to take advantage, in due course, of such significant market opportunities as may arise from the current period of uncertainty.

The measures taken, and the potential risks to the Group associated with the Covid-19 outbreak, are further detailed in the Finance Review and the risks and uncertainties section of the annual report.

Strategic focus

The Board remains resolute in its determination to scale the business, differentiating itself by the level of customer service it offers and its agility in providing new and disruptive solutions and by constant evolution to increase customers' ease of interaction and access to the benefits of the solutions we offer.

Our strategic priorities are explained further on page 14.

Whilst the impact of Covid-19 will create some new and challenging priorities for the Board, the four pillars of our medium to long-term strategy remain: (i) to focus on generating controlled growth through the provision of existing and new products and services; (ii) to achieve sustainable profitability through gross margin and overhead management; (iii) to generate cash and reduce the working capital required; and (iv) to ensure sound foundations for the business from customer service to engaging with our employees through to acting in accordance with appropriately high standards of corporate governance.

The future

Notwithstanding recent developments re the coronavirus the rest of the Board and I believe that the business, after its "reset" now has a great and exciting opportunity to challenge and disrupt our market and to deliver, in future, on our strategy to scale.

I look forward to updating our shareholders and other key stakeholders in due course.

See also the summary of our approach to governance from page 34.

Robin Paynter Bryant
Chairman

6 April 2020

“The Board remains resolute in its determination to scale the business, differentiating itself by the level of customer service it offers and its agility in providing new and disruptive solutions and by constant evolution to increase customers' ease of interaction and access to the benefits of the solutions we offer.”

NEW DEVELOPMENT



NEW ENERGY TRADING AGREEMENT

The Group traditionally relied on several trading arrangements to access wholesale electricity and gas commodity markets. Such arrangements enabled the Group to hedge its position through the forward purchase of energy commodity volume to balance against the forecasted demand of its customer contracts.

These arrangements mitigated the Group's risk of exposure to volatile forward energy commodity markets, though required the Group to post cash collateral to support the hedging activities – as there was only a limited level of credit provided by the third party.

Our new structured £13.0m trading agreement with SmartestEnergy, which is part of the global Japanese trading and investment conglomerate Marubeni Corporation, followed a significant period of due diligence by both parties.

The structure enables access, on a transparent and cost-effective basis, to forward energy commodity markets in order to continue to hedge forecasted demand. The structured nature of the arrangement also provides a variable credit line which reduces the likelihood of the requirement to post cash collateral, and thus improves the Group's cash position. Effectively, the credit line provided by SmartestEnergy reduces the need to utilise the Group's cash to post as collateral, allowing a more efficient use of the cash.

Crucially, this credit line will increase as the business grows, providing a permanent and significant working capital benefit.

Robert Groves, SmartestEnergy's CEO, commented: "SmartestEnergy is delighted to have entered into a wholesale trading partnership with Yü Energy, one of the fastest growing and most exciting challengers in the business energy supply market. After an extensive period of due diligence, we were impressed with the breadth of management team, the strategy in place to scale the business and the available opportunities for the business. Through this partnership, SmartestEnergy will support Yü Energy in managing the complex risks associated with volatile and challenging market conditions. We look forward to working together with the leadership team at Yü Energy as it continues to grow its business."

▶ Read more at yugroupplc.com

“ Cash collateral posted at 31 December 2019 was £10.4m, representing cash effectively “tied up” to cover the Group’s forward hedging strategy. This new trading facility facilitates cash to remain within Yü Group, reducing future working capital outlay as the business scales.”

MAJOR PROGRESS HAS BEEN MADE



Bobby Kalar
Chief Executive Officer

We are a much more robust and mature business, ready for the next stage of growth and evolution.

We have met significant milestones to reset and transform the business, have substantially increased performance and continue to benchmark operational efficiency through stretching business targets.

This has been a huge year of reset, which I am convinced will be a turning point in the Group's pursuit of profitable growth.

As a consequence of previous uncontrolled rapid growth, a "back to basics" root and branch approach has allowed the Group to focus on key areas which required strengthening, and parts of the business that were inefficient or heavily reliant on manual processes. The full journey of our customers' lifecycle has been redesigned so that an efficient process targets a right first-time mentality: from "prospect to booking", "sale to registration" and "bill to cash".

I'm pleased that this approach and continued development during the year has established a strong focus on enhancing gross margin and cost discipline, along with refocused sales and operational, financial and commercial controls.

These actions are starting to be reflected in the Group's financial performance and will continue to be as low margin contracts expire and are washed out of the forward contract book.

Adjusted EBITDA loss has decreased to £4.2m (2018: £6.3m), which is better than market expectations, and our H2 2019 (loss of £1.6m) performance was significantly better than H1 2019 (loss of £2.7m) and H2 2018 (loss of £5.2m).

As the Group continues to mature, I am pleased that the culture and behaviours in the business are now fully aligned to providing customers with a high quality service.

The Board is confident that the results of the Group will continue to progress with improved margins secured as new contracts are booked and the economy recovers from the impact of Covid-19. With that in mind, the Board and I remain convinced in the future potential for the Group to expand and realise profitable growth.

Strategic review

The purpose of our Group is to provide Yüility Simplicity, that is, to make it easy for businesses across the UK to access simple, innovative products for their utility supply. It has never been more appropriate to support small businesses, who are the bedrock of a thriving UK economy.

Our strategic priorities span four key areas and we use these focus areas to drive our business performance:

- » **Growth.** There is an enormous addressable B2B market. Our priority is to scale via the supply of gas, electricity and water to businesses across the UK. This growth is generated through various sales channels and the core business activities are complemented by additional products.
- » **Profitability.** We continue to take steps to ensure the long-term profitability of the Group. We are enhancing gross margins through a more selective, albeit still ambitious, growth strategy and a focus on managing customer lifecycle

value. We also focus on reducing overheads, particularly as we scale.

- » **Cash generation.** The Group benefits from a cash generative working capital cycle and a new trading arrangement to cover its trading requirements, which structurally results in a positive operational cash flow despite the Group's growth. Our focus is to closely manage the prompt billing and collection of the Group's revenues and to manage cash carefully to drive long-term value. The Group also continues to implement new digital tools to automate processes which are appropriate for a growing business.
- » **Solid foundations.** Ensuring a focus on good customer service, demonstrating our values and behaviours by engaging with employees, being clear on organisational accountability and maintaining fit and proper governance processes are all key considerations in the Group's activities.

▶ Read more about our business model [page 4](#)

▶ Read more about our strategy [page 14](#)

Covid-19

The business risk related to Covid-19 is further detailed in the Finance Review, and the annual report, together with the actions taken to mitigate, as much as possible, the risks.

This pandemic is clearly a worrying time for the global population, for people in the UK, and, of course, for the wider economy and our business customers. Our Group generates a significant proportion of revenue from sectors which are likely to have been materially impacted by Covid-19, which we are continuing to monitor.

“ Our four strategic priorities are used to ensure organisational focus, set key performance indicators to track progress and ultimately create shareholder value.”

As CEO of a growing and maturing business, my priority has been ensuring our colleagues, customers' and other stakeholders' health and safety is considered. We have closely followed official health advice, taken steps to mitigate the impact on our employees, and successfully implemented our business continuity plan.

I'm proud of my team's response and thank them for their continued efforts to maintain health and safety, whilst keeping the business running to serve our customers and key partners. In line with Government guidance all of our staff have been successfully transitioned to remote working status with minimal disruption to customers or working practices.

Market context

There has been a significant reduction in forward gas and electricity commodity market prices during 2019 and early 2020, driven by various macroeconomic factors, including excess gas becoming available in the global market and, more recently, the economic impact Covid-19 is having on economic growth. This commodity market price reduction has two contrasting impacts on our business. Firstly, customers are more likely to take advantage of the lower market to "lock in" the reduction for the coming years. Whilst the revenue booked may be lower in absolute terms (as a result of the lower commodity market) for individual customers, the margin per customer opportunity is not adversely impacted.

Secondly, a reducing forward commodity market leads to trading counterparties being exposed to mark-to-market risk if the purchase of commodity is not fulfilled, traditionally leading to "cash calls" being made. Such cash calls led to £10.4m of deposits being lodged as collateral with trading counterparties at 31 December 2019 (Enil at 31 December 2018).

Our new structured trading arrangement with SmartestEnergy, part of the major Japanese entity Marubeni provides a c.£13.0m variable credit facility which

is designed to scale up in tandem with the growth in the business. This has the key benefit of freeing up cash, enabling a more efficient use of the Group's capital. I'm pleased that our Group has secured this new arrangement; following a period of significant due diligence, our strategic goals and core principles are aligned and I look forward to working closely with our new partners over the coming months and years.

Market opportunity

I founded this business when, as a small business owner myself (operating in the care home sector), I had lost all faith in the major energy companies. I didn't feel as though I was receiving a fair service, or value for money and all I wanted was an easy experience and to feel like a customer. It is this position that drives me in my passion to provide a new approach, based on simplicity and innovation.

Competition in the B2B energy supply market is less prevalent than the domestic sector. In the last nine months, there have been no new B2B supply licence applications to Ofgem for either gas or electricity. There are additional barriers to entry in the B2B market, such as the need to provide half hourly pricing, which requires additional operations and technical capability. The B2B market is dominated by larger players who have inefficient, expensive and inflexible

systems and less ability to understand and serve the customer. I believe that the market dynamics give the Group a great opportunity. Our success in this market depends on providing simple and innovative solutions which can be accessed easily and a good, fair, service to our customers so they remain with us, and by controlling our costs as we scale.

Once the economy recovers the potential for growth is enormous. As in the business to consumer market, opportunities will arise where synergies will further push our growth and provide greater return. We currently only serve 0.2 per cent.¹ of the B2B market and our Group is now in a position to scale rapidly, offering a fresh, new approach to businesses' utility needs.

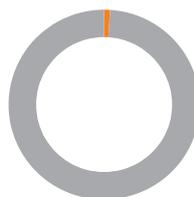
The Group offers leading customer service and simple, innovative products to businesses across the UK. For example, we are the only multi-utility (gas, electricity and water) supplier enabling business customers to receive simple bundled products for all their utilities. Our three-ring pick up policy, UK call centre and use of digital technologies make it easy for customers and partners to engage with us.

In addition, our internal criteria to select the right growth opportunities has been enhanced and we now target our efforts more carefully regarding the customers we wish to serve and the channels we use to develop our business.

MARKET OPPORTUNITY

8,724
Yü Group
meter points

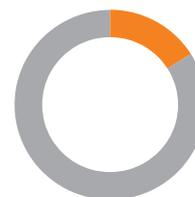
1,700,000
meters
(gas and power)
in the market



BOOKINGS PER CHANNEL

16%
direct bookings

84%
indirect bookings



¹ Source: independent analysis from Bfy Consulting of B2B energy supply market, February 2020.

Chief Executive Officer's statement *continued*

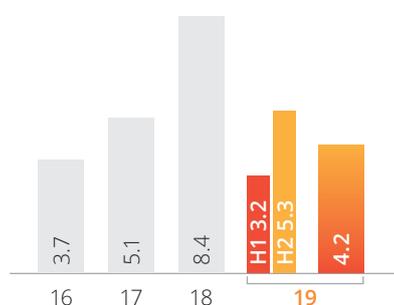
Bookings

Bookings represent the annualised value of contracts secured during a period and are a core indicator for business growth. Our average monthly bookings for FY 2019 were £4.2m (FY 2018: £8.4m), with an increase in H2 2019 (£5.3m) when compared to H1 2019 (£3.2m). The Board believes the Group can now manage significantly increased levels of bookings, post the establishment of new automated processes and stronger governance.

Gross margin on bookings during FY 2019 have averaged high single digit gross margins, which is broadly double the gross margins achieved on bookings in FY 2018. This increased gross margin will continue to flow through to an improved financial position over FY 2020 and beyond as the legacy, low margin contracts expire.

Average monthly bookings
£m

£4.2m



The Group ended 2019 with £79.5m of revenue, prior to any impact from Covid-19, contracted for FY 2020. Of the contracted revenue, approximately £45m was booked in FY 2019 at increased margins. The remaining £35m contracted revenue are legacy, low margin contracts. The majority of these legacy contracts will expire in FY 2020, leading to enhanced gross margins from FY 2021.

Our business foundations

We have always had ambitious plans to scale the business and to that end the Group has established strong business foundations upon which to build. These systems will help us manage the unprecedented market turmoil that is currently being experienced and will leave us well positioned as and when the situation improves.

Customer service also remains a top priority. The Group continues to offer a three-ring pick up policy, providing dedicated relationship managers to resolve customer queries. Our Trustpilot score has improved from 3.5 stars at 31 December 2018 to 4.5 stars at 31 December 2019. This score ranks the Group as a leader in the B2B energy supply sector.

As well as the strengthened and refocused Board, an experienced and committed management team has been established to drive business performance. We have implemented a new people strategy and work hard to engage and empower teams and to promote the Group's values.

We have also commenced an ambitious plan to build on improved sales and onboarding processes to bring new digital tools to our customers and to utilise them to improve efficiency in our operations.

Summary

I am satisfied that the business has turned a corner and achieved a full reset. Our goal, in time, is to be one of the largest "go to" SME utility suppliers in the UK.

The work done has been immense:

- » strengthening of the Board to create good corporate governance and a support mechanism for the Executive to explore new synergies;
- » redesigning the organisational structure and recruiting a strong Executive Committee to manage the sales strategy, commercial function and risk management;
- » a renewed discipline on gross margin throughout the business and a strong approach to debt management, which is already showing a positive impact;
- » our new deal with SmartestEnergy which has effectively removed cash as a barrier to growth and means we can significantly scale the business for the next three to four years without having to lodge cash;
- » a commitment to further accelerate our customer experience by digitising our business and reducing the cost to serve; and
- » utilising data to drive insight to better understand market habits and risks, which I believe is a game changing growth accelerator.

Notwithstanding the challenges caused by Covid-19, I am confident the past "chapter" can now be closed and am expecting to report more positive updates in the future.

Lastly this has been an enormous team effort and my sincere gratitude to all my team; I look forward to returning the business back to profit soon.

Outlook

The business has been reset and I fully believe that the experience and processes we now have established will drive sustainable, profitable growth, once the economic context recovers. Gross margin improved to 4.9 per cent. for FY 2019 (2018 restated: 4 per cent.), and 6.7 per cent. for H2 2019 (2.1 per cent. for H2 2018).

Our Adjusted EBITDA loss has decreased significantly, from £5.3m in H2 2018 to £1.6m in H2 2019, and our overdue customer receivables position has improved by two days, to stand at seven days, demonstrating our clear financial and working capital discipline.

The Group exceeded market forecasts in relation to revenues and Adjusted EBITDA in FY 2019.

The Board is continuously assessing and managing the impact of the Covid-19 outbreak on the business and the financial and operational performance of the Group. Some revenue reduction impact is anticipated as a result of lower demand from business customers across Great Britain, and as sales bookings decrease due to a change in customer priorities. The impact from Covid-19 on bad debt, operating cash flows (through late payment of customer receivables) and reduced sales growth is also uncertain, as the UK economy deals with the impact of the pandemic, although the reassurance from the UK Government to support businesses is pleasing to hear.

The Group's business model, strategy and risk management are in a much more robust position than previously, with significantly improving margins and Adjusted EBITDA in the medium term. Although the short-term business consequences from the outbreak of Covid-19 are largely uncertain, the medium to long-term growth opportunity remains clear and the Group's core target.

Bobby Kalar
Chief Executive Officer
6 April 2020

BUSINESS ENERGY INNOVATION

A significant market.

We are on a mission to disrupt the business utility market, continuously innovating to deliver Yüility Simplicity for businesses. Utility supply is a fundamental requirement for all businesses across the UK. As such, the Group is largely “sector agnostic”. There are 1.7 million business gas and electricity meter points, and the Group currently supplies around 9,000 of them. At approximately 0.2 per cent. of the business to business supply market, the scale of the opportunity to grow is enormous.

1

SMALL AND MEDIUM-SIZED BUSINESSES

Engaging directly with small, medium and multi-site businesses

45%
of the market engage directly with suppliers to switch¹

635,000
customers have never switched¹

We're driving growth by targeting the 810,000 businesses which engage directly with energy suppliers, and the 635,000 businesses that haven't switched their business energy supplier.

We use digital tools and innovative solutions to overcome three barriers for these customers: Trust, Hassle and Cost. We provide great service, simple

straightforward communication and utilities all under one roof to drive cost efficiency.

We have developed our online channel to provide quick and easy quotes, employing digital marketing strategies to reach these audiences with investment in marketing automation to optimise communication.

2

THIRD-PARTY INTERMEDIARIES AND PARTNERS

Engaging through TPIs or carefully selected partners, to secure new business

330,000
businesses engage through TPIs to source their energy supply¹

We've expanded our offering to brokers, adding water supply, EV charging and power usage reporting to our portfolio.

We have invested in a new portal enabling us to drive efficiency and scale, allowing broker access to instant online quoting and contracts in a cost-efficient manner.

Partnerships provide innovative new routes to market for Yü Group and ways for partners to drive additional revenue and engage their client base.

OUR TARGET CUSTOMER

They value a fair and easy service

A large proportion of small and medium-sized businesses are time poor. As a consequence, they may not engage with their energy supplier and are likely to be on expensive tariffs, suffering poor service. We can provide a fair price through a quick quote, easy sign-on process and a long-term “hassle free” experience for these customers.

Multi-site or multi-product

Our unique multi-fuel products combine gas, electricity and water to make it easier for customers to manage all their utilities. We also offer additional services, such as electric vehicle charge points. Customers can make savings as we pass on benefits from business efficiencies in serving the customer.

Acceptable return and credit risk

Our commercial processes balance the various business acquisition and service costs, the gross margin achievable and the likelihood of bad debt. The approach is now tailored so that it provides the optimum mix between growth and net customer contribution profitability. The current economic crisis reinforces our determination to continue our drive to work with more robust and profitable customers. Given our success in this ambition over the last year, we remain confident in our ability to achieve this strategy over the medium and long term.

8 seconds
average time to answer the phone

Supply of gas, electricity and water
solutions include energy efficiency and EV charging

£5.3m
average monthly bookings in H2 2019

¹ Source: independent analysis from Bfy Consulting of B2B energy supply market, February 2020.

CLEAR STRATEGIC PRIORITIES

Improving business performance in a £35 billion market.

1. GROWTH

There are over 1.7 million customer meter points throughout the UK, across various market segments. We look to scale our business through our core electricity and gas supply offering, supplemented by additional complementary products as appropriate.

We secure new customers through varied routes to market and in line with our commercial criteria. We also offer great customer service so as to focus on retaining our valuable customers.

Progress in 2019

- » Achieved 38 per cent. growth in revenue in FY 2019
- » Average monthly bookings of £4.2m for FY 2019, increasing from £3.2m in H1 to £5.3m in H2
- » Exited 2019 with £79.5m of revenue contracted for FY 2020, at an increased gross margin to the exit of 2018. Such contracted revenue excludes any reduction as a consequence of lower energy volume consumed by customers due to Covid-19
- » Established strong commercial and financial controls on sales processes
- » Extended offering to include energy efficiency and electric vehicle charge points
- » Established a new Leicester office to increase direct sales, and entered contracts to secure a new purpose-built office from 2021

Priorities in 2020

- » Further preparation for expansion of sales, marketing and innovation teams in our new Leicester office
- » Increase number of customers with multiple fuels and/or multiple products
- » Expand bookings in partnership and indirect channels, utilising the recently launched portal
- » Increase our B2B market share from the current 0.2 per cent.
- » Manage impact on growth from the Covid-19 outbreak, and the onward economic environment

Links to KPIs



Links to risks



2. PROFITABILITY

Sustainable profitability is targeted by balancing the net contribution from customers and general overhead costs. Through improving gross margin on bookings and managing lifecycle value of those contracts (including bad debt), the Group achieves a contribution from customers. General overheads (which represents the costs to acquire customers, to operationally service contracts and the general administrative costs) are controlled to balance the growth and customer service aspirations of the Group – enabling economies of scale as the business develops.

