

2022 INTERIM RESULTS

Results for the first six months
to 30 June 2022



GROUP PLC

**Yü Group PLC
(the “Group”)**

Results for the six months to 30 June 2022

CONTINUED FINANCIAL AND OPERATIONAL OUTPERFORMANCE

Yü Group PLC (AIM; YU.), the independent supplier of gas, electricity and water to the UK corporate sector, and smart meter installation services, announces its unaudited half year results for the six months to 30 June 2022.

Bobby Kalar, Chief Executive Officer, said:

“We continue to reiterate our promise to keep delivering profitable growth and are confident this is set to continue.

I'm very pleased to report another set of excellent results reflecting a strong and reliable performance. Remembering this is our fourth consecutive and consistent set of results I'm proud to confirm our key financial KPI's are performing well and have exceeded our forecasts following two recent upgrades. Revenue is up by 96%, cash in hand has increased 37%, average monthly booking have increased by 49% and EBITDA has jumped over 400% compared to H1 2021. Our strategy is working well and our strengthened and highly disciplined business driven by our joined up processes, people and platforms continues to deliver a seamless customer experience.

Our digital transformation program is on course and several digital projects are now live and embedded into the business. We will see additional benefits of reduced operating costs, better efficiencies and greater predictability as we scale these digital channels.

While I'm pleased with the recent government Energy Bills Relief Scheme announcement, pledging support for business customers with their increased energy costs, I fear businesses will feel the ongoing pressure of volatile wholesale commodity prices for some time. We will continue to work hard to help our customers manage these difficult market conditions.

A £300m Mark to Market trading position gives me comfort our hedge book is very strong, in accordance with our hedging policy, and provides significant confidence in forward gross margin.

The successful launch of Yü Smart is a game changer in terms of value chain ownership. As well as supplying energy to our business customers we have gained certification from the Retail Energy Code (REC) and approval from Elexon and Xoserve to operate as a Meter Equipment Manager (MEM) and Meter Installer (MI) for both gas and electricity customers, creating the opportunity to install and maintain SMETS2 meters. In addition, owning the asset, creating an annuity income, provides an exciting new value pool for the Group to benefit from. I look forward to updating the market as we rapidly scale this capability.

We performed well in the pandemic; even better in 2021, despite challenges in the market; and we expect even better performance in the remainder of 2022 and beyond. I'm reassured our business continues to prosper and will use its strength and experience as an anchor for any further turbulence. As we continue to enjoy the fruits of our hard work, I look forward to delivering significant shareholder value in the near future.

Finally, I would like to thank my wonderful team who continue to support the Board's target to achieve £500m revenue at over 4% EBITDA as soon as possible.”

Highlights

<i>£'m unless stated</i>	6 months ended 30 June			12 months 2021
	2022	2021	Change	
Financial				
Revenue	129.2	65.8	96%	155.4
Adjusted EBITDA ¹	2.7	0.5	440%	1.7
Profit after tax	4.4	0.9	389%	4.5
Cash	15.7	11.5	37%	7.0
Earnings per share (diluted):				
Adjusted	10p	0.4p	+9.6p	14p
Statutory	26p	5p	+21p	26p
Operational				
Average monthly bookings	14.3	9.6	49%	13.8
Meter points (#'000)	26.1	20.8	25%	31.9

Note:

1. Adjusted EBITDA represents earnings before interest, tax, depreciation and amortisation. It also excludes the gain of £3.3m in relation to the Group's financial derivative asset and, in 2021, excluded share based payment charges and non-recurring costs.

- Revenue growth of 96.3% to £129.2m (H1 2021: £65.8m), through strong organic growth, as the Group benefits from its improved customer proposition
- Digital by Default strategy accelerating the benefits of operational leverage and margin expansion with EBITDA margins expanding to 2.1% (H1 2021: 0.8%),
 - Gross margin improvement from 7.8% to 14.1%
 - Overhead costs have decreased from 6.1% of revenue in H1 2021, to 4.6% in H1 2022
- Adjusted EBITDA increased to £2.7m (H1 2021: £0.5m), and already exceeding the 12 months of FY 2021
- Profit after tax increased to £4.4m (H1 2021: £0.9m) benefiting from a £3.3m gain based on our ~£0.3bn MtM hedge position, leading to a £7.3m financial derivative asset at H1 2022
- Robust commodity hedging position is underpinning strong performance, as the business is well protected against unprecedented price volatility in the energy markets
- Average monthly bookings have increased by 49% to £14.3m (H1 2021: £9.6m) while the number of meter points has increased by 25% compared with 30 June 2021
- Yü Smart successfully launched and will further improve debtor control, margins and profitability as it scales, and asset ownership will unlock new annuity incomes for the Group
- Group remains well capitalised with strong cash position at £15.7m (H1 2021: £11.5m). Reflecting confidence in the ongoing performance of the Group, the Board is actively considering the introduction of a progressive dividend to be confirmed at the Company's full year results, with capital allocation being balanced against the growth opportunities presented to the Group.