Progress in 2019

- » Net customer contribution¹ increased from -0.4 per cent. in FY 2018 to 2.5 per cent. in FY 2019
- » General overheads reduced from 7.4 per cent. in FY 2018 to 6.3 per cent. in FY 2019
- » New dunning process implemented, to improve cash collection performance
- » Improved commercial focus in the operational teams, including appointment of a new Head of Debt and Commercial
- » Migrated gas CRM system onto common platform with electricity
- » Introduced new portal quoting system for use by brokers and partners

Priorities in 2020

- » Manage the increased risk of bad debt as a result of the Covid-19 virus outbreak
 - » Automate sales onboarding and operational processes
 - » Leverage economies of scale from business foundations
 - » Continue to expand sales via lower cost to acquire channels, including online and partner models
- 1 Net customer contribution represents, as a percentage of revenue, the amount excluding any one-off costs of gross margin, less bad debt.

Links to KPIs



Links to risks



KEY TO KPIS

- A** Contracted revenue
- B** Average monthly new bookings
- C** Total meter points
- D** Net customer contribution
- E** General overheads
- F** Overdue customer receivables

KEY TO RISKS

- 1** Revenue recognition
- 2** Credit risk
- 3** Trading risk
- 4** Covenant breach
- 5** Data integrity
- 6** Relationship with regulatory bodies

3. CASH GENERATION

The Group benefits from a cash generative working capital cycle. Short payment terms with customers are typical, which results in cash collection prior to cash outflows. The Group also takes advantage of certain seasonal benefits to its cash processes.

The Group targets positive operational cash flows as a result of the working capital cycle and looks to manage the risk of cash volatility caused by margin calling from trading counterparties through a new partnership.

Progress in 2019

- » Operational cash outflow of £10.7m, of which £10.4m relates to an increase in cash collateral deposits lodged with trading counterparties
- » New structured trading arrangement with SmartestEnergy, providing a variable c.£13m credit line
- » Further reduction in overdue customer receivables, from nine days at 31 December 2018 to seven days at 31 December 2019

Priorities in 2020

- » Generate operational cash inflow, including realising the benefit of the new structured trading arrangement
- » Continued active management of the Group's trade receivables balance, particularly in view of the economic outlook as a result of the Covid-19 pandemic
- » Management of capital expenditure related to the investment in the new Leicester property and certain technology investments

Links to KPis

- A**
- D**
- E**
- F**

Links to risks

- 3**
- 4**

4. SOLID FOUNDATIONS

The Group operates in an enormous market and continues to scale. Managing such growth requires robust governance, customer centricity and a workforce fully engaged and aligned to the Group's vision.

The Group has invested in an experienced and capable Executive Management Team, key systems are in place on which to build and scale the business and processes and people are aligned to a common purpose.

Progress in 2019

- » Commissioned, received and incorporated the suggestions from two further independent "health check" reports from PwC regarding the Group's internal controls
- » Strengthened Board of Directors and Executive Management Team, to manage significant growth
- » Embedded new delegated levels of authority, governance and internal control frameworks and tightened key financial controls – particularly around customer billing and cash collection
- » Trustpilot score improved from 3.5 stars at 31 December 2018 to 4.5 stars at 31 December 2019
- » Launch of the Group's values to all employees: Customer; Innovation; Teamwork; and Integrity

Priorities in 2020

- » Retain and develop systems and processes to continually improve customer service levels
- » Further embed the new corporate values
- » Continued development of systems and processes as the Group scales, including automation processes
- » Close monitoring of internal control and risk environment, including close management of commodity hedging activities
- » Ensuring compliance with covenants in the structured trading arrangements
- » Manage business and operational systems under business continuity conditions, where necessary

Links to KPis

- D**
- E**

Links to risks

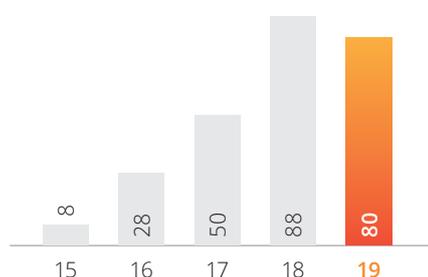
- 4**
- 5**
- 6**

MEASURING PROGRESS

Contracted revenue (£m)

£80m

-10%



Definition

Contracted revenue comprises the estimated value of revenue, based on contracts with customers, for the subsequent 12 months. The actual amount recognised might typically vary by up to 10 per cent. due to the inherent estimation involved in this calculation.

Due to the unprecedented and, as yet, unknown impact from Covid-19, the amount recognised may be significantly below the £80m currently contracted, in view of the potential risk of lower customer demand than initially assumed.

Performance

Contracted revenue secured at the end of FY 2019 of £80m is below that at the end of FY 2018 (£88m). Whilst contracted revenue has declined, the Board is pleased with the underlying result, as the level of gross margin secured on contracted revenue is significantly above the historical levels.

Target

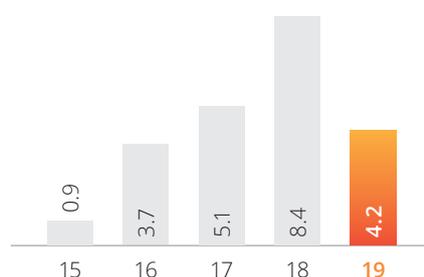
The Board had targeted an increase to contracted revenue at the end of FY 2020, pre the exceptional impact on this indicator as a result of potentially reduced growth as a consequence of the Covid-19 outbreak.

Link to strategy 1 2 3

Average monthly new bookings Average contract term: 22 months (£m)

£4.2m

-50% (£5.3m for H2 2019)



Definition

Bookings represent the annualised revenue (or contract term if less than one year) of new business signed in the year, averaged on a monthly basis. Such bookings are typically secured through renewal of contracts with existing customers, or through the acquisition of new customers. Bookings will result in additional contracted revenue, dependent on contract start dates. As with contracted revenue, the revenue actually achieved from such bookings may vary by up to 10 per cent. due to the inherent estimation involved under normalised conditions.

Performance

The significant growth experienced in FY 2018 was based on lower gross margin contracts, which led to a significant improvement in FY 2018. Whilst bookings have been lower in FY 2019, the Board is pleased to report that bookings are now with stronger customers (who meet the Group's more stringent requirements, particularly regarding an internal assessment of the ability of the customer to pay their bills) and with increased gross margins. The upward trend was also pleasing, with H1 2019 of £3.2m increasing to H2 2019 of £5.3m.

Target

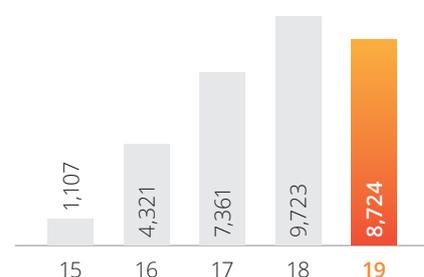
The Board has invested significantly in sales and marketing and targeted an increase from the level in H2 2019 for FY 2020, though the impact of Covid-19 on the market opportunity is being assessed.

Link to strategy 1 2 3

Total meter points

8,724

0.2% of GB markets



Definition

The total meter points demonstrate the gas and electricity supply points served by the Group at the relevant year end.

Performance

The decrease in meter points on supply at 31 December 2019 reflects a more prudent sales approach based on revised criteria for securing and retaining business.

The total UK business gas and electricity market is circa 3.5 million, highlighting that there is significant market opportunity available.

Target

The Group broadly targeted a modest increase in meter points during 2020, with significant growth thereafter.

Link to strategy 1 3

COVID-19

The Board continues to assess, and take steps to mitigate to the extent possible, the impact on key performance indicators in FY 2020 and beyond as a result of the Covid-19 pandemic outbreak.

► See page 25 for the specific risks and uncertainties from Covid-19

KEY TO STRATEGY

- 1 Growth 2 Profitability 3 Cash generation 4 Solid foundations

Net customer contribution

2.5%

Improvement of 2.9% in 2019



Definition

Net customer contribution has recently been introduced as a KPI. It measures the profit contribution, in Adjusted EBITDA, directly linked to customer contracts – consisting of the gross margin reported (adjusted for any non-recurring items), less the bad debt and expected credit loss charged in overheads.

Net customer contribution can vary as the Group flexes its commercial strategic objectives. Such changes can be a result of differing sales channels, the scale of customer and their energy consumption, the perceived credit risk of the customer being able to pay their bill and the underlying performance of the UK economy.

Performance

Performance has improved in the year, led by a more stringent commercial criteria at contract inception relating to the margin expectation and assessment of customers' ability to pay. In addition, the Group has implemented various initiatives to improve its financial and commercial control and to reduce gross margin leaked due to the previously poorly integrated systems.

Target

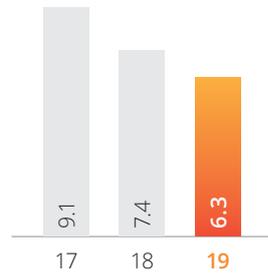
The Group continued to target an improvement for FY 2020, as legacy, low margin contracts expire and are replaced by more robust contracts. A high single digit margin is targeted in the medium term. However, the impact on the UK economy due to the Covid-19 pandemic is to be understood further, and specifically the potential to increase the bad debt charge incurred by the Group.

[Link to strategy](#) 2 3

General overheads

6.3%

Improvement of 1.1% in 2019



Definition

General overheads per cent. represent the percentage of revenue charged to Adjusted EBITDA as overheads of the Group. It comprises the operating costs on a normalised, recurring, basis and pre the impact of equity-settled share based payments, movements in derivatives charged to the income statement, and exceptional costs. Operating costs also excludes any bad debt or charges for expected credit losses, which are classified in the net customer contribution KPI.

Performance

The Board is pleased to report an 1.1 per cent. reduction in general overheads, continuing the favourable trend from FY 2017 through to FY 2019. General overheads are broadly equally split between costs to acquire, costs to serve and general administrative costs. The Board targets a level spend in costs to acquire, though will flex such investment as new opportunities are identified across varying sales channels. Costs to serve are semi-fixed in nature, relating to the operational fulfilment of the Group's customer contracts. Such costs are mainly in IT systems and people costs and economies of scale are anticipated as the Group expands its revenues over the medium term. General administrative costs are largely fixed in nature, relating to the core business infrastructure in the Group.

Target

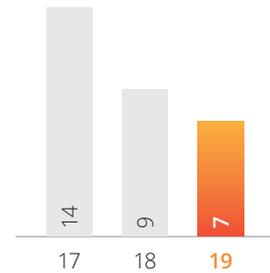
The Group will continually review opportunities to automate processes and improve systems to improve profitability by the reduction in general overheads as a percentage of revenues.

[Link to strategy](#) 2 3 4

Overdue customer receivables

7 days

Improvement of 2 days in 2019



Definition

Overdue customer receivables ("OCR") represent the amount outstanding and overdue, net of provision, to key customer receivable balances, compared with the revenue recognised. Such balances are the amounts held in relation to accrued income which is beyond the normal one month billing cycle, plus trade receivables (net of VAT and CCL) that are overdue. Management utilises this metric as it assesses the risk to the income statement on such balances.

Performance

The Board is pleased to report the two day improvement to OCR, representing a close control over trade receivables and billing.

Target

The Group now has targeted such balances to remain below an industry benchmarked ten days, though the impact of Covid-19 will be carefully assessed.

[Link to strategy](#) 2 3 4

OTHER KPIS

In addition, the Board and Executive Management Team monitor various other metrics to manage the business and drive forward profitability. Such metrics include the externally reported Trustpilot score, employee engagement per cent., contract renewal rates, profitability returns by sales channel, internal control actions overdue and compliance with covenants and with internal risk policies.

IMPROVING FINANCIAL PERFORMANCE



Paul Rawson
Chief Financial Officer

Our key financial metrics are showing a positive trend and we have good visibility and stronger commercial oversight.

Results

The results for the year to 31 December 2019 have seen a 38 per cent. growth in revenue to £111.6m (2018: £80.6m). Most encouragingly, the tighter commercial and financial management across the business is now being evidenced in the improved financial results.

The Group's Adjusted EBITDA¹ loss of £4.2m for FY 2019 exceeded market expectations and is significantly below the £6.3m loss level in FY 2018. The half-yearly trend is also encouraging, with the Adjusted EBITDA loss reducing from £5.2m for H2 2018, to £2.7m for H1 2019 and £1.6m for H2 2019.

£'000	H2 2019	H1 2019	H2 2018	H1 2018
Revenue	55,052	56,561	47,305	33,330
Gross margin %	6.7%	3.2%	2.1%	6.7%
Adjusted EBITDA	(1,568)	(2,674)	(5,238)	(1,045)

The Group recorded a gross margin of 4.9 per cent. for FY 2019, an improvement from the 4.0 per cent. recognised in FY 2018². Gross margin in H2 2019 achieved 6.7 per cent., compared to 2.1 per cent. in H2 2018 and 3.2 per cent. in H1 2019. This improvement in gross margin from H2 2018 to H2 2019 reflects the reduced impact of legacy, low margin contracts after the various initiatives taken by the Group in early 2019.

Assessing the impact of Covid-19

The potentially unprecedented (in modern times) impact as a result of the Covid-19 virus pandemic is an evolving picture across the world – and the health, societal and economic impacts are still being understood as the Group's annual accounts are published.

The Board is committed to working with all stakeholders, our customers, colleagues, suppliers, regulators and members of the local communities in which we operate, to ensure the Group plays its part in combating the virus, and its associated impacts.

The business and financial risks associated with the Covid-19 outbreak are being closely monitored by the Board, and mitigating actions are being taken where possible. The key business risks and actions include:

- » **Health and safety:** The Group is taking appropriate steps to protect its employees and other key stakeholders, based on Government advice.
- » **Business continuity and customer service:** The Group has implemented its business continuity plan to ensure key operations and customer service teams can operate, alongside key support functions.
- » **Lower commodity sales volume:** Social distancing and the potential closure or reduction in business output across the UK is likely to suppress customer demand for energy, which

reduces revenues, gross margin and, ultimately, the EBITDA of the Group. Significant differences between forecasted customer demand and actual demand can also create additional risks (or opportunities) from commodity market volatility as the Group rebalances its hedged position. The Board will continue to monitor this risk and take appropriate action to reduce the impact.

- » **Curtailed growth:** The Group's strategic priorities include a significant focus to scale the business to benefit from the economies of scale, and to achieve profitability. The Group also planned the further expansion of sales activities in a new Leicester office. The impact on UK businesses may reduce the ability to scale at the rates previously considered and this is being closely monitored by the Board.
- » **Economic context, bad debt and working capital:** The Government has announced certain measures to support businesses across the UK – specifically aimed at small and medium-sized entities, which is the Group's target market. However, the economic impact of the virus pandemic could impact the ability for customers to meet their contractual liabilities on time, impacting cash flow, and could ultimately lead to higher levels of bad debt and reduce the Group's profitability.

Measures at UK level, including the announced Government support to businesses, together with the swift and robust measures taken by the Group during 2020, are mitigating some of the impact of the Covid-19 outbreak. In addition, the Group's new trading arrangement with SmartestEnergy has created additional cash flow to provide a level of headroom to the Group's balance sheet, leading to a more robust position.

Ultimately, like many other companies, the Board considers that there is currently a material new risk in the Group's business model which needs to be monitored carefully.

Such uncertainty predominantly relates to the wider economic impact of the Covid-19 outbreak, and the timescales over which the virus may continue to disrupt the UK economy. In view of the level of uncertainty, the Board has concluded that such uncertainty is so material that it may cause significant doubt on the Group's ability to continue as a going concern, as disclosed in note 1 to the financial statements.

The Board is focused on protecting, first and foremost, the health and safety of its colleagues, customers and partners, at what is a difficult time for all. The Board is also confident in the Group's ability to "weather the storm", especially after the work done in FY 2019 to fully reset the Group.

▶ See an assessment of the business risk to Covid-19 on [page 25](#), and in notes 1 and 19 of the financial statements

Analysing profitability

The Board monitors profitability, as a percentage of revenue, by breaking down Adjusted EBITDA between net customer contribution and general overheads:

- » **Net customer contribution** represents the contribution to profit of the Group's core activities and consists of gross margin (excluding any non-recurring items excluded from Adjusted EBITDA) less bad debt.
- » **General overheads**, being overheads charged to Adjusted EBITDA excluding bad debt, represents the investment in sales, general administrative costs and the costs incurred to manage the customers contracts.

% of revenues	FY 2019	FY 2018
Adjusted EBITDA	(3.8%)	(7.8%)
Of which:		
Net customer contribution	2.5%	(0.4%)
General overheads	(6.3%)	(7.4%)

Net customer contribution for FY 2019 was 2.5 per cent., compared to a negative contribution of 0.4 per cent. in FY 2018. The improvement is a consequence of the higher gross margins through stronger commercial actions and the reduction in the level of bad debt. The Board targets a "mid to high single digit" net customer contribution based on the revised sales and commercial policies now in place – with ultimately the Group achieving nearer the level of 12.4 per cent. reported (after restatement) for FY 2017. This target is prior to the impact of the Covid-19 outbreak, which is further considered below.

General overheads have decreased as a proportion of revenue to 6.3 per cent. in FY 2019 (2018: 7.4 per cent.). The Group has continued to invest significantly in sales and marketing to take advantage of the market opportunity available. The remaining overheads are allocated between cost to serve, which is expected to benefit from economies of scale as the Group grows and automates processes, and the more fixed in nature general administrative costs.

As the Group grows over the medium term, the level of general overheads as a percentage of revenue is expected to decrease based on the Group benefiting from economies of scale.

The Group's loss for the year was £5.0m, an improvement from the £6.3m loss in FY 2018. The loss for FY 2019 includes costs outside of Adjusted EBITDA related to certain non-recurring items, share based payment charges and unrealised losses on derivative contracts. The reconciliation of statutory loss to Adjusted EBITDA is included in note 7 of the financial statements.

Forward visibility

The Group monitors its forward contract book which gives good visibility of the revenues expected (on a normalised, pre Covid-19 basis) over the coming periods from contracts which have been entered into. At 31 December 2019, the Group had such contracted revenues of £79.5m for FY 2020.

The level of contracted revenue is below the £88m contracted at 31 December 2018 for FY 2019. This slowdown follows a reset of the Group's commercial strategy in early 2019, which contributed to a reduced level of average monthly bookings for FY 2019, of £4.2m (2018: £8.4m). Whilst the level of gross margin on bookings has increased significantly, the reduced bookings are expected to result in a flatter revenue in FY 2020.

Legacy contracts, which were typically booked at low single digit gross margins, are expiring and are either being renewed at higher margins or "positively lost" (i.e. not renewed) due to the stricter commercial and financial criteria now applied. These legacy, low margin contracts contribute approximately £35m of the £79.5m contracted revenue for FY 2020, and less than £5m for FY 2021. As these low margin contracts time expire and are replaced by higher-margin contracts, the net customer contribution is expected to increase.

Forward contracted revenue for the year to 31 March 2021 is split between 43 per cent. of customers who are likely to be significantly impacted by Covid-19, such as schools, retail outlets, hotels, restaurants and leisure venues. Medium risk customer segments, such as supply to offices, manufacturing plants and construction sites, represent 41 per cent. of contracted revenue, and the remaining 16 per cent. relates to lower risk businesses such as manufacturing and healthcare sites.

The reduced volume of energy will reduce revenues and gross margin for FY 2020, though such impact will depend on the overall impact across all business sectors on their energy consumption, and the length of time for which the Covid-19 crisis continues. The reduced margin, impact on hedging position of any over-purchased consumption and any consequential impact to bad debt and working capital management may be significant to the Group, though is not easily estimated in view of the evolving nature of the crisis.

1 Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation, and before certain exceptional or one-off costs. The reconciliation between IFRS and Adjusted EBITDA, as an alternative reporting measure, is included in note 7 to the financial statements.

2 Gross margin per cent. is after reclassification of third-party intermediary costs to be included in cost of sales. Such costs were previously allocated as overheads.

Balance sheet, net cash and working capital performance

Customer receivables have reduced by £0.6m in the year despite the Group's revenue growth. Trade receivables have decreased by £0.2m to £2.9m (net of £4.9m provision) at 31 December 2019 (31 December 2018: balance of £3.1m, net of £4.8m provision). Accrued income, net of expected credit loss provisions, has decreased by £0.4m to £9.3m at 31 December 2019 (£9.7m at 31 December 2018).

Overdue customer receivables ("OCR") were seven days at 31 December 2019, an improvement of two days from the position at 31 December 2018. The Board is pleased with the continued performance on OCR, having reduced the metric from 14 days at 31 December 2017, which is utilised to ensure revenue and debtors are under close management.

The Group has net cash, being cash and cash equivalents less debt (in the form of lease liabilities), of £1.8m, excluding £10.4m of cash posted with trading counterparties. In accordance with IFRS 16 "Leases", a liability of £0.6m has been recognised in the year, with a corresponding asset value of £0.5m. The recognition of this liability and assets relates, primarily, to property leased by the Group under operating leases which were, prior to IFRS 16, not held as an asset or liability on the Group's balance sheet. The Group continues to have no bank or other debt.

The Group's total cash outflow during the year to 31 December 2019 was £12.2m, of which £11.3m relates to operational activities.

Of the operational cash outflow, £10.4m is attributable to the payment of trading counterparty deposits required in line with the Group's forward commodity trading arrangements due to the significant decline in forward commodity markets.

The benefit from the Group's new structured trading arrangement with SmartestEnergy ("the Facility"), providing a variable credit line of approximately £13m, had not been realised at 31 December 2019. The new Facility will free up cash which would otherwise be needed as collateral with trading counterparties. To secure the Facility, the Group has agreed certain covenants, and fixed and floating charges, related to the main trading subsidiaries of the Group. Regular and constructive dialogue with our trading partners in relation to the potential impact of the Covid-19 pandemic on aspects of the Facility arrangement has been welcomed by the Board.

The remaining operational cash outflow of £0.9m mainly derives from the Adjusted EBITDA loss, the prepayment of certain industry costs, and the benefit from the Group's positive working capital cycle.

The Group is investing in a new purpose-built sales, marketing and innovation office in Leicester. This property has led to a cash outflow in H2 2019 of £0.3m, and a further £0.7m which has been paid in Q1 of FY 2020.

The Group targets financing the residual value through a loan facility, when appropriate during FY 2020. Beyond the new property, the Group does not expect significant capital expenditure beyond the level in FY 2019.

The Group paid the 2018 interim dividend in January 2019. The Board does not propose the payment of a dividend for FY 2019.

Cash position and liquidity

The Group has cash available, with £10.9m cash at bank at 31 March 2020 and a further £6.1m in cash collateral.

UK Government announcements related to the deferral of VAT, and potential financing, provides additional comfort, and the Group also has certain other commercial levers to manage its liquidity over this period of uncertainty.

Summary

The Group has taken numerous financial and commercial measures to improve its financial returns and to benefit from the available market opportunity. These results are starting to be shown in the evolution of the financial results of the Group.

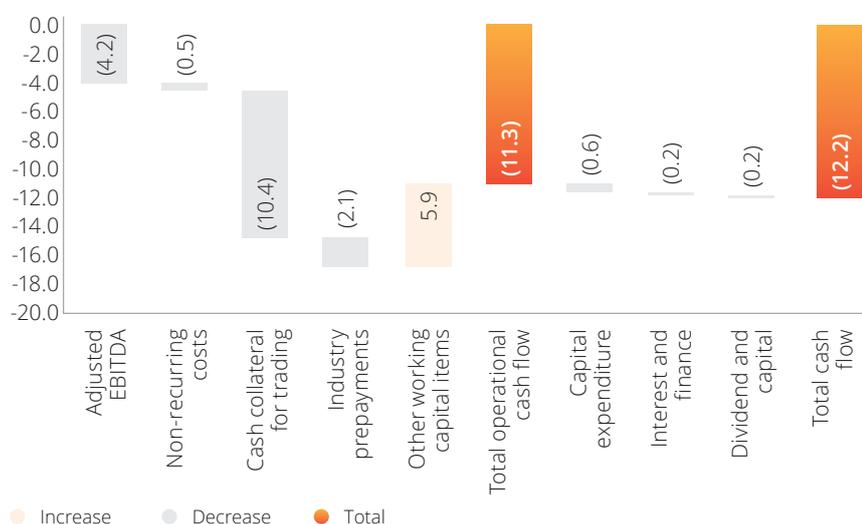
The impact of Covid-19 represents an evolving and material uncertainty to the Group's business model, though the Board continues to take all appropriate action to protect health and to mitigate, to the extent possible, the impact which the pandemic has on the Group's financial performance.

Paul Rawson

Chief Financial Officer

6 April 2020

Cash flow (£m)



MANAGING OUR RISKS

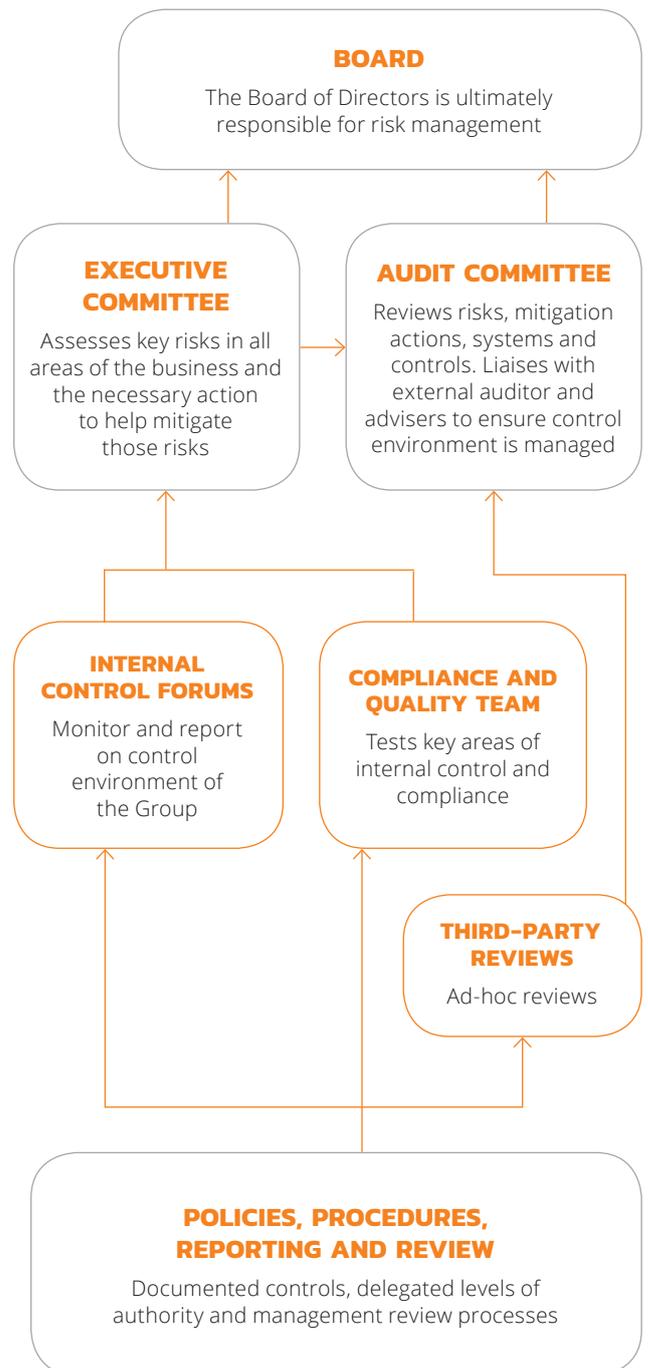
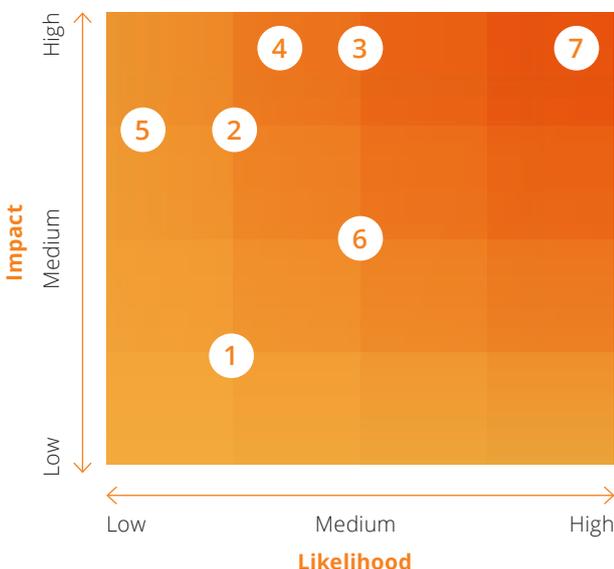
We monitor, assess and mitigate the principal risks and uncertainties facing the Group based on the likelihood of their occurrence and potential impact they would have.

Approach to risk

The Board is responsible for maintaining the Group's risk management and internal control systems and for the monitoring and mitigation of risk (and opportunity) in line with the Group's objectives. The Audit Committee also reviews risks on behalf of the Board and provides further oversight and risk mitigation when working with executive team members.

The key features of the Group's systems of internal control are:

- » a risk and internal control improvement register is maintained by the internal control manager and reviewed regularly by the Board. The risks are identified and discussed by the department heads and then the Executive Committee before being reported to the Board;
- » an organisational structure with clear segregation of duties, control and levels of authority;
- » strong policies and procedures are in place around what constitutes good governance and a solid internal control framework;
- » some internal audit assurance is provided by independent ad-hoc third-party reviews and via internal compliance and quality function roles;
- » a regular risk and internal control forum takes place, chaired by the internal control and risk manager. This gives clear visibility and accountability for the internal control environment of the Group; and
- » formal hedging policies and a risk mandate that govern the Group's approach to forward purchase of commodity contracts.



PRINCIPAL RISKS AND UNCERTAINTIES

The risk related to Covid-19 is assessed on page 25.

1. REVENUE RECOGNITION

Description

Due to the inherent nature of the industry and its reliance upon estimated meter readings, revenue includes the Directors' best estimate of differences between estimated sales and billed sales. When customers are unable to be billed for technical reasons, such as a failure in communicating to an automatic meter, a best estimate of the level of accrued income that is to be recognised also needs to be made by management. Given the process for estimating involves a number of variables, there is a risk that the level of accrued income reported is inaccurate and not ultimately recoverable.

Mitigation

Strict internal policies, processes and guidelines that were introduced in 2018 have continued to operate throughout 2019 to ensure that the Group's revenue recognition policy is appropriate, and that accrued income is at a manageable level.

The level of accrued income held at 31 December 2019, which has not been billed in January 2020, is £0.3m (2018: £0.4m). This level of accrued income is net of a provision based on an assessment, under IFRS 9, of the level of expected credit loss of the balance. This area of the Group's revenue is continuously assessed in order to ensure the amounts are recoverable or are not recognised in revenue.

Link to strategy

1

Change



No change

2. CREDIT RISK

Customers do not pay their bills

Description

With the continued growth in the business, the wider economic environment and the inherent risk that customers may not be able to pay, there is a risk of the Group incurring losses due to the non-payment of invoices.

Mitigation

Stringent credit checking policies are being applied across all sales channels to ensure the contracts secured by the Group are with the right type of customers.

An increased level of resource, coupled with improved systems and collections processes, has led to improved collections performance during FY 2019.

The Group also reviews trade receivables carefully to ensure provisions are booked to cover expected credit losses at the balance sheet date.

Link to strategy

1 2

Change



Decrease

KEY TO STRATEGY

- 1 Growth
- 3 Cash generation

- 2 Profitability
- 4 Solid foundations

3. TRADING RISK

Volatility in commodity prices and customer demand

Description

The energy commodity market was extremely volatile in 2019 and since the end of Q3 2019 has seen a continued downward trend in prices. Although a falling commodity market provides an opportunity from a sales and profitability perspective (as customers lock in the lower value) it opens the Group up to a significant cash liquidity risk, as the mark-to-market position the business holds with its commodity trading counterparties leads to an increased likelihood of a “cash call” for additional trading security. Changes in customer demand can also generate risk or opportunities to manage across the customer portfolio.

Mitigation

Towards the end of 2019 the Group entered into a new structured trading arrangement with SmartestEnergy Limited. The arrangement involves Yü Group PLC exclusively purchasing its energy commodity from Smartest going forward and novating its existing forward purchase trades with other trading counterparties over to Smartest as soon as practicable. The benefit of this arrangement is a significantly higher credit limit than the previous position, and a credit line that will scale with the Group as it grows. This arrangement will significantly reduce the need to post-cash collateral deposits as described above.

The Group also monitors closely the customer demand forecasted across its contracts, and utilised analysis of past performance, to ensure appropriate trading decisions are taken.

See also note 19, note (b) in the financial statements.

Link to strategy



Change



4. COVENANT BREACH

Description

The new trading agreement with SmartestEnergy Limited helps reduce the risk of cash calls from a falling commodity market (as described in risk 3), although does, however, introduce a new risk to the Group. As part of the agreement, the Group has provided certain security and commitments to SmartestEnergy and is required to adhere to and report on a number of covenants on a monthly basis. Any covenant breach could have serious implications on the Group's ability to continue to trade if corrective action is not taken in a timely fashion.

Mitigation

The Group has an experienced management team and a highly experienced trading team. Management will continue to forecast Group performance throughout the period of the new trading arrangement to enable early sight of any potential issues that may lead to a possible covenant breach. There are a number of levers available to the Group to avoid a potential covenant breach, including slowing down the growth rate or reducing certain discretionary spends.

Link to strategy



Change



5. DATA INTEGRITY

Description

As with all energy supply businesses, the Group is reliant on large amounts of data for the business to function effectively. If controls fail or systems are unavailable for a prolonged period, there is a risk that the business would be unable to issue invoices to customers or to communicate with the energy industry and so would be unable to collect the cash necessary to settle its liabilities or operate under its licence obligations.

There is also a risk that data control processes are not present to reconcile data across financial, billing and other systems, leading to inappropriate reporting and potential loss to the Group.

Dealing with large volumes of data also presents a risk in terms of a potential data security breach. There have been several high profile data security breaches in other organisations over the last few years. Such a breach incurs both financial and reputational penalties.

Mitigation

To deal with the risk of system downtime, the business has a business continuity plan. This involves system backups and measures to restore business operation as soon as possible.

Reconciliation of energy consumption and financial data, particularly in relation to the Group's bill to cash cycle, has continued to improve throughout 2019. The new robust processes adopted in late 2018/early 2019 have now had a chance to bed in and become part of the business as usual monthly activities. These processes have been subject to two external "health check" reviews in 2019 and have been shown to be operating effectively.

To help mitigate against a potential data security breach, the business operates robust physical and system access controls. Controls on elements of these are subject to external audit.

Link to strategy

4

Change



Slight decrease

6. RELATIONSHIP WITH REGULATORY BODIES

Description

The Group is a licensed gas, electricity and water supplier, and therefore has a direct relationship with the various regulatory bodies within the industry, in particular Ofgem. If the Group fails to maintain an effective relationship with these regulatory bodies and comply with its licence obligations, it could be subject to fines or even the removal of its respective licences.

As an AIM company, the Group is also subject to certain financial regulations and regulatory bodies, such as the AIM Rules for Companies and the Financial Conduct Authority ("FCA").

Mitigation

The Group has a management team and senior staff with extensive industry experience and broad experience in dealing effectively with the various regulatory bodies. The Group has an internal compliance team that focuses, amongst other things, on energy industry regulatory compliance and any ongoing regulatory communication that the Group is involved in. The Group monitors and takes appropriate actions in relation to complying with regulation.

The Board co-operated fully with the requirements of the FCA investigation into the matters identified in Q4 2018, with the FCA announcing it was discontinuing its investigation in May 2019.

The Board is committed to ensuring that the Group remains compliant with all industry and AIM regulations at all times and will actively seek clarification and an open dialogue channel if there is any requirement to do so.

Discussions, via the Group's nominated adviser, with the AIM regulator on ensuring the appropriate action and follow-up has been taken by the Group following the accounting issues identified in 2018 have been ongoing. The Directors believe there is a risk in relation to regulatory action as a result of the issues identified in 2018 and have made allowance for the estimated costs of such action in the accounts based on an assessment of financial exposure. The Directors are confident that the steps taken to strengthen the Board since the issues were identified, and the various control improvements and external reviews undertaken, now result in reduced risk for the future.

Link to strategy

4

Change



Decrease

KEY TO STRATEGY

- 1 Growth
- 3 Cash generation

- 2 Profitability
- 4 Solid foundations

7. THE POTENTIAL IMPACT FROM THE COVID-19 VIRUS

The risk of the global pandemic, Covid-19, is considered by the Directors to be a material uncertainty for the Group in view of its unprecedented impact across society and the potential to impact the UK economy and the Group's target market.

The Board is continuing to assess the risks posed by Covid-19, which range from the health and safety of employees, partners and other stakeholders to the ability of the Group to operate in its target market in serving UK small and medium-sized businesses.

Whilst the Board believes the Group is better placed than ever (after improving various controls and processes after a period of business "reset", and after obtaining new credit facilities for trading arrangements), and is pleased with the successful deployment of the business

continuity plan, the risks associated with Covid-19 will be continually monitored and re-assessed as they evolve.

The key risks, and the mitigating actions taken, are shown below.

The combined effect of the below risks could lead to a potentially significant impact on the Group's ability to meet market expectations and could, ultimately and in extreme and continued circumstances, result in cash flow issues for the Group to manage. The Board has therefore run various sensitivity scenarios to consider this risk further.

Various mitigating actions implemented by the Board (such as business continuity initiatives, and changes to hedging processes) together with the announcements and action taken by the UK Government to support UK

businesses (with "whatever it takes") and the energy sector will all place the Group in a stronger position.

Whilst the financial level of such risks is still developing, and not easily quantifiable based on the fast-moving nature of the issue, the assumption of the Directors is that the Group has sufficient headroom to continue to "weather the storm".

The Board continues to assess this risk, taking appropriate action and engaging with key stakeholders so as to monitor the evolving situation actively.

See, also, the following notes to the financial statements:

- » note 1, for consideration of the impact on going concern; and
- » note 19 (f), for risks and sensitivities related to Covid-19.

Risk	Action	Potential risk of financial impact
Health and safety	<p>The Group has implemented various initiatives, based on the UK Government's advice, to protect employees and other key stakeholders. Such matters include the transfer of teams to work remotely, providing communication on hygiene and other health advice, and the support of vulnerable individuals who may be at a higher risk of serious illness.</p> <p>The Board, management team and all colleagues will continue to prioritise the safety of all stakeholders as the impact of the global pandemic is felt.</p>	Low
Business continuity and customer service	<p>The Group takes its responsibility to customers seriously and had, already, enhanced and tested its business continuity plan.</p> <p>The Group will continue to focus on ensuring customers can access the Group and access key services, to provide support in what is a difficult time.</p> <p>In addition, the Group continues to operate its key functions across the customer and supplier lifecycle.</p> <p>In common with most other businesses, the productivity and costs associated with temporarily closing the Group's key offices will require careful management during the period of social distancing.</p>	Low

7. THE POTENTIAL IMPACT FROM THE COVID-19 VIRUS CONTINUED

Risk	Action	Potential risk of financial impact
Lower commodity sales volume	<p>Customers have entered contracts based on their expected energy consumption. The measures implemented, such as social distancing, is likely to reduce business customers' energy demand, leading to reduced revenue for the Group below the contracted revenue level assumed.</p> <p>In addition, if such commodity volume is significantly below the Group's normalised customer demand, then the Group is more exposed to commodity market movements where any "long" position (i.e. purchase of too much energy) will need to be sold back.</p> <p>The Group has already begun to assess and take corrective action on its hedging policies to take into account the potential for reduced volume of commodity sales over the short to medium term.</p>	Low to medium
Curtailed growth	<p>The Group has established new sales processes, management and direct sales teams, as well as increasing its operational base in Leicester. These actions are to take advantage of the significant addressable market available to the Group, which will also leverage the Group's overhead base.</p> <p>The Covid-19 outbreak is anticipated to restrict the level of new bookings achieved by the Group, which may delay the ability to scale.</p>	Medium
Economic context, increased bad debt and working capital	<p>The Group serves UK small and medium-sized businesses, which operate across various market segments: from retail to hospitality, leisure, sports stadia and manufacturing.</p> <p>Depending on the economic impact on customers, less the ultimate mitigating actions from the Government or other subsidies, the Group's ability to collect its customer receivables on time, or at all in some instances, requires careful monitoring.</p> <p>As well as the impact on the Group's working capital requirement and the level of bad debt charged to profit, a significant and prolonged impact to bad debt will increase the likelihood of a default in a covenant under the structured trading arrangement, leading to additional cash outflows for the Group if the trading credit line is reduced.</p>	Medium to high

BREXIT

The Directors have considered the impact of Brexit on the business and, at this stage, do not believe that it will have a significant impact on either the day to day running or the longer-term prospects of the Group.

STATEMENT IN RELATION TO SECTION 172 OF THE COMPANIES ACT

The Directors consider, both individually and collectively, that they have acted in a way they consider promotes the success of the Group for the longer term.

This includes ensuring due regard to the benefit of its members as a whole, and basing decisions after considering the likely consequences across all stakeholders: shareholders, employees, customers, suppliers, regulators, and the community in which the Group operates.

The Directors also ensure a focus on quality management, ensuring high standards of conduct and sound business ethics, including clear and well-communicated Company values and policies.

The Group's governance frameworks, as referenced in the corporate governance section of this annual report from page 34, provide further information on how the Directors ensure appropriate consideration for such decisions. The Directors' Report on page 41 also contains additional information on the engagement with key stakeholders.

The Strategic Report outlines where shown the Group's approach across various matters: including interaction with key stakeholders in the business model section on page 5; the approach to engagement and development of employees on page 29; and the environmental context in which the Group operates on page 28.

“

The Directors ensure a focus on quality management, ensuring high standards of conduct and sound business ethics, including clear and well-communicated Company values and policies.”



▶ Read more at yugroupplc.com

ENVIRONMENTAL CONTEXT IN WHICH WE OPERATE

We support businesses in their energy transition, supporting the deployment of lower carbon technologies.

The Board continually assesses its business model, and business offering, including the impact of climate change and wider environmental considerations. There is an energy transition towards a lower carbon, more local and digitalised energy system.

The Board develops strategies to assist businesses in the energy transition, including the provision of new technologies which assist the transition to a lower carbon economy. Such solutions offered to businesses include:

-  Electric vehicle chargers
-  Energy efficiency reporting and support
-  SMETS2 smart meters
-  Green energy

The Group also is aware of its impact on the environment in its own operation. Smart and efficient lighting, the installation of EV charge points and recycling are just some of the ways that the Group reduces its own impact on the environment.

Fuel mix disclosure

The Group trades gas and power from commodity markets to supply to its business customers. The energy procured by the Group depends on the end requirements of the customer and the generation method from the Group's trading counterparties. The fuel mix disclosure of the Group is disclosed at www.yuenergy.co.uk/support/annual-fuel-mix-disclosure/. The Board will continually look to increase the proportion of fuel sourced from renewable or low carbon sources of generation, including via the promotion of the Group's green gas and power solutions.

PROVIDING GREEN ELECTRICITY



We have for some time provided customers with the option to source 100 per cent. certified renewable electricity, helping businesses to show a positive commitment to sustainable values. Backed by the Ofgem administered REGO scheme, this allows businesses to report zero carbon emissions on their electricity usage and certify that their electricity is from 100 per cent. certified renewable sources.

As part of our commitment to providing sustainable energy solutions, we have now taken our green electricity offering to the next level. Working with SmartestEnergy as our sourcing partner, we can now provide businesses with 100 per cent. clean energy generated directly from a specified wind farm. This gives customers reassurance that they are taking a fully clean, green product, traceable to source.

Our clear, green energy is generated from the Carno II wind farm in Wales, which at the time of its construction in 1996 was the biggest onshore wind farm in Europe.

UNLEASHING OUR PEOPLE POTENTIAL

We have the knowledge, resources and passion throughout the business with a playing to win mindset to drive our future success.

Culture

Yü aims to create a dynamic and inspiring work culture where ambition thrives, and our people aspire to achieve real change in the business for our customers, the energy industry and the local community as a whole.

Transparency and communication are key to our culture.

Monthly “Yü Mad” (you made a difference) sessions are where all colleagues receive updates and are able to ask questions of the senior management, and for the business to recognise individuals who have gone above and beyond whilst role modelling our four values and seven habits.

These values and habits are ingrained in Yü’s culture, from recruitment to an annual awards ceremony celebrating the people who truly demonstrate these behaviours.

Corporate social responsibility

Mind is the charity our colleagues voted to support in 2019. Its purpose is to raise awareness about mental health, a major issue in different communities across the nation.

During the year, activities focused on removing the stigma about mental health and allowing people to open up in a safe environment to talk about the issues.

Over £2,000 was raised for Mind through various activities, half of which was match funded by the Group.

People strategy

We developed our people strategy to enable Yü to maintain agility in times of change. However the organisation structures its business or how we adjust our strategic priorities, growing talent from within is key.

The three focus areas of our people strategy are:

- » preparing our people for the future;
- » providing opportunities; and
- » recognising performance.

The Group also launched a save as you earn scheme in the year to more closely link employees with the development of the Company and the share price.



People are at the heart of our values and habits, and this allows us to create the right performance culture.”

Navaz Dean
Group HR Director

OUR EMPLOYEES

Average employee engagement

69%

Gender

91

Male

38

Female

Spread of ages

34

Aged 18–25

37

Aged 26–35

32

Aged 36–45

16

Aged 45+

Number of employees

129

Ethnicity

33

Asian

12

Black

1

Mixed

77

White British

3

White Other

3

Other

Our people *continued*

Performance leadership

We continue with our rigorous approach to performance leadership (“PL”), training and development to ensure consistent standards and strong people capability are at the heart of our business growth. This helps line managers have timely, open and honest conversations about the required standards for the role or task and allows managers to direct colleagues to the relevant support resources: internal mentoring, coaching or our online eLearning platform. The PL approach is all about supporting colleagues and helping them to be the best version of themselves, allowing them to unlock their full potential.

Colleagues that consistently demonstrate high levels of performance and potential continue to be placed onto our internal talent programme. These colleagues receive leadership development, coaching, mentoring and technical training and form part of our future leaders pipeline.



**TEAM OF THE YEAR:
INDIRECT SALES TEAM**

The whole team has changed the way it works and adapted to changes within the business, whilst still demonstrating the Yü Energy habits and delivering a strong performance against targets.



**COLLEAGUE OF THE YEAR:
JOSH SANDERS**

Josh has worked consistently hard on a range of complex projects, developing a huge amount of industry knowledge and putting in a great amount of effort to make sure things work behind the scenes. Josh always goes the extra mile.

PEOPLE AGENDA

Apprentices – we have continued with our successful apprenticeship programme which has formed an important pipeline of talented individuals. All individuals that completed the programme have been offered permanent full-time roles.

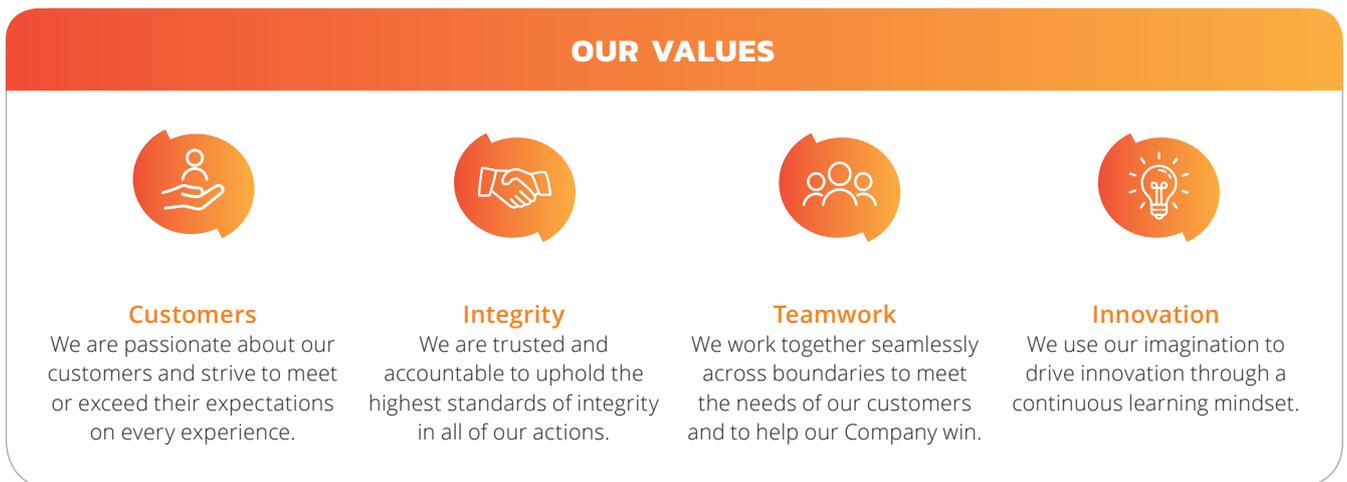
Placement students – this has proved successful once again. We partnered with local universities to provide one year placements in marketing, HR and commercial, strengthening links with these institutions to bring fresh thinking and talent into the organisation.

Employee engagement – we continue involving and listening to our colleagues across the organisation to create the right conditions for them to be their best each day. We also hold employee engagement surveys, the results of which are critical to the development of the organisation by bringing new and innovative ideas into Yü.

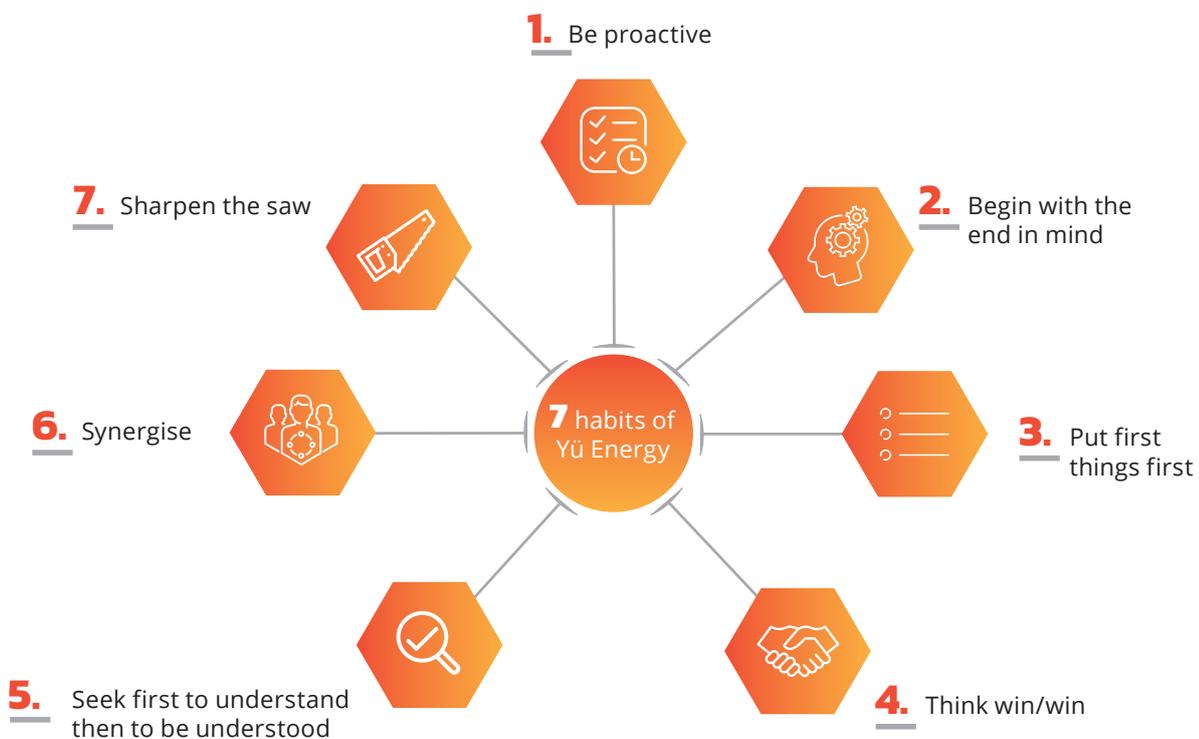
In 2019 we heard our colleagues’ views and decided that the previous Company values did not represent our diverse and growing workforce. We refreshed our values to enable our colleagues to be more committed to the organisation’s goals and values with an enhanced sense of their own well-being.

OVERVIEW: OUR CULTURE, VALUES AND HABITS

The Yü values and habits provide a common, unifying platform to create the right performance culture across the business. Our values are an essential part of the organisational culture and form the core of how our people behave. The four values, Customers, Integrity, Teamwork and Innovation, underpin the seven Yü habits.



The seven habits are the tangible behaviours that help to deliver our culture. They are measurable and observable, helping the business to set standards for how we expect our people to behave. Our teams receive feedback on how well they demonstrate these habits as part of the performance leadership process.



Board of Directors



Robin Paynter Bryant
Independent Non-executive
Chairman



Bobby Kalar
Chief Executive Officer



Paul Rawson
Chief Financial Officer



Skills and experience

Robin has more than three decades of experience in corporate finance, with a strong background in utilities. After joining City merchant bank Hill Samuel & Co. Ltd. in 1983 to work on asset, liability and treasury risk management for utilities and large companies, he worked at financial institutions including LCF Edmond de Rothschild, Credit Lyonnais Securities, Daiwa Europe and the Industrial Bank of Japan/Mizuho Corporate Bank. With international experience across water, electricity, and oil and gas, he has advised companies such as Severn Trent Water Plc, Endesa SA, Italgas SpA, and Centrex European Energy & Gas AG. He has previously served as a non-executive director of Ofwat (the water services economic regulatory authority) and Prime International Investments Group Plc and as a board member of London Merchant Bank Ltd. Robin joined Yü Group in January 2020.

External appointments

Robin is currently a director of Unity Link Financial Services Limited.

Skills and experience

Bobby has a degree in electrical and electronics engineering, and started his career working as an electronics engineer at Marconi PLC. In 2000, having moved to London to work for COLT Telecommunications, he headed a team of engineers involved with the bid and installation of the congestion charge scheme in London on behalf of the Mayor of London's Transport for London initiative. Following this major project Bobby invested in the care home sector, eventually owning and running a group of four care homes. In 2013 he sold the care homes so that he could focus on the market opportunity presented by the deregulation of the energy sector. He is the sole founder of the Group.

External appointments

None.

Skills and experience

Paul has a degree in accountancy and is a qualified chartered accountant (ICAEW) with a history in financial and commercial management in high growth businesses. In 2001 he left KPMG to join the energy industry in what is now the Engie Group, where he held various senior financial and general management positions. These ranged from the financial and commercial aspects of a £100m investment project to generate and supply energy across the London Olympic Park to a number of energy related M&A transactions. Paul was latterly responsible, as divisional CEO, for energy solutions spanning the retail supply of gas and electricity to businesses, and the provision of low carbon generation, energy Software as a Service and smart building technologies. Paul joined Yü Group in September 2018.

External appointments

None.



John Glasgow

Independent
Non-executive Director



Skills and experience

John has over 35 years' experience in engineering, operations, trading and IT across the energy industry. Senior roles have included head of Powergen technical audit and head of Powergen's energy management centre, covering energy trading and power plant portfolio optimisation, and general manager of Powergen Energy Solutions. Latterly, he was in board roles including head of strategy at the establishment of the new E.ON Energy Services business, E.ON director of new connections and metering and director of operations and asset management at E.ON Central Networks. During this time John was also a board member of the Energy Networks Association and a member of the DECC Energy Emergencies Executive Committee ("E3C"). Upon leaving E.ON John became managing director of Sterling Power Utilities Ltd until autumn 2013.

External appointments

John is also a board member of the St Modwen Environmental Trust.



Anthony (Tony) Perkins

Senior Independent
Non-executive Director



Skills and experience

Tony has a degree in accountancy and is a Fellow of The Institute of Chartered Accountants in England and Wales. He left BDO in 2019 where he was a senior audit partner for many years, having joined the firm in 1980 and a partner from 1990. He has acted for many fully listed and AIM companies in the professional services, natural resources, technology, manufacturing and retail sectors. He has extensive experience in financial, governance and risk management. He has advised on corporate strategy, transactions and expansion of businesses in the UK and internationally. Tony has held senior management positions at BDO as a member of the firm's leadership team including head of its London operations and national head of audit. Tony joined Yü Group in January 2020.

External appointments

Tony is currently a director of Bernhard & Co. Limited.

COMMITTEE KEY

-  Audit Committee
-  Remuneration Committee
-  Committee Chairman

EXPERIENCED AND STRENGTHENED BOARD



Robin Paynter Bryant
Chairman

Dear shareholder,

Following my recent appointment to the Board of Directors in January 2020 and as your Independent Non-executive Chairman I felt it appropriate to provide an updated report on our governance structure.

My experience with energy and utility companies in the UK and internationally as a non-executive board member at Ofwat (the economic regulatory authority for water) and as a corporate financier in the City has given me a good understanding of the sector. I am now greatly looking forward to serving the Group's shareholders as your Chairman.

Board composition and governance structure

From January 2020 (i.e. post the year under review) the Board has been restructured and strengthened.

I welcome the appointment of Tony Perkins (ex partner at BDO LLP where he was head of London audit, and previously head of national audit) as Non-executive Senior Independent Director and Chairman of the Audit Committee. Tony brings invaluable robust financial acumen and adds great depth of multi-sectorial experience to the business.

John Glasgow continues as an Independent Non-executive Director, and Chairman of the Remuneration Committee, whilst also brings his previous senior experience gained at Powergen and E.on.

I believe that my fellow independent NEDs will greatly serve to reinforce the Board's "scaling" and "mentoring" capabilities as the Company relaunches into sustained and sustainable growth.

Two further Board members are drawn from amongst the Executive Directors. One is the CEO and majority shareholder, Bobby Kalar, whose strategic vision is also complemented by that of fellow Executive Board member and CFO, Paul Rawson, ex-KPMG and Engie, who also serves as Company Secretary and who, since his appointment in late 2018, has been instrumental in effecting a "reset" of the Company.

The Executive Committee ("ExCo") reports to the Board via and through the CEO and this strong and experienced management team has now been re-engineered and is tasked with implementing the business plan as agreed by the Board. This ExCo (under the leadership of the CEO), consisting of various Executive Management Team members, drives the day to day activities of the business, reporting to, and seeking strategic and other counsel from, the Board as a whole.

31 December 2019



BOARD COMPOSITION

Independent Non-executive Chairman (1)
Independent Non-executive Directors (1)
Executive Directors (3)



TENURE

More than three years (4)
Between one and three years (1)
Under one year (0)



SECTOR EXPERIENCE

Previous energy sector experience (4)
Other sector experience (1)

The current structure and composition is designed to best suit the agile decision-making and governance requirements of a Company which has successfully undertaken an effective “reset” and which is now poised for a period of sustained and sustainable growth.

Stakeholder engagement and feedback

The Board of Directors makes itself available to stakeholders as appropriate. Such stakeholders range from our shareholders, regulators (including financial and utilities regulators), nominated adviser, customers, partners and people.

In relation to shareholder engagement, I will ensure that the Board and I represent the interests of all the shareholders.

There is a clear and documented relationship with Bobby Kalar, who founded the Group and remains majority shareholder as well as CEO. The maintenance of formal and agreed distinctions and responsibilities brings clarity to the definition of roles amongst Bobby, all other members of the Board and me. It is key to managing these varied and multiple interactions. Bobby Kalar has demonstrated, having very actively promoted a refreshed set of Board dynamics, a keen understanding of the governance requirements of a growing business. This in turn has greatly assisted the Board and me in reconciling the potential tensions occasioned by his “dual hatting” of roles within the enterprise.

Summary

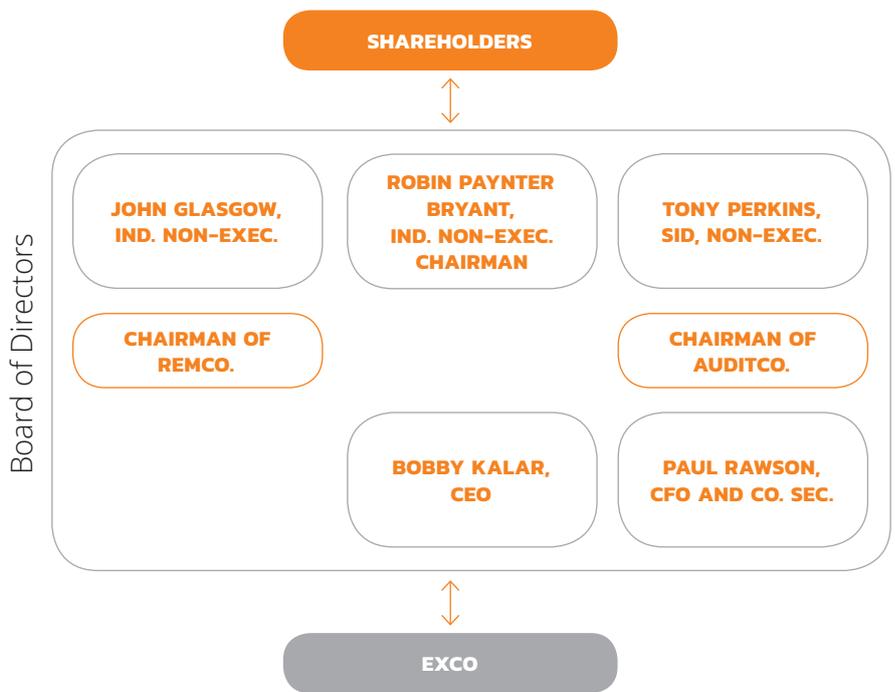
Whilst the work done to date has been essential, we are not complacent. The rest of the Board and I will continue to develop our governance processes and systems going forward to ensure we are fully prepared and in step with the increasing growth of the Group.

Robin Paynter Bryant

Chairman

6 April 2020

GOVERNANCE OVERVIEW



31 March 2020



BOARD COMPOSITION

Independent Non-executive Chairman (1)
 Independent Non-executive Directors (2)
 Executive Directors (2)



TENURE

More than three years (2)
 Between one and three years (1)
 Under one year (2)



SECTOR EXPERIENCE

Previous energy sector experience (3)
 Other sector experience (2)

STRONG LEADERSHIP

Statement by the Directors on compliance with the Code of best practice.

The Board seeks to follow best practice in corporate governance appropriate to the Company's size and in accordance with the regulatory framework that applies to AIM companies. The Board has decided to apply and adhere to the Quoted Companies Alliance ("QCA") Code.

The QCA Code ensures a worthwhile, effective and flexible governance model. It encourages positive engagement between the Company and all its stakeholders. Good governance is one of the foundations of a sustainable corporate growth strategy. The QCA Code is constructed around 10 broad principles. The appropriate application of these principles will ensure that good governance practices are in place. Details of how the Group is applying those principles can be found on the investor relations section of the Company website at www.yugroupplc.com.

The Board

The Group is controlled through a Board of Directors, which at 31 December 2019 comprised a Non-executive Chairman, three Executive Directors and one other Non-executive Director, for the proper management of the Company and the Group. The Chairman during 2019 was

Ralph Cohen and the Chief Executive Officer was and continues to be Bobby Kalar. Both of the Non-executive Board members, Ralph Cohen and John Glasgow, were considered to be independent throughout 2019.

Subsequent to the year end on 8 January 2020 two new Independent Non-executive Board members were appointed to strengthen the overall governance and control environment of the Group. Robin Paynter Bryant was appointed as Chairman, to replace Ralph Cohen, who stepped down from the Board on 8 January 2020. Tony Perkins was appointed as Senior Independent Director.

On 7 February 2020, Garry Pickering resigned from the Board of Directors to take on a new, non-Board, position in the Group whilst remaining on the Executive Committee. The Board therefore now consists of three Independent Non-executive Directors and two Executive Directors.

The Board operates both formally, through Board and Committee meetings, and informally, through regular contact among Directors and members of the Executive Management Team. There is a schedule of matters that are specifically referred to the

Board for its decision, including approving the interim and annual financial results, setting and monitoring of strategy and examining business expansion possibilities. It is a requirement that the Board be supplied with information in a timely manner, in a form and quality appropriate to enable it to discharge its duties.

The Directors can obtain independent professional advice at the Group's expense in the performance of their duties as Directors.

Board Committees

The Board Committees comprise the Audit Committee and the Remuneration Committee.

Audit Committee

During 2019 the Audit Committee comprised two members, Ralph Cohen (who was Chairman of the Audit Committee) and John Glasgow.

The Audit Committee now comprises three members, who are all Independent Non-executive Directors: Tony Perkins (Chairman), John Glasgow and Robin Paynter Bryant. The Group's external auditor, along with the wider Board, is invited (as appropriate) to attend the Audit Committee meetings.

BOARD ROLES AND RESPONSIBILITIES

INDEPENDENT NON-EXEC. CHAIRMAN

- » Ensures clarity in the governance of the Company
 - » Enables effective Board debate and constructive challenge of the Executive
- » Member of Remuneration and Audit Committees
- » Responsible to shareholders and stakeholders

SENIOR INDEPENDENT NON-EXEC. DIRECTOR

- » Chairman of Audit Committee and member of Remuneration Committee
- » Assesses performance of Chairman and other Board members
- » Ensures robust and constructive challenge to the Board

INDEPENDENT NON-EXEC. DIRECTOR

- » Chairman of Remuneration Committee and member of Audit Committee
- » Ensures challenge and oversight of Board decisions

CHIEF EXECUTIVE OFFICER

- » Contributes majorly to Group strategy and new product initiatives
- » Ensures the Board-agreed strategy is clearly transmitted to ExCo
 - » Responsible for successful implementation of business plan by senior management

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

- » Prepares annual accounts, financial reporting and planning
- » Management of financial risk/opportunity
- » Supports the operation of the Board

COMMITTEE ROLES

AUDIT COMMITTEE

- » Financial reporting and monitors internal controls
- » Sets risk appetite and appropriate risk/opportunity assurance policies for whole Board approval

REMUNERATION COMMITTEE

- » Sets and benchmarks the Executive Directors' remuneration framework for the whole Board approval
- » Sets and reviews bonus and reward mechanisms linked to Company performance
- » Guides ExCo on retention policies for key senior managers

Remuneration Committee

The Chairman of the Remuneration Committee is John Glasgow; Tony Perkins and Robin Paynter Bryant are the other Independent Non-executive members. During 2019 the Remuneration Committee comprised two members, being John Glasgow and Ralph Cohen. The Committee meets periodically as required and is responsible for overseeing the policy regarding Executive remuneration whilst the Board as a whole is responsible for approving the remuneration packages for the Group's Executive Management Team. It is also responsible for reviewing incentive schemes for the Group as a whole.

Nominations Committee

As the Board is small, there is currently no separate, standing Nominations Committee. This will be reviewed as the Group and Board develop over time. The appointment of new Directors is considered by ad-hoc committees of the Board, typically led by the Non-executive Directors, and final decisions rest with and involve the Board as a whole.

Risk management and internal controls

The Directors are responsible for the Group's system of internal control and for reviewing its effectiveness, while the role of management is to implement Board policies on risk management and control. The Board has continued to implement various improvements to the internal control environment operating within the Group throughout 2019.

It should be recognised that the Group's system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve the Group's business

objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Group operates a series of controls to meet its needs. These controls include, but are not limited to, a clearly defined organisational structure, written policies, a comprehensive annual strategic planning and budgeting process and detailed monthly reporting. The annual budget is approved by the Board as part of its normal responsibilities. In addition, the budget figures are regularly reforecast to facilitate the Board's understanding of the Group's overall position throughout the year and this reforecast is reported to the Board in addition to the reporting of actual results during the year.

The Audit Committee receives reports from management and the external auditor concerning the system of internal control and any material control weaknesses. Any significant risk issues are referred to the Board for consideration. During 2019 the Audit Committee received two separate health check reviews from a third party appointed to thoroughly investigate the matters leading to the losses in FY 2018, and the prior period adjustment, to ensure all learnings and corrective actions have been taken. The focus of the reviews has been on the controls around the integrity and reconciliation of data, the analysis of credit risk of customers, the forecasting of gross margin and the recognition of revenue. The health check reports have provided the Board with confidence that the previously identified control weaknesses and data issues that came about following a period of rapid expansion are now being managed and monitored effectively. The Audit Committee has now focused additional

resource on the definition and management of strategic risk appetite as well as risk and opportunity assurance.

Shareholder communications

The Chief Executive Officer and the Chief Financial Officer regularly meet with existing shareholders and potential investors to foster a mutual understanding of objectives. In particular, meetings with analysts and shareholders are held following the announcement of results. Feedback from these meetings and market updates prepared by the Company's nominated adviser are presented to the Board to ensure it has an understanding of shareholders' views. The Chairman and the other Non-executive Directors are available to shareholders to discuss strategy and governance issues.

The Directors encourage the participation of all shareholders, including private investors, at the annual general meeting. The results of the polls and proxy votes on each resolution are declared shortly after the meeting by means of an announcement on the London Stock Exchange and via the Company's website. The annual report and accounts are published on the Company's website, www.yugroupplc.com, and can be accessed by shareholders.

Our people

A significant part of the foundations of the Group has been the continued investment in our team.

During 2019 average staff numbers grew from 136 to 141 people. We will continue to invest in growing our team, where appropriate, to take advantage of the market opportunity and expand the skills available to the Group to meet its strategic objectives.

ATTENDANCE AT MEETINGS

Meetings attended	Main Board	Audit Committee	Remuneration Committee
Total number of meetings	14	6	2
Ralph Cohen	●●●●●●●●●●●●●●	●●●●●●	●●
John Glasgow	●●●●●●●●●●●●●●	●●●●●●	●●
Bobby Kalar	●●●●●●●●●●●●●●	○●○●○●○●	○●
Garry Pickering	●●●●●●●●●●●●●●	○●○●○●○●	○●
Paul Rawson	●●●●●●●●●●●●●●	○●○●○●○●	○●

Robin Paynter Bryant and Tony Perkins were appointed in January 2020 and were therefore not due to attend any meetings in 2019.

● Meeting attended ● Meeting not attended ○ Not due to attend

ROBUST OVERSIGHT



Tony Perkins
Committee Chairman

MEMBERS

Tony Perkins
(incoming Committee
Chairman – appointed
8 January 2020)

Ralph Cohen
(outgoing Chairman –
resigned 8 January
2020)

John Glasgow

Robin Paynter Bryant
(appointed 8 January
2020)

Membership and scope of the Audit Committee

During the year, the Audit Committee comprised two members, who were both Non-executive Directors: Ralph Cohen (Chairman) and John Glasgow. The Group's external auditor, along with the wider Board, is invited to attend the Audit Committee meetings.

Subsequent to the year end on 8 January 2020, two new Non-executive Directors were appointed as members of the Audit Committee, Tony Perkins and Robin Paynter Bryant. At the same time, the existing Audit Committee Chairman, Ralph Cohen, retired from his position as Yü Group PLC Chairman and stepped down as Chairman of the Audit Committee and Tony Perkins as Senior Independent Director was appointed as the new Audit Committee Chairman.

The Audit Committee has responsibility for, among other things, the monitoring of the financial integrity of the financial statements of the Group and the involvement of the Group's auditor in that process. It focuses, in particular, on compliance with accounting policies and ensuring that an effective system of audit and financial control is maintained. It also focused on reviewing risks and opportunities, and on ensuring appropriate policies to mitigate risks are in place.

The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the Board.

The Audit Committee meets at least twice a year at the appropriate times in the financial reporting and audit cycle, and at such other times as may be deemed necessary.

The terms of reference of the Audit Committee cover such issues as membership and the frequency of meetings, together with requirements of any quorum for,

and the right to attend, meetings. The responsibilities of the Audit Committee covered in its terms of reference include the following: external audit, financial reporting, internal controls and risk management. The terms of reference also set out the authority of the Committee to carry out its responsibilities.

Any non-audit services that are to be provided by the external auditor are reviewed in order to safeguard auditor objectivity and independence. The external auditor has the opportunity during the Audit Committee meetings to meet privately with Committee members in the absence of Executive management.

The Audit Committee is responsible for reviewing the Company's procedures for the identification, assessment, management and reporting of risks.

The Company has a whistleblowing policy, through which staff may notify management or Non-executive Directors of any concerns regarding suspected wrongdoing or dangers at work.

Review

The Audit Committee met six times during 2019.

The Audit Committee continues to take a lead role in reviewing the internal control processes applied within the Group, and in appropriately following up the findings from the independent internal investigation and subsequent PwC health check reviews carried out in 2019, to ensure all actions are taken following the issues announced in October 2018.

Tony Perkins
Chairman of the Audit Committee
6 April 2020

EVALUATING REWARD AND LINKING TO PERFORMANCE



John Glasgow
Committee Chairman

MEMBERS

John Glasgow
Committee Chairman

Ralph Cohen
(resigned 8 January 2020)

Robin Paynter Bryant
(appointed 8 January 2020)

Tony Perkins
(appointed 8 January 2020)

As an AIM listed company, Yü Group PLC is not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The content of this report is unaudited unless stated.

Membership of the Remuneration Committee

During the year, the Remuneration Committee comprised the two Non-executive Directors, John Glasgow (Chairman) and Ralph Cohen. Subsequent to the year end, on 8 January 2020, Ralph Cohen retired from the Board and the Remuneration Committee and the two new Non-executive Directors, Robin Paynter Bryant and Tony Perkins, were appointed.

The Remuneration Committee sets Board Executive Directors' targets and reviews their performance. It makes recommendations to the Board on matters relating to remuneration, terms of service, granting of share options and other equity incentives.

The Remuneration Committee met twice in 2019.

Remuneration policy

The objectives of the remuneration policy are to enable the Company to attract, retain and motivate its Board Executive Directors, while ensuring that the overall remuneration is aligned with the performance of the Group and preserves an appropriate balance of remuneration and shareholder value.

Non-executive Directors

Remuneration of the Non-executive Directors is determined by the Board Executive Directors. Non-executive Directors are not entitled to pensions, annual bonuses or employee benefits. They are entitled to participate in the Group save as you earn scheme relating to the Company's shares but none of them do at this time.

The annual fee for each Non-executive Director is as follows:

Robin Paynter Bryant – £45,000 (appointed 8 January 2020)

Tony Perkins – £35,000 (appointed 8 January 2020)

John Glasgow – £31,500

Ralph Cohen – £31,500 (resigned from the Board 8 January 2020)

Their appointment may be terminated with three months' written notice at any time.

Directors' remuneration

The normal remuneration arrangements for Executive Directors consist of basic salary, employer contributions to defined contribution pensions, annual performance related bonuses and participation in a long-term incentive plan.

No Executive Director bonuses are payable in the year ended 31 December 2019.

The CEO has (and COO had during the year under review) service agreements that can be terminated by either party by giving at least 12 months' written notice.

“ The remuneration committee reviews the performance of the Executive Directors and makes recommendations to the Board on matters relating to remuneration, terms of service, granting of share options and other equity incentives.”

Remuneration report *continued***Directors' remuneration continued**

The service agreement with the CFO can be terminated by either party by giving at least seven months' written notice, such notice increasing by one month for each completed year of service to a maximum of 12 months in total.

Following the year under review, Garry Pickering resigned from the Board and took up a new position in the Group's Executive Management Team. Garry entered into a new employment contract with the Group reflecting this change. The role of Chief Operating Officer is not being replaced on the Board.

Directors' interests

Details of the Directors' shareholdings are included in the Directors' Report on page 41.

Directors' share options

Aggregate emoluments disclosed in the Directors' remuneration table do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors. Details of options for Directors who served during the year and to the date of this report are as follows:

	Number of options at 31 Dec 2019	Weighted average exercise price
Executive		
Bobby Kalar	155,934	£3.21
Garry Pickering (resigned 7 February 2020)	124,747	£3.21
Paul Rawson (appointed 3 September 2018)	256,539	£0.23

No Non-executive Director holds share options in the Company.

Directors' remuneration

	Salary/fees £'000	Bonus £'000	Benefits £'000	Employer's pension contributions £'000	Pay in lieu of notice £'000	Total 2019 £'000	Total 2018 £'000
Executive							
Bobby Kalar	231	—	—	10	—	241	260
Nick Parker (resigned 31 July 2018)	—	—	—	—	—	—	284
Garry Pickering (resigned 7 February 2020)	185	—	—	5	—	190	203
Paul Rawson (appointed 3 September 2018)	178	—	—	5	—	183	58
Non-executive							
Ralph Cohen (resigned 8 January 2020)	32	—	—	—	—	32	35
John Glasgow	32	—	—	—	—	32	35
	658	—	—	20	—	678	875

John Glasgow

Chairman of the Remuneration Committee

6 April 2020

Directors' report

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2019 ("FY 2019").

Strategic Report

The Group has chosen in accordance with section 414C(11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 to set out in the Group's Strategic Report certain information required by Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 to be contained in the Directors' Report.

Registered office

The registered office of Yü Group PLC (registered in England and Wales no. 10004236) is CPK House, 2 Horizon Place, Nottingham Business Park, Mellors Way, Nottingham NG8 6PY.

Dividends

The Board does not propose the payment of a final dividend in respect of FY 2019 (FY 2018: nil).

The Board did not pay an interim dividend in relation to 2019 (2018: 1.2p per share).

Directors

The Directors of the Group during the year and up to the date of signing the financial statements were:

- » Ralph Cohen (resigned 8 January 2020)
- » John Glasgow
- » Bobby Kalar
- » Robin Paynter Bryant (appointed 8 January 2020)
- » Paul Rawson
- » Tony Perkins (appointed 8 January 2020)
- » Garry Pickering (resigned 7 February 2020)

The Company maintains Directors' and Officers' liability insurance.

Significant shareholders

The Company is informed that, at 1 March 2020, individual registered shareholdings of more than 3 per cent. of the Company's issued share capital were as follows:

	Number of ordinary shares held	% of issued ordinary share capital
Bobby Kalar	8,652,649	53.15%
Jonathan Turner	872,043	5.36%
Jamieson Principal Pension Fund	830,000	5.10%
Nick Parker	500,000	3.07%
Garry Pickering	500,000	3.07%

Directors' shareholdings

The beneficial interests of the Directors in the share capital of the Company at 1 March 2020 were as follows:

	Number of ordinary shares held	% of issued ordinary share capital
Executive Directors		
Bobby Kalar	8,652,649	53.15%
Paul Rawson	33,503	0.21%
Garry Pickering (resigned 7 February 2020)	500,000	3.07%

	Number of ordinary shares held	% of issued ordinary share capital
--	--------------------------------	------------------------------------

Non-executive Directors

Ralph Cohen	54,054	0.33%
John Glasgow	10,000	0.06%
Robin Paynter Bryant	—	—
Tony Perkins	—	—

Employees

The Group's Executive management regularly delivers briefings on the Group's strategy and performance.

The Group remains committed to fair treatment of people with disabilities in relation to job applications, training, promotion and career development. Every effort is made to find alternative jobs for those who are unable to continue in their existing job due to disability.

The Group takes a positive approach to equality and diversity. The Group promotes equality in the application of reward policies, employment and development opportunities, and aims to support employees in balancing work and personal lifestyles.

Annual general meeting

The annual general meeting of the Group is to be held on 21 May 2020. The notice of meeting appears on pages 71 and 72 of these financial statements.

Political and charitable donations

During the year ended 31 December 2019 the Group made political donations of £nil (2018: £nil) and charitable donations of £1,019 (2018: £nil).

Supplier payment policy and practice

The Group does not operate a standard code in respect of payments to suppliers. The Group agrees terms of payment with suppliers at the start of business and then makes payments in accordance with contractual and other legal obligations. The number of creditor days outstanding at 31 December 2019 was five days (2018: six days).

Subsequent events

The outbreak of Covid-19, impacting the UK from Q1 2020, is being assessed by the Board and is disclosed further in the risk and uncertainties section of the annual report.

Statement of disclosure of information to auditor

As at the date this report was signed, so far as each of the Directors is aware, there is no relevant information of which the auditor is unaware and each Director has taken all steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

In accordance with section 489 of the Companies Act, a resolution for the reappointment of RSM UK Audit LLP as auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Paul Rawson

Director

6 April 2020

Statement of Directors' responsibilities

In respect of the annual report and the financial statements

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

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The Group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 Group and the Company and of the profit or loss of the Group and the Company for that period.

In preparing each of the Group and Company financial statements, the Directors are required to:

- a. select suitable accounting policies and then apply them consistently;

- b. make judgements and accounting estimates that are reasonable and prudent;
- c. for the Group financial statements, state whether they have been prepared in accordance with IFRSs adopted by the EU and for the Company financial statements state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Yü Group website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report

To the members of Yü Group PLC

Opinion

We have audited the financial statements of Yü Group PLC ("the parent company") and its subsidiaries ("the Group") for the year ended 31 December 2019 which comprise the consolidated statement of profit and loss and other comprehensive income, consolidated and Company balance sheets, consolidated and Company statement of changes in equity and consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- » the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- » the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- » the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- » the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Group and parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material uncertainty related to going concern section we have determined the matters described below to be the key audit matters to be communicated in our report.

Group key audit matters

The risk

Revenue recognition and accrued income

Refer to the accounting policy in note 1 regarding revenue and accrued income and note 16 regarding trade and other receivables.

Appropriate and accurate income recognition is required to be applied by the Directors to ensure that revenue is accrued and recognised appropriately in the financial statements. Revenues are based on the volumes supplied to customers using estimates and meter readings. Where recent meter information is limited, assumptions are made to estimate the volumes of energy consumed by customers. Actual and expected usage information together with the contractual rates are used to accrue revenue which is then billed to customers. There is a risk that revenue and accrued income is recognised inappropriately.

Our response

For revenue and accrued income we verified the appropriateness of the recognition policy applied. We selected a sample of contracts and transactions and considered whether revenue had been recognised in accordance with the contract and was subsequently billed. For income accrued at the year end, additional procedures were undertaken to check that this was subsequently billed. We considered the integrity of the revenue information used for the basis of our procedures through agreement through to the financial systems and the amounts recognised in the financial statements. We considered the Group's disclosures in relation to revenue recognition.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which indicates that the Group may be adversely affected by the growing impact of the Covid-19 (coronavirus) outbreak. The Group is assuming that it can manage cash pressures in the current unprecedented trading environment and that its credit facility provider will continue to be supportive and not withdraw the Group's facilities in the event of a covenant breach. Whilst the Directors are taking action to mitigate the impact, given the unpredictable nature and impact of the outbreak, and how rapidly the responses to the outbreak are changing, the Directors are unable to predict the full extent of the impact with regards to the going concern basis of accounting and its related disclosures. As stated in note 1, these events or conditions, along with the other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters continued

Group key audit matters continued

The risk

Our response

Trade receivable and accrued income recoverability

Refer to the accounting policy in note 1 regarding revenue and accrued income, note 16 regarding trade and other receivables and note 19, which considers credit risk.

The Group has a significant number of customers with a varied credit risk profile which could impact the recoverability of trade receivables and income accrued on customer contracts.

The majority of trade receivables are past due and a proportion of accrued income is not billed immediately following the month end which means it can become old and more difficult to recover. Management's assessment of the recoverability and expected credit loss for trade receivables and accrued income with their customers is inherently judgemental. There is a risk that the net trade receivables and accrued income will be recovered at amounts materiality different to the value recognised.

The methodology utilised by management to calculate the provision including expected credit loss was reviewed. We independently profiled the Group's customers using external data to verify their identity, to identify those accounts with a potentially elevated credit risk and quantify the potential exposure within both trade receivables and accrued income. We selected a sample of accounts and performed detailed testing to invoices and cash receipts. The impairment and expected credit loss provision was considered through a combination of analytical procedures, the results of tests of detail and recent collection history.

There were no parent company key audit matters.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. During planning, materiality for the Group financial statements as a whole was calculated as £500,000 which was not significantly changed during the course of our audit. Materiality for the parent company financial statements as a whole was calculated as £363,000, which was not significantly changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £25,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our Group audit approach focused on the parent company, the trading subsidiaries and the consolidation which have been subject to a full scope audit to Group materiality. These audits covered more than 99 per cent. of Group revenue, 99 per cent. of Group loss before taxation and 99 per cent. of the Group's total assets.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our Auditor's Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- » the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- » the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception continued

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- » adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- » the parent company financial statements are not in agreement with the accounting records and returns; or
- » certain disclosures of Directors' remuneration specified by law are not made; or
- » we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 42, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our Auditor's Report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ian Wall (Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP,
Statutory Auditor
Chartered Accountants
Suite A, 7th Floor
City Gate East
Tollhouse Hill
Nottingham
NG1 5FS
6 April 2020

FINANCIAL STATEMENTS

Consolidated statement of profit and loss and other comprehensive income

For the year ended 31 December 2019

	Notes	31 December 2019 £'000	31 December 2018 (restated) £'000
Revenue		111,613	80,635
Cost of sales		(106,128)	(77,387)
Gross profit		5,485	3,248
Operating costs before non-recurring items, unrealised gains on derivative contracts and IFRS 2 charges		(10,362)	(11,963)
Operating costs – non-recurring items	7	(378)	(441)
Operating costs – unrealised losses on derivative contracts	7	(518)	(125)
Operating costs – IFRS 2 charges	21	(125)	(314)
Total operating costs	4	(11,383)	(12,843)
Loss from operations		(5,898)	(9,595)
Finance income	5	33	21
Finance costs	5	(112)	(63)
Loss before tax		(5,977)	(9,637)
Taxation	9	1,009	3,370
Loss for the year		(4,968)	(6,267)
Other comprehensive income		—	—
Total comprehensive income for the year		(4,968)	(6,267)
Earnings per share			
Basic	8	(£0.31)	(£0.42)
Diluted	8	—	—

The year ended 31 December 2018 has been restated to reclassify, due to a change in accounting policy, £2,625,000 of amounts payable to third-party intermediaries from operating costs to cost of sales.

Consolidated and Company balance sheet

At 31 December 2019

	Notes	Group		Company	
		31 December 2019 £'000	31 December 2018 £'000	31 December 2019 £'000	31 December 2018 £'000
ASSETS					
Non-current assets					
Intangible assets	11	52	54	—	—
Property, plant and equipment	12	671	395	340	—
Right-of-use assets	13	481	—	—	—
Deferred tax	15	4,355	3,325	21	—
		5,559	3,774	361	—
Current assets					
Trade and other receivables	16	25,886	13,569	16,045	4,642
Cash and cash equivalents	17	2,377	14,612	500	12,365
		28,263	28,181	16,545	17,007
Total assets		33,822	31,955	16,906	17,007
LIABILITIES					
Current liabilities					
Trade and other payables	18	(28,076)	(21,517)	(440)	—
Non-current liabilities					
	18	(448)	—	—	—
Total liabilities		(28,524)	(21,517)	(440)	—
Net assets		5,298	10,438	16,466	17,007
EQUITY					
Share capital	20	82	81	82	81
Share premium	20	11,690	11,689	11,690	11,689
Merger reserve	20	(50)	(50)	(50)	(50)
Retained earnings	20	(6,424)	(1,282)	4,744	5,287
		5,298	10,438	16,466	17,007

The Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes. The Company incurred a loss of £494,000 for the year (2018: £300,000).

The financial statements on pages 46 to 70 were approved by the Board of Directors on 6 April 2020 and signed on its behalf by:

Bobby Kalar
Chief Executive Officer

Paul Rawson
Chief Financial Officer

FINANCIAL STATEMENTS

Consolidated statement of changes in equity

For the year ended 31 December 2019

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2019	81	11,689	(50)	(1,282)	10,438
Adjustment following adoption of IFRS 16	—	—	—	(125)	(125)
Adjusted balance at 1 January 2019	81	11,689	(50)	(1,407)	10,313
Total comprehensive income for the year					
Loss for the year	—	—	—	(4,968)	(4,968)
Other comprehensive income	—	—	—	—	—
	—	—	—	(4,968)	(4,968)
Transactions with owners of the Company					
Contributions and distributions					
Equity-settled share based payments	—	—	—	125	125
Deferred tax on share based payments	—	—	—	21	21
Proceeds from share issues	1	1	—	—	2
Equity dividend paid in the year	—	—	—	(195)	(195)
Total transactions with owners of the Company	1	1	—	(49)	(47)
Balance at 31 December 2019	82	11,690	(50)	(6,424)	5,298
Balance at 1 January 2018	70	—	(50)	6,366	6,386
Total comprehensive income for the year					
Loss for the year	—	—	—	(6,267)	(6,267)
Other comprehensive income	—	—	—	—	—
	—	—	—	(6,267)	(6,267)
Transactions with owners of the Company					
Contributions and distributions					
Equity-settled share based payments	—	—	—	685	685
Deferred tax on share based payments	—	—	—	(1,600)	(1,600)
Proceeds from share issues	11	12,079	—	—	12,090
Share issue costs	—	(390)	—	—	(390)
Equity dividend paid in the year	—	—	—	(466)	(466)
Total transactions with owners of the Company	11	11,689	—	(1,381)	10,319
Balance at 31 December 2018	81	11,689	(50)	(1,282)	10,438

Company statement of changes in equity

For the year ended 31 December 2019

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2019	81	11,689	(50)	5,287	17,007
Total comprehensive income for the year					
Loss for the year	—	—	—	(494)	(494)
Other comprehensive income	—	—	—	—	—
	—	—	—	(494)	(494)
Transactions with owners of the Company					
Contributions and distributions					
Share based payments	—	—	—	125	125
Deferred tax on share based payments	—	—	—	21	21
Proceeds from share issues	1	1	—	—	2
Equity dividend paid in the year	—	—	—	(195)	(195)
Total transactions with owners of the Company	1	1	—	(49)	(47)
Balance at 31 December 2019	82	11,690	(50)	4,744	16,466
Balance at 1 January 2018	70	—	(50)	6,967	6,987
Total comprehensive income for the year					
Loss for the year	—	—	—	(300)	(300)
Other comprehensive income	—	—	—	—	—
	—	—	—	(300)	(300)
Transactions with owners of the Company					
Contributions and distributions					
Share based payments	—	—	—	685	685
Deferred tax on share based payments	—	—	—	(1,599)	(1,599)
Proceeds from share issues	11	12,079	—	—	12,090
Share issue costs	—	(390)	—	—	(390)
Equity dividend paid in the year	—	—	—	(466)	(466)
Total transactions with owners of the Company	11	11,689	—	(1,380)	10,320
Balance at 31 December 2018	81	11,689	(50)	5,287	17,007

FINANCIAL STATEMENTS

Consolidated statement of cash flows

For the year ended 31 December 2019

	31 December 2019 £'000	31 December 2018 £'000
Cash flows from operating activities		
Loss for the financial year	(4,968)	(6,267)
Adjustments for:		
Depreciation of property, plant and equipment and right-of-use assets	397	291
Amortisation of intangible assets	2	2
Finance income	(33)	(21)
Finance costs	112	63
Taxation	(1,009)	(3,370)
Share based payment charge	125	685
Increase in cash collateral deposits lodged with trading counterparties	(10,408)	—
Increase in trade and other receivables	(1,909)	(3,404)
Increase in trade and other creditors	6,411	11,072
Decrease in provisions for employee benefits	—	(371)
Net cash used in operating activities	(11,280)	(1,320)
Cash flows from investing activities		
Purchase of property, plant and equipment	(565)	(147)
Net interest	(79)	(42)
Net cash used in investing activities	(644)	(189)
Cash flows from financing activities		
Net proceeds from share placing and option exercises	2	11,700
Dividend paid during the year	(195)	(466)
Repayment of borrowings and leasing liabilities	(118)	—
Net cash (used in)/from financing activities	(311)	11,234
Net (decrease)/increase in cash and cash equivalents	(12,235)	9,725
Cash and cash equivalents at the start of the year	14,612	4,887
Cash and cash equivalents at the end of the year	2,377	14,612

1. Significant accounting policies

The consolidated financial statements of the Group for the year ended 31 December 2019 were approved and authorised for issue in accordance with a resolution of the Directors on 31 March 2020. Yü Group PLC is a public limited company incorporated in the United Kingdom, with company number 10004236. The Company is limited by shares and the Company's ordinary shares are traded on AIM.

Basis of preparation

The consolidated financial statements have been prepared in accordance with EU-endorsed International Financial Reporting Standards ("IFRSs"), IFRIC interpretations and the Companies Act 2006. The Company has elected to prepare its parent company financial statements in accordance with UK accounting standards (UK Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

The consolidated financial statements are presented in British pounds sterling (£) and all values are rounded to the nearest thousand (£'000), except where otherwise indicated.

Going concern

The financial statements are prepared on a going concern basis.

At 31 December 2019 the Group had net assets of £5.3m (2018: net assets of £10.4m). Management prepares detailed budgets and forecasts of financial performance and cash flow (including capital commitments as disclosed in note 22) over the coming 12 to 36 months. The Group has confidence in achieving such targets and forecasts in a normal business environment.

The Group's low margin, legacy contracts are unwinding and being replaced with higher-margin contracts with more robust customers. Losses have therefore decreased significantly, and the Directors are confident of a continued improvement on a normalised basis.

In December 2019 the main trading entities of the Group (Yü Energy Holding Limited and Yü Energy Retail Limited) entered into a new structured trading arrangement, for an initial period of five years, with SmartestEnergy Limited. The facility with Smartest will currently provide a variable credit facility to support the Group's hedging position, leading to a corresponding benefit to the Group's cash position. The Board monitors covenants associated with this facility.

The risks related to the Covid-19 pandemic have been assessed by the Board and are further detailed in the Strategic Report on page 25.

The unprecedented events, which are still evolving, are likely to have a short to medium-term impact on the Group's financial performance, though are not easily forecasted. The Directors have prepared detailed revised forecasts based on a variety of scenarios in relation to the pandemic, and stress cases of key assumptions.

To date, the Group has not experienced any significant impact on its financial performance.

The Directors have, however, considered the Groups exposure to business segments which are expected to be materially impacted by the social distancing measures introduced in March 2020. This assessment has classified its forward contracted revenue (to March 2021) between segments which are high risk (retail, leisure venues, etc.), medium risk (manufacturing, real estate, etc.) and lower risk (for example the healthcare or utility sector). The Group has a significant (c.45 per cent.) exposure to high risk sectors, with a further c.40 per cent. exposure in medium sectors.

The Group anticipates a reduced revenue and margin from such customers, reducing forward profitability and resulting in a mark-to-market loss on energy overpurchased which is to be sold back to market. The Directors have also assumed that Covid-19 may result in additional customer credit losses (in the form of bad debt) or late customer payments, which will impact on the Group's ability to generate operating cash flow.

The Directors are taking all available steps to efficiently manage cash flow, to reduce costs and to plan appropriate mitigative commercial actions to take during this period of instability across the UK economy. Constructive dialogue is ongoing with the Group's trading counterparty (which provides a material credit facility under the Group's structured trading arrangements) related to the potential future breach of certain covenants in the event of a significant impact on business performance. Further, whilst the Board has not yet secured assistance from sources of Government or regulatory support (such as the deferral of certain industry obligations and payments) as may be or become available, discussions and representations are ongoing both through sector representative groups and directly to Ofgem. The Board acknowledges and welcomes the Government's commitment to support businesses through this uncertain period and awaits further information in order to be in a position to gain access to such assistance as it may potentially be able to secure.

The Directors' assessment of scenarios related to Covid-19 continuing over Q2 2020 and beyond, with enhanced levels of credit loss, may result in significant financial pressure and the technical but commercially manageable temporary breach of certain covenants.

Based on the above, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However in view of the unprecedented coronavirus outbreak, and the risks it may pose to the Group, together with the essentially unpredictable and constantly evolving nature of the pandemic, the Directors have decided to formally note the existence of a level of material uncertainty which may potentially cast doubt on the Group's future ability to continue as a going concern.

The financial statements do not include any adjustments that would result from the basis of preparation as a going concern being inappropriate.

1. Significant accounting policies continued

Basis of consolidation

The consolidated accounts of the Group include the assets, liabilities and results of the Company and subsidiary undertakings in which Yü Group PLC has a controlling interest. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has all of the following: power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee); exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect its returns. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Use of estimates and judgements

The preparation of the financial statements in conformity with adopted IFRSs requires the use of estimates and assumptions. Although these estimates are based on management's best knowledge, actual results ultimately may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The key areas of estimation and judgement are the estimated consumption (in lieu of accurate meter readings) of energy by customers, the level of accrual for unbilled revenue, the inputs to the IFRS 2 share option charge calculations and the recoverability of deferred tax assets and trade receivables.

Revenue estimates are based on industry knowledge or source information, where available, and can therefore represent estimates which are lower or higher than the actual out-turn of energy consumption once accurate meter readings are obtained.

To estimate the level of accrual for unbilled revenue, management estimates the level of consumption, and anticipated revenue, which is due to be charged to the customer, and recognises such revenue where it is considered that revenue will flow to the Group.

Inputs to IFRS 2 share option charge calculations are based on estimates of share price volatility, the expected time to exercise of such options and the risk-free rate of return.

Deferred tax assets recoverability is assessed based on Directors' judgement of the recoverability, by the realisation of future profits, of the tax losses over the short to medium term, which inherently is based on estimates.

Trade receivables recoverability is estimated, with appropriate allowance for expected credit loss provisions, based on historical performance and the Director's estimate of losses over the Group's customer receivable balances.

Revenue recognition

The Group enters into contracts to supply gas, electricity and water to its customers. Revenue represents the fair value of the consideration received or receivable from the sale of actual and estimated gas, electricity and water supplied during the year, net of discounts, Climate Change Levy and value added tax. Revenue is recognised on consumption being the point at which the transfer of the goods or services to the customer takes place and based on an assessment of the extent to which performance obligations have been achieved.

Due to the nature of the energy supply industry and its reliance upon estimated meter readings, both gas and electricity revenue includes the Directors' best estimate of differences between estimated sales and billed sales. The Group makes estimates of customer consumption based on available industry data, and also seasonal usage curves that have been estimated through historical actual usage data.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment and expected credit losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits (monies held on deposit are accessible with one month's written notice). Cash and cash equivalents excludes any cash collateral posted with third parties. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents.

1. Significant accounting policies continued

Financial instruments continued

Derivative financial instruments

The Group uses commodity purchase contracts to hedge its exposures to fluctuations in gas and electricity commodity prices. The majority of commodity purchase contracts are expected to be delivered entirely to the Group's customers and therefore the Group classifies them as "own use" contracts and outside the scope of IFRS 9 "Financial Instruments". This is achieved when:

- » a physical delivery takes place under all such contracts;
- » the volumes purchased or sold under the contracts correspond to the Group's operating requirements; and
- » no part of the contract is settled net in cash.

This classification as "own use" allows the Group not to recognise the commodity purchase contracts on its balance sheet at the year end.

The commodity purchase contracts that do not meet the criteria listed above are recognised at fair value under IFRS 9. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- (b) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is charged to the statement of profit and loss on a straight-line basis over the estimated useful lives of the intangible assets, unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- » Licence – 35 years

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives for the current and comparative periods are as follows:

- » Freehold land – Not depreciated
- » Freehold property – 30 years
- » Computer equipment – 3 years
- » Fixtures and fittings – 3 years

Assets under construction are not depreciated until the period they are brought in to use.

1. Significant accounting policies continued

Leased assets

The Group as a lessee

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains, a lease. A lease is defined as “a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration”. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- » the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- » the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- » the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct “how and for what purpose” the asset is used throughout the period of use.

Leases signed before 1 January 2019 are treated in accordance with the disclosure noted in changes in accounting policy below.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group’s incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in trade and other payables.

Share based payments

Share based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share based payment transactions, regardless of how the equity instruments are obtained by the Group.

The grant date fair value of share based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share based payment awards with non-vesting conditions, the grant date fair value of the share based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

1. Significant accounting policies continued

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the statement of profit and loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Segmental reporting

In accordance with IFRS 8 "Operating Segments", the Group has made the following considerations to arrive at the disclosure made in this financial information.

IFRS 8 requires consideration of the Chief Operating Decision Maker ("CODM") within the Group. In line with the Group's internal reporting framework and management structure, the key strategic and operating decisions are made by the Board of Directors, which regularly reviews the Group's performance and balance sheet position and receives financial information for the Group as a whole. Accordingly, the Board of Directors is deemed to be the CODM.

The Group's revenue and profit were derived from its principal activity, which is the supply of utilities to business customers in the UK. As a consequence the Group has one reportable segment, which is the supply of electricity, gas and water to businesses. Segmental profit is measured at operating profit level, as shown on the face of the statement of profit and loss.

As there is only one reportable segment whose losses, expenses, assets, liabilities and cash flows are measured and reported on a basis consistent with the financial statements, no additional numerical disclosures are necessary.

Standards and interpretations

The Group has adopted all of the new or amended accounting standards and interpretations issued by the International Accounting Standards Board ("IASB") that are mandatory for the current reporting period.

Any new or amended accounting standards or interpretations that are not yet mandatory have not been early adopted.

Changes in accounting policies – IFRS 16 "Leases"

This note explains the impact of the adoption of IFRS 16 "Leases" on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

The Group has adopted IFRS 16 retrospectively from 1 January 2019 and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

1. Significant accounting policies continued**Changes in accounting policies – IFRS 16 “Leases” continued****Adjustments recognised on adoption of IFRS 16**

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of IAS 17 “Leases”. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5 per cent.

The Group does not have any leases that were previously classified as finance leases under IAS 17.

	£'000
Operating lease commitments disclosed at 31 December 2018	669
Less:	
Impact of discounting	(94)
Short-term leases recognised as an expense on a straight-line basis	(6)
Lease liability recognised at 1 January 2019	569
Of which:	
Current lease liabilities	96
Non-current lease liabilities	473

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- » the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- » reliance on previous assessments on whether leases are onerous;
- » the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- » the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- » the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

For all contracts that existed prior to 1 January 2019, the Group has not applied IFRS 16 to reassess whether each contract is, or contains, a lease.

The impact of IFRS 16 on the previously reported equity of the Group is £125,000 as detailed in the consolidated statement of changes in equity on page 48.

The Group had leases prior to 1 January 2019 for its Nottingham office premises and a number of vehicles. Rental contracts are typically made for fixed periods of 3 to 10 years but may have extension options. Lease terms are negotiated on an individual and arm’s length basis and contain different terms and conditions. The lease agreements do not impose any covenants.

For the financial year 2018 and prior, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- » fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- » variable lease payments that are based on an index or a rate;
- » amounts expected to be payable by the lessee under residual value guarantees;

1. Significant accounting policies continued

Changes in accounting policies – IFRS 16 “Leases” continued

Adjustments recognised on adoption of IFRS 16 continued

- » the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- » payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease if such rate is available. If that rate cannot be determined the Group’s incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with comparable terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- » the amount of the initial measurement of lease liability;
- » any lease payments made at or before the commencement date less any lease incentives received;
- » any initial direct costs; and
- » restoration costs.

Changes in accounting policies – third-party intermediary costs

The year ended 31 December 2018 has been restated to reclassify, due to a change in accounting policy, £2,625,000 of amounts payable to third-party intermediaries from operating costs to cost of sales.

2. Segmental analysis

Operating segments

The Directors consider there to be one operating segment, being the supply of utilities to businesses.

Geographical segments

100 per cent. of the Group revenue is generated from sales to customers in the United Kingdom (2018: 100 per cent.).

The Group has no individual customers representing over 10 per cent. of revenue (2018: nil).

3. Auditor’s remuneration

	2019 £’000	2018 £’000
Audit of these financial statements	60	80
Amounts receivable by auditor in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	34	40
Other services pursuant to legislation:		
– Corporate tax services	8	23
– Payroll services	5	6
	107	149

4. Operating expenses

	2019 £’000	2018 £’000
Profit for the year has been arrived at after charging:		
Staff costs (see note 6)	4,981	5,067
Depreciation of property, plant and equipment	397	291
Amortisation of intangibles	2	2
Operating lease rentals	—	145

5. Net finance costs

	2019 £'000	2018 £'000
Bank interest and other finance charges payable	112	63
Bank interest receivable	(33)	(21)
	79	42

6. Staff numbers and costs

The average number of persons employed by the Group (including Directors) during the period, analysed by category, was as follows:

	2019 Number	2018 Number
Sales	42	49
Administration	99	87
	141	136

The aggregate payroll costs of these persons were as follows:

	2019 £'000	2018 £'000
Wages and salaries	4,336	4,287
Social security costs	437	422
Pension costs	83	44
Share based payments	125	314
	4,981	5,067

There were two persons employed directly by the Company during the year ended 31 December 2019 (2018: two), being the Non-executive Directors. The Company's three (2018: three) Executive Directors who served during the year have service contracts with a wholly owned subsidiary of the Company.

Key management personnel

The aggregate compensation made to Directors and other members of key management personnel of the Group is set out below:

	2019 £'000	2018 £'000
Short-term employee benefits	1,338	1,377
Pension costs	33	18
Share based payments	125	654
	1,496	2,049

7. Reconciliation to Adjusted EBITDA

A key alternative performance measure used by the Directors to assess the underlying performance of the business is Adjusted EBITDA.

	2019 £'000	2018 £'000
Adjusted EBITDA reconciliation		
Loss from operations	(5,898)	(9,595)
Add back:		
Non-recurring operational costs	378	441
Non-recurring mutualisation costs	236	—
Impact of first-time adoption of IFRS 9	—	1,768
Unrealised loss on derivative contracts	518	125
Equity-settled share based payment charge	125	685
Depreciation of property, plant and equipment	397	291
Amortisation of intangibles	2	2
Adjusted EBITDA	(4,242)	(6,283)

The 2019 non-recurring operational costs of £378,000 consist of restructuring payroll costs and legal and professional fees in relation to the issue identified in the Q4 2018 accounting review and regulatory investigation. No further costs beyond those accrued are anticipated.

The mutualisation costs of £236,000 relate to Renewable Obligation Certificate ("ROC") and Capacity Market costs that have been levied on the Group over and above the expected costs, to cover the cost of other failing suppliers in the market.

The unrealised loss on derivative contracts is excluded from Adjusted EBITDA in view of its non-cash nature, with significant variability as the forward energy commodity market moves.

Following the adoption of IFRS 16 the Group now recognises depreciation on the right-of-use asset and an interest expense on the lease liability as included in note 13. The comparable 2018 Adjusted EBITDA loss excluding the lease rental costs would have been £6,138,000.

8. Earnings per share

Basic loss per share

Basic loss per share is based on the loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding.

	2019 £'000	2018 £'000
Loss for the year attributable to ordinary shareholders	(4,968)	(6,267)

	2019	2018
Weighted average number of ordinary shares		
At the start of the year	16,267,555	14,054,055
Effect of shares issued in the year	11,133	787,370
Number of ordinary shares for basic earnings per share calculation	16,278,688	14,841,425
Dilutive effect of outstanding share options	786,547	768,025
Number of ordinary shares for diluted earnings per share calculation	17,065,235	15,609,450

	2019 £	2018 £
Basic earnings per share	(0.31)	(0.42)
Diluted earnings per share	—	—

8. Earnings per share continued**Adjusted earnings per share**

Adjusted earnings per share is based on the result attributable to ordinary shareholders before exceptional items and the cost of cash and equity-settled share based payments, and the weighted average number of ordinary shares outstanding:

	2019 £'000	2018 £'000
Adjusted earnings per share		
Loss for the year attributable to ordinary shareholders	(4,968)	(6,267)
Add back:		
Non-recurring items after tax (see note 7 – gross cost of £614,000)	497	357
Unrealised loss on derivative contracts after tax (gross cost of £518,000)	420	101
Share based payments after tax (gross cost of £125,000)	101	254
Adjusted basic loss for the year	(3,950)	(5,555)
	2019 £	2018 £
Adjusted earnings per share	(0.24)	(0.37)

9. Taxation

	2019 £'000	2018 £'000
Current tax charge		
Current year	—	—
Adjustment in respect of prior years	—	(13)
	—	(13)
Deferred tax credit		
Current year	(1,009)	(3,357)
Adjustment in respect of prior years	—	—
	(1,009)	(3,357)
Total tax credit	(1,009)	(3,370)
Tax recognised directly in equity		
Current tax recognised directly in equity	—	—
Deferred tax recognised directly in equity	—	(1,600)
Total tax recognised directly in equity	—	(1,600)
Reconciliation of effective tax rate		
Loss before tax	(5,977)	(9,637)
Tax at UK corporate tax rate of 19% (2018: 19%)	(1,136)	(1,831)
Expenses not deductible for tax purposes	10	6
Tax relief on exercise of share options	(3)	(1,927)
Adjustment in respect of prior periods – current tax	—	13
Adjustments in respect of prior periods – deferred tax	—	—
Utilisation of tax losses not recognised for deferred tax	—	—
Reduction in tax rate on deferred tax balances	120	369
Taxation credit for the year	(1,009)	(3,370)

9. Taxation continued

A reduction in the UK corporation tax rate from 19 per cent. to 17 per cent. (effective from 1 April 2020) was substantively enacted on 6 September 2016. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements. In the 11 March 2020 Budget it was announced that the UK taxation rate will remain at the current 19 per cent. and not reduce to 17 per cent. from 1 April 2020. This will have a consequential effect on the Group's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax asset would have increased by £512,000.

10. Dividends

The Group did not pay an interim dividend in relation to 2019 (2018: 1.2p per share).

The Directors do not propose a final dividend in relation to 2019 (2018: nil per share).

11. Intangible assets

	Electricity licence £'000
Cost	
At 1 January 2019	62
Additions	—
Disposals	—
At 31 December 2019	62
Amortisation	
At 1 January 2019	8
Charge for the year	2
Disposals	—
At 31 December 2019	10
Net book value at 31 December 2019	52
Cost	
At 1 January 2018	62
Additions	—
Disposals	—
At 31 December 2018	62
Amortisation	
At 1 January 2018	6
Charge for the year	2
Disposals	—
At 31 December 2018	8
Net book value at 31 December 2018	54

The useful economic life of the acquired electricity licence is 35 years, which represents the fact that the licence can be revoked by giving 25 years' written notice but that this notice cannot be given any sooner than 10 years after the licence came into force in January 2013.

The above intangible assets are Group assets only. The Company has no intangible assets.

12. Property, plant and equipment

	Freehold land £'000	Assets under construction £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost					
At 1 January 2019	—	—	197	927	1,124
Additions	150	190	72	153	565
Disposals	—	—	(54)	(73)	(127)
At 31 December 2019	150	190	215	1,007	1,562
Depreciation					
At 1 January 2019	—	—	141	588	729
Charge for the year	—	—	59	230	289
Disposals	—	—	(54)	(73)	(127)
At 31 December 2019	—	—	146	745	891
Net book value at 31 December 2019	150	190	69	262	671
Cost					
At 1 January 2018	—	—	189	788	977
Additions	—	—	8	139	147
At 31 December 2018	—	—	197	927	1,124
Depreciation					
At 1 January 2018	—	—	80	358	438
Charge for the year	—	—	61	230	291
At 31 December 2018	—	—	141	588	729
Net book value at 31 December 2018	—	—	56	339	395

Included within the above items of property, plant and equipment is £340,000 (£nil at 31 December 2018) of freehold land and assets under construction which are owned by the Company. These Company balances correspond to the freehold land and assets under construction assets of the Group in the table above.

13. Leases

The Group has entered into lease arrangements for its main office facilities in Nottingham and Leicester and for some vehicles. With the exception of short-term leases and leases of low value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Group discloses its right-of-use assets as a separate line item in fixed assets on the face of the balance sheet and its lease liabilities as part of trade and other payables (see note 18).

Property leases generally have a lease term ranging from 3 years to 10 years. Leases of vehicles are generally limited to a lease term of 3 years.

Each lease typically imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term. For leases over office buildings the Group is obligated to keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The table below provides details of the Groups right-of-use assets and lease liabilities recognised on the balance sheet at 31 December 2019:

Right-of-use asset	Remaining term	Asset carrying amount	Lease liability	Depreciation expense	Interest expense
Premises	2.5 to 4.5 years	£473,000	£589,000	£104,000	£35,000
Vehicles	2 years	£8,000	£8,000	£4,000	£1,000
Total		£481,000	£597,000	£108,000	£36,000

13. Leases continued

Lease payments not recognised as a liability

The Group has elected not to recognise a right-of-use asset or lease liability for short-term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments under such leases are expensed on a straight-line basis. During FY 2019 the amount expensed to profit and loss was £6,000.

None of the above leases of the Group are with the Company entity directly.

14. Investments in subsidiaries

The Company has the following direct and indirect investments in subsidiaries:

Company name	Country of incorporation	Holding	Proportion of shares held	Nature of business
Yü Energy Holding Limited	United Kingdom	Ordinary shares	100%	Gas shipping services
KAL Portfolio Trading Limited	United Kingdom	Ordinary shares	100%	Dormant
Yü Services Limited	United Kingdom	Ordinary shares	100%	Dormant
Yü Energy Retail Limited	United Kingdom	Ordinary shares	100%	Supply of energy to businesses
Yü Group Management Limited	United Kingdom	Ordinary shares	100%	Dormant
Yü Water Limited	United Kingdom	Ordinary shares	100%	Supply of water to businesses

All of the above entities are included in the consolidated financial statements.

All of the above entities have the same registered address as Yü Group PLC. The address is listed as part of the Company information on page 73.

15. Deferred tax assets

Deferred tax assets are attributable to the following:

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Property, plant and equipment	(32)	(32)	—	—
Tax value of loss carry-forwards	4,366	3,357	—	—
Share based payments	21	—	21	—
	4,355	3,325	21	—

Movement in deferred tax in the period:

	At 1 January 2019 £'000	Recognised in income £'000	Recognised directly in equity £'000	At 31 December 2019 £'000
Property, plant and equipment	(32)	—	—	(32)
Tax value of loss carry-forwards	3,357	1,009	—	4,366
Share based payments	—	—	21	21
	3,325	1,009	21	4,355

	At 1 January 2018 £'000	Recognised in income £'000	Recognised directly in equity £'000	At 31 December 2018 £'000
Property, plant and equipment	(32)	—	—	(32)
Tax value of loss carry-forwards	—	3,357	—	3,357
Share based payments	1,600	—	(1,600)	—
	1,568	3,357	(1,600)	3,325

The deferred tax asset is expected to be utilised by the Group in the coming years. The Group is forecast to generate sufficient taxable income as a result of the growth in the customer base against which it will utilise these deferred tax assets.

16. Trade and other receivables

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Gross trade receivables	7,801	7,898	—	—
Provision for doubtful debts and expected credit loss	(4,901)	(4,803)	—	—
Net trade receivables	2,900	3,095	—	—
Accrued income – net of provision	9,278	9,688	—	—
Prepayments	2,185	245	—	—
Other receivables	11,523	406	500	—
Financial derivative asset	—	135	—	—
Amount due from subsidiary undertakings	—	—	15,545	4,642
	25,886	13,569	16,045	4,642

Movements in the provision for doubtful debts and expected credit loss are as follows:

	2019 £'000	2018 £'000
Opening balance	4,803	272
Additional provisions recognised	2,931	4,531
Provision utilised in the year	(2,833)	—
Unused amounts reversed	—	—
Closing balance – provision for doubtful debts and expected credit losses	4,901	4,803

The Directors have assessed the level of provision at 31 December 2019 by reference to the recoverability of customer receivable balances post the year end, and believe the provision carried of £4,901,000 is adequate.

In addition to the £2,931,000 (2018: £4,531,000) provision recognised in relation to trade receivables, there was an additional provision of £159,000 (2018: £875,000) made against accrued income.

None of the Group's receivables fall due after more than one year.

The amount due from subsidiary undertakings in the books of Yü Group PLC at 31 December 2019 is non-interest bearing and is repayable on demand. Subsequent to the year end, the subsidiary undertakings drew down on the newly arranged formal loan facility (key terms of which are that the loan is payable in 14 months following written request from Yü Group PLC and interest is payable by the subsidiary undertakings at a rate of 2 per cent. above Bank of England base rate).

The Board of Yü Group PLC has considered the provisions around impairment of intercompany indebtedness contained within IFRS 9 "Financial Instruments" and has concluded that an expected credit loss provision of £250,000 be booked against the outstanding intercompany receivables.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Group other receivables includes £10,408,000 (2018: £nil) paid in cash to trading counterparties as collateral.

The Company other receivables balance of £500,000 relates to a non-cash and cash equivalent deposit.

17. Cash and cash equivalents

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Cash at bank and in hand	2,377	11,112	500	8,865
Short-term deposits	—	3,500	—	3,500
	2,377	14,612	500	12,365

The short-term deposit at 31 December 2018 related to cash held at bank which was utilised to support collateral in the form of letters of credits with trading counterparties.

18. Trade and other payables

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Current				
Trade payables	1,409	1,231	—	—
Accrued expenses and deferred income	20,889	15,603	140	—
Corporation tax	—	16	—	—
Lease liabilities	149	—	—	—
Derivative financial liability	383	—	—	—
Other payables	5,246	4,667	—	—
Amounts due to subsidiary undertakings	—	—	300	—
	28,076	21,517	440	—
Non-current				
Lease liabilities	448	—	—	—

Details of the lease liabilities are included in note 13.

19. Financial instruments and risk management

The Group's principal financial instruments are cash, trade receivables, trade payables and derivative financial assets and liabilities. The Group has exposure to the following risks from its use of financial instruments:

(a) Fair values of financial instruments

Fair values

Derivative financial instruments are measured at fair value through profit and loss. The derivative instruments are level 1 financial instruments and their fair value is therefore measured by reference to quoted prices in active markets for identical assets or liabilities. All derivatives are held at a carrying amount equal to their fair value at the period end.

(b) Market risk

Market risk is the risk that changes in market prices, such as commodity and energy prices, will affect the Group's income.

Commodity and energy prices

The Group uses commodity purchase contracts to manage its exposures to fluctuations in gas and electricity commodity prices. The Group's objective is to reduce risk from fluctuations in energy prices by entering into back to back energy contracts with its suppliers and customers, in accordance with a Board approved risk mandate. Commodity purchase contracts are entered into as part of the Group's normal business activities. The majority of commodity purchase contracts are expected to be delivered entirely to the Group's customers and are therefore classified as "own use" contracts. These instruments do not fall into the scope of IFRS 9 and therefore are not recognised in the financial statements. A proportion of the contracts in the Group's portfolio are expected to be settled net in cash where 100 per cent. of the volume hedged is not delivered to the Group's customers and is instead sold back to the grid in order to smooth demand on a real time basis. An assumption is made based on past experience of the proportion of the portfolio expected to be settled in this way and these contracts are measured at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

As far as possible, in accordance with the risk mandate, the Group attempts to match new sales orders with corresponding commodity purchase contracts. There is a risk that at any point in time the Group is over or under hedged. Holding an over or under hedged position opens the Group up to market risk which may result in either a positive or negative impact on the Group's margin and cash flow, depending on the movement in commodity prices.

The Board continues to evaluate the use of commodity purchase contracts and whether their classification as "own use" is appropriate. The key requirements considered by the Board are as listed below:

- » whether physical delivery takes place under the contracts;
- » the volumes purchased or sold under the contract correspond to the Group's operating requirements; and
- » whether there are any circumstances where the Group would settle the contracts net in cash.

All commodity purchase contracts are entered into exclusively for own use, to supply energy to business customers. However, as noted above, a number of these contracts do not meet the stringent requirements of IFRS 9, and so are subject to fair value measurement through the income statement.

19. Financial instruments and risk management continued**(b) Market risk continued****Commodity and energy prices continued**

The fair value mark-to-market adjustment at 31 December 2019 is a loss of £518,000 (2018: loss of £125,000). See note 18 for the corresponding derivative financial liability.

The Group's exposure to commodity price risk according to IFRS 7 is measured by reference to the Group's IFRS 9 commodity contracts. IFRS 7 requires disclosure of a sensitivity analysis for market risks that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in market variables impacting upon the fair values or cash flows associated with the Group's financial instruments.

Therefore, the sensitivity analysis provided below discloses the impact on profit or loss at the balance sheet date assuming that a reasonably possible change in commodity prices had occurred and been applied to the risk exposures in place at that date. The reasonably possible changes in commodity price used in the sensitivity analysis were determined based on calculated or implied volatilities where available, or historical data.

The sensitivity analysis has been calculated on the basis that the proportion of commodity contracts that are IFRS 9 financial instruments remains consistent with those at that point. Excluded from this analysis are all commodity contracts that are not financial instruments under IFRS 9.

	Reasonably possible increase/decrease in variable	Impact on profit and net assets £'000
Open market price of forward contracts		
UK gas (p/therm)	+/-50%	303
UK power (£/MWh)	+/-50%	285
		588

Liquidity risk from commodity trading

The Group's trading arrangements can result in a cash call being made by counterparties when commodity markets are below the Group's traded position. A significant reduction in electricity and gas markets could lead to a material cash call from the Group's trading counterparties. Whilst such a cash call would not impact the Group's profit, it would have an impact on the Group's cash reserves. As described below, the new structured trading arrangement with SmartestEnergy has reduced this liquidity risk.

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

These trading exposures are monitored and managed at Group level. All customers are UK based and turnover is made up of a large number of customers each owing relatively small amounts. New customers have their credit checked using an external credit reference agency prior to being accepted as a customer.

Credit risk is also managed through the Group's standard business terms, which require all customers to make a monthly payment predominantly by direct debit. At the year end there were no significant concentrations of credit risk. The carrying amount of the financial assets (less the element of VAT and CCL included in the invoiced balance, which is recoverable in the event of non-payment by the customer) represents the maximum credit exposure at any point in time.

The ageing of trade receivables, net of bad debt provision, at the balance sheet date was:

	2019 £'000	2018 £'000
Not past due	69	104
Past due (0-30 days)	1,529	1,949
Past due (31-120 days)	1,302	1,006
More than 120 days	—	36
	2,900	3,095

At 31 December 2019 the Group held a provision against doubtful debts of £5,858,000 (2018: £5,678,000). This is a combined provision against both trade receivables (£4,901,000) and accrued income (£957,000).

19. Financial instruments and risk management continued

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Board is responsible for ensuring that the Group has sufficient liquidity to meet its financial liabilities as they fall due and does so by monitoring cash flow forecasts and budgets. In order to enter into the necessary commodity purchase contracts, the Group is required to lodge funds on deposit with either its bank or direct with our commodity trading counterparties. At 31 December 2019 the Group had £10.4m lodged as cash collateral with trading counterparties (2018: £3.5m lodged as collateral with banking partners to provide a letter of credit). On 16 December 2019 the Group announced a new structured trading arrangement with SmartestEnergy Limited. This arrangement provides a significant credit facility and as such reduces the need to lodge cash collateral. The Board has considered the cash flow forecasts, along with the collateral and LOC requirements, for the next 12 months, which show that the Group expects to operate within its working capital facilities throughout the year excluding any impact from Covid-19 (as disclosed in note 1 to the financial statements and in the risks and uncertainties section of the Strategic Report).

Any excess cash balances are held in short-term, interest bearing deposit accounts. At 31 December 2019 the Group had £2.4m of cash and bank balances, as per note 17.

(e) Foreign currency risk

The Group trades entirely in pounds sterling and therefore it has no foreign currency risk.

(f) Impact from the Covid-19 virus outbreak

The Covid-19 pandemic impacted the UK post the year end. There is a risk that the resulting impact on the UK economy will reduce the recoverability of customer receivables (being trade receivables and accrued income).

The total customer receivables balance at 31 December 2019, net of provision for doubtful debts and expected credit losses, is £12,178,000. The Directors assess the level of provision as adequate after consideration of cash received post 31 December 2019.

The risk of the virus outbreak impacting the recoverability of customer receivables balances in the future is being monitored closely by the Board and is further detailed in the Strategic Report's review of the risks and uncertainties related to Covid-19. The Board is also monitoring any impact in the reduction of customer volume, and therefore the revenue of the Group.

The UK Government has noted the intention to do "whatever it takes" to protect the economy, and as such the risk of significant business failure is reduced.

However, in assessing sensitivity to the level of credit risk on customer receivables, a 10 per cent. increase in the level of bad debt will result in approximately £1,200,000 of additional expected credit loss.

If energy commodity volumes consumed by customers significantly decrease as a result of the outbreak (and outside the normal operating assumptions of the Group), there may be exposure to additional mark-to-market volume risk as some of the volume purchased forward would need to be sold. The impact could also be increased if the reduction in customer demand coincided with further declines in energy commodity markets. Whilst the Directors have taken steps to mitigate this action, the sensitivity caused by a 10 per cent. decline in contracted revenue for the year ended 31 March 2021 would reduce gross margin by approximately £350,000, excluding any gain or loss on the sale of commodity.

20. Share capital and reserves

Share capital	2019 Number	2019 £'000	2018 Number	2018 £'000
Allotted and fully paid ordinary shares of £0.005 each	16,281,055	82	16,267,555	81

The Company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

20. Share capital and reserves continued

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000
At 1 January 2019	81	11,689	(50)	(1,282)
IFRS 16 adjustment	—	—	—	(125)
Loss for the year	—	—	—	(4,968)
Share based payment charge	—	—	—	125
Proceeds from share issues	1	1	—	—
Deferred tax on share based payment charge	—	—	—	21
Equity dividend paid	—	—	—	(195)
At 31 December 2019	82	11,690	(50)	(6,424)
At 1 January 2018	70	—	(50)	6,366
Loss for the year	—	—	—	(6,267)
Share based payment charge	—	—	—	685
Proceeds from share issues	11	12,079	—	—
Share issue costs	—	(390)	—	—
Deferred tax on share based payment charge	—	—	—	(1,600)
Equity dividend paid	—	—	—	(466)
At 31 December 2018	81	11,689	(50)	(1,282)

The Company only movement in reserves is as per the Company's statement of changes in equity as detailed on page 49.

The merger reserve was created as part of the 2016 Group reorganisation.

On 28 February 2019 an employee exercised 13,500 share options. The exercise price was £0.09 per share.

During FY 2018 1,013,500 share options were exercised by employees. The exercise price in all instances was £0.09 per share.

21. Share based payments

The Group operates a number of share option plans for qualifying employees of the Group. Options in the plans are settled in equity in the Company. The options are subject to a vesting schedule, but not conditional on any performance criteria being achieved. The only vesting condition is that the employee is employed by the Group at the date when the option vests.

On 18 June 2019, the Group made its first round of awards under the new SAYE plan. This plan is available to all employees of the Group.

The terms and conditions of the outstanding grants made under the schemes are as follows:

Date of grant	Expected term	Exercisable between		Exercise price	Vesting schedule	Amount outstanding at 31 December 2019
		Commencement	Lapse			
17 February 2016	3	17 February 2019	17 February 2026	£0.09	2	27,000
22 December 2016	3	22 December 2019	22 December 2026	£3.25	2	13,500
6 April 2017	3	6 April 2020	6 April 2027	£0.005	2	79,110
6 April 2017	6.5	6 April 2020	6 April 2027	£2.844	2	158,220
28 September 2017	6.5	28 September 2020	28 September 2027	£5.825	2	40,500
9 April 2018	6.5	9 April 2021	9 April 2028	£10.38	2	78,351
26 September 2018	6.5	26 September 2021	26 September 2028	£8.665	2	6,539
25 February 2019	6.5	25 February 2022	25 February 2029	£1.09	2	60,000
25 February 2019	3	25 February 2022	25 February 2029	£0.005	2	250,000
18 June 2019	3	1 August 2022	1 February 2023	£1.40	3	117,248
						830,468

21. Share based payments continued

The following vesting schedules apply:

1. 50 per cent. of options vest on first anniversary of date of grant and 50 per cent. vest on second anniversary.
2. 100 per cent. of options vest on third anniversary of date of grant.
3. 100 per cent. of options vest on third anniversary of savings contract start date.

The number and weighted average exercise price of share options were as follows:

	2019	2018
Balance at the start of the period	573,290	1,464,310
Granted	437,248	154,317
Forfeited	(166,570)	(31,837)
Lapsed	—	—
Exercised	(13,500)	(1,013,500)
Balance at the end of the period	830,468	573,290
Vested at the end of the period	40,500	—
Exercisable at the end of the period	40,500	—
Weighted average exercise price for:		
Options granted in the period	£0.55	£7.41
Options forfeited in the period	£2.29	£5.67
Options exercised in the period	£0.09	£0.09
Exercise price in the range:		
From	£0.005	£0.005
To	£10.380	£10.380

The fair value of each option grant is estimated on the grant date using a Black Scholes option pricing model with the following fair value assumptions:

	2019	2018
Dividend yield	0%	0.29–0.35%
Risk-free rate	1.5%	1.5%
Share price volatility	124.3–127.8%	36.0–36.7%
Expected life (years)	3–6.5 years	3–6.5 years
Weighted average fair value of options granted during the period	£1.14	£5.67

The share price volatility assumption is based on the actual historical share price of the Group since IPO in March 2016.

The total expenses recognised for the year arising from share based payments are as follows:

	2019 £'000	2018 £'000
Equity-settled share based payment expense	125	685
Cash-settled share based payment expense/(gain)	—	(371)
	125	314

22. Commitments**Capital commitments**

The Group has entered into an agreement to purchase a newly developed office building and associated land at a site in Leicester city centre. At 31 December 2019 the Group had incurred £340,000 of cost which is currently included in the fixed assets total as £150,000 of land and £190,000 assets under construction. The Group has a remaining capital commitment at 31 December 2019 of £3,090,000 (2018: £nil).

The remaining cash flows are anticipated to be staggered between 2020 and H1 2021, at which time the Group should take possession of the completed building.

Security

The Group has entered into an arrangement with a new trading counterparty, SmartestEnergy Limited ("Smartest"), in December 2019. As part of this arrangement, Smartest has a fixed and floating charge over the main trading subsidiaries of the Group, Yü Energy Holding Limited and Yü Energy Retail Limited.

As disclosed in note 16, included in other receivables is an amount of £500,000 held in a separate bank account over which the Group's bankers have a fixed and floating charge.

Contingent liabilities

The Group had no contingent liabilities at 31 December 2019 (2018: £nil).

23. Related parties and related party transactions

The Group has transacted with CPK Investments Limited (an entity owned by Bobby Kalar). CPK Investments Limited owns the property from which the Group operates from via a lease to Yü Energy Retail Limited. During 2019 the Group paid £120,000 in lease rentals and service charges to CPK Investments Limited (2018: £120,000). The amount owing to CPK Investments at 31 December 2019 was £10,000 (2018: £nil).

All transactions with related parties have been carried out on an arm's length basis.

24. Post-balance sheet events

The Covid-19 pandemic started to materially impact the UK from March 2020. The Directors' assessment of the potential risk and impact are further disclosed in the risk and uncertainties section of the Strategic Report, and in note 1 to the financial statements.

There are no other significant or disclosable post-balance sheet events.

Notice of annual general meeting

Notice is given that the fourth annual general meeting of Yü Group PLC ("the Company") will be held at CPK House, Mellors Way, 2 Horizon Place, Nottingham Business Park, Nottingham, United Kingdom NG8 6PY on 21 May 2020 at 11.30am for the following purposes:

To consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

1. To receive the Company's annual accounts and the Strategic, Directors' and Auditor's Reports for the year ended 31 December 2019.
2. To re-elect Bobby Kalar, who retires by rotation as a Director of the Company pursuant to Article 94 of the Company's Articles of Association.
3. To re-elect Robin Paynter Bryant, who retires as a Director of the Company pursuant to Article 90.2 of the Company's Articles of Association.
4. To re-elect Anthony Perkins, who retires as a Director of the Company pursuant to Article 90.2 of the Company's Articles of Association.
5. To reappoint RSM UK Audit LLP as the auditor of the Company.
6. To authorise the Audit Committee to determine the remuneration of the auditor.
7. That, pursuant to section 551 of the Companies Act 2006 ("the Act"), the Directors be generally and unconditionally authorised to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £27,135.09, provided that this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on 21 August 2021 (whichever is the earlier), save that the Company may make an offer or agreement before this authority expires which would or might require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after this authority expires and the Directors may allot shares or grant such rights pursuant to any such offer or agreement as if this authority had not expired.

This authority is in substitution for all existing authorities under section 551 of the Act (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

To consider and, if thought fit, pass the following resolutions as special resolutions:

8. That, subject to the passing of resolution 7 and pursuant to section 570 of the Act, the Directors be and are generally empowered to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority granted by resolution 7 as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
 - 8.1 in connection with an offer of equity securities (whether by way of a rights issue, open offer or otherwise):
 - 8.1.1 to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them; and
 - 8.1.2 to holders of other equity securities in the capital of the Company, as required by the rights to those securities or, subject to such rights, as the Directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and

- 8.2 otherwise than pursuant to paragraph 8.1 of this resolution, up to an aggregate nominal amount of £8,140.52,

and this power shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on 21 August 2021 (whichever is the earlier), save that the Company may make an offer or agreement before this power expires which would or might require equity securities to be allotted for cash after this power expires and the Directors may allot equity securities for cash pursuant to any such offer or agreement as if this power had not expired.

This power is in substitution for all existing powers under section 570 of the Act (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

9. That, pursuant to section 701 of the Act, the Company be and is generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of £0.005 each in the capital of the Company, provided that:

- 9.1 the maximum aggregate number of ordinary shares which may be purchased is 1,628,105;
- 9.2 the minimum price (excluding expenses) which may be paid for an ordinary share is £0.005; and
- 9.3 the maximum price (excluding expenses) which may be paid for an ordinary share is an amount equal to 105 per cent. of the average of the middle market quotations for an ordinary share as derived from the Daily Official List of the London Stock Exchange plc for the five business days immediately preceding the day on which the purchase is made,

and (unless previously revoked, varied or renewed) this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on 21 August 2021 (whichever is the earlier), save that the Company may enter into a contract to purchase ordinary shares in the capital of the Company before this authority expires under which such purchase will or may be completed or executed wholly or partly after this authority expires, and may make a purchase of ordinary shares in the capital of the Company pursuant to any such contract as if this authority had not expired.

By order of the Board

Paul Rawson
Secretary

6 April 2020

Registered office:
CPK House, 2 Horizon Place,
Nottingham Business Park, Mellors Way,
Nottingham, United Kingdom, NG8 6PY

Registered in England and Wales no. 10004236

Notice of annual general meeting *continued***Notes****Entitlement to attend and vote**

1. The right to vote at the meeting is determined by reference to the register of members of the Company. Only those persons whose names are entered on the register of members of the Company at 6.00pm on 19 May 2020 (or, if the meeting is adjourned, 6.00pm on the date which is two working days before the date of the adjourned meeting) shall be entitled to attend and vote in respect of the number of shares registered in their names at that time. Changes to entries on the register of members after that time shall be disregarded in determining the rights of any person to attend and/or vote (and the number of votes they may cast) at the meeting. However, in light of the coronavirus pandemic situation, shareholders and their proxies will not be allowed to attend the meeting in person if the Government's social distancing advice remains.

Proxies

2. A shareholder is ordinarily entitled to appoint any other person as his or her proxy to exercise all or any of his or her rights to attend and to speak and vote at the meeting and, on a poll, vote instead of him or her. A proxy need not be a shareholder of the Company. However in light of the coronavirus pandemic situation, shareholders are urged to appoint the Chairman of the meeting as his or her proxy, as shareholders and their proxies will not be allowed to attend the meeting in person if the Government's social distancing advice remains.
3. A proxy may only be appointed in accordance with the procedures set out in note 6 and the notes to the proxy form. A form of proxy is enclosed.
4. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given in the proxy form, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the AGM.
5. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
6. To be valid, a proxy form must be received by post at the offices of the Company's registrars, Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, West Midlands B62 8HD, no later than 11.30am on 19 May 2020 (or, if the meeting is adjourned, no later than 48 hours (excluding any part of a day that is not a working day) before the time of any adjourned meeting).
7. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Any amended proxy appointment received after the time specified above will be disregarded.
8. Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Neville Registrars Limited.

9. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard-copy notice clearly stating your intention to revoke your proxy appointment to Neville Registrars Limited. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by a duly authorised officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a notarially certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Neville Registrars Limited prior to the commencement of the annual general meeting or adjourned meeting at which the vote is given or, in the case of a poll taken otherwise than on the same day as the meeting or adjourned meeting, before the time appointed for taking the poll.
10. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then your proxy appointment will remain valid.

Corporate representatives

11. A shareholder which is a corporation may ordinarily authorise one or more persons to act as its representative(s) at the meeting. Each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual shareholder, provided that (where there is more than one representative and the vote is otherwise than on a show of hands) they do not do so in relation to the same shares. However, in light of the coronavirus pandemic situation, such representatives will not be allowed to attend the meeting in person (whilst the Government's social distancing advice remains in place) and therefore corporations are urged to complete and return their proxy form appointing the Chairman as their proxy.

Method of voting

12. Voting on all resolutions will be decided on a show of hands unless a poll is duly demanded (i) before or on declaration of the result of a vote on a show of hands or (ii) on the withdrawal of any other demand for a poll.

Documents available for inspection

13. The following documents will be available for inspection during normal business hours at the registered office of the Company and at the Company's business address, CPK House, 2 Horizon Place, Nottingham Business Park, Mellors Way, Nottingham NG8 6PY, from the date of this notice until the end of the meeting:
 - 13.1 copies of the service contracts of the Executive Directors; and
 - 13.2 copies of the letters of appointment of the Non-executive Directors.

Biographical details of Directors

14. Biographical details of all those Directors who are offering themselves for reappointment at the meeting are set out on pages 32 and 33 of the enclosed annual report and accounts.

Company information

Company Secretary

Paul Rawson

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www.yugroupplc.com

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Broker

Shore Capital Stockbrokers Limited

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