Outlook

- The Board expects the record H1 performance to continue for the remainder of the financial year and beyond, with continued strong trading already evident in Q3 2022
- Contracted revenue of £119m secured for 2023, at 31 August 2022, providing good forward revenue visibility
- Yü Smart is expected to become profitable in FY 2023 with significant opportunities to develop and grow the business and unlock new margin opportunities
- The Board welcomes the support announced by the government through the energy bill relief scheme, which provides clarity and will help businesses through the coming winter.

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Notes to Editors

Information on the Group

Yü Group PLC, trading as Yü Energy, is a leading supplier of gas and electricity focused on servicing the corporate sector throughout the UK. We drive innovation through a combination of user-friendly digital solutions and personalised, high quality customer service. The Group plays a key role supporting businesses in their transition to lower carbon technologies with a commitment to providing sustainable energy solutions.

Yü Group has a clear strategy to deliver sustainable profitable growth and value for all of our stakeholders built on strong foundations and with a robust hedging policy. In 2022 the Group launched Yü Smart to support growth through new opportunities in smart metering and EV charge installation. With a significant opportunity in a £50bn addressable market Yü Group continues to deliver on the medium term goal of £500m of revenues with an adjusted EBITDA margin in excess of 4%.

Chief Executive Officer's Statement

Delivering on our strategy

I'm delighted to report a very strong trading and financial performance, with continued improvement in profitability and with the Group exceeding all key financial and operational metrics.

We have now delivered four half-year periods of consistent and consecutive growth and I'm excited about the momentum we are carrying in to H2 2022 and beyond.

Our strategic focus on being Bigger (high growth), Better (more profitable), Faster (digital by default) and Stronger (cash and governance focus) continues to deliver.

Growth has continued apace with revenues of £129.2m, up by 44% against H2 2021 and up 96% on H1 2022 (H1 2021: £65.8m), and already stands at 83% of that achieved in FY 2021 (itself a record).

The high price environment being experienced in the market has resulted in an increase in uncontracted revenues as businesses defer entry into fixed contracts at elevated prices. Uncontracted revenues represented 18% of H1 2022 revenues.

Strong bookings performance led to a 25% growth in number of meter points served and a high level of forward contracted revenue. As at 31 August 2022 the Group has £119m of contracted revenues for FY 2023 (up 31% on prior year) underpinning the Group's growth trajectory in H2 2022 and beyond.

Profitability has also increased, and we maintain our target to achieve revenues of £0.5bn, at 4%+ EBITDA.

Our Digital by Default programme has accelerated our margin development and is delivering consistency of data across the Group to effectively serve customers and manage the Group's risk profile. We see the investment made as a significant growth driver for the future with a scalable platform now in place. Customers can obtain a live priced quote in under 30 seconds, and onboard seamlessly hands-free and without the need to contact in person. We continue to automate customer experiences and have flexible and fully configurable API plug and play technologies which can maintain our agility as a leading challenger supplier. Our platform is designed to allow us to easily enter new and complimentary product offerings.

This Digital by Default approach unlocks new sales channels, with the ability for customers and energy broker (TPIs) to self-serve, bringing enhanced overhead efficiency and operational leverage to improve margins. Alongside the financial benefits the consistency of data enables informed decisions to effectively manage risk and enables the Group to understand the needs and habits of our customers through data analytics.

In summary, we have in place robust and scalable systems which is accelerating growth – and this seamless customer experience, driven by our joined-up processes, people and platforms, highlights the strength of our business.

Delivering from our strong foundations

Our commodity hedging position is a strong platform for continued success. The Board estimates the value of the hedge book, on a Mark to Market ("MtM") basis, at £300m at 20 September 2022. This provides significant market opportunity over the rest of 2022 and FY 2023 and FY 2024.



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Bad debt has increased in H1 2022 in absolute terms, reflecting the growth of the business. Importantly overdue customer receivables have remained flat at 7 days. Alongside this gross margin has improved to 14.1% (H1 21: 7.8%) through various commercial activities and a prudent and optimised hedge position. Management expects to continue to navigate the highly volatile global market prices utilising the digital tools, knowledge and processes developed over recent times, and is confident in improving net customer contribution to unlock further value.

The Board welcomes the announcement from government of the significant Energy Bill Relief Scheme to support customers through the winter period. We continue to work with BEIS on the implementation of the package, with details still being assessed, though consider the impact on customers to be very helpful. We remain hopeful that government will extend the scheme beyond the initial six month period, if market prices require, for some customers in certain highly impacted sectors.

The Group maintains a strong balance sheet and will consider investments to drive further growth opportunities to scale even more rapidly. We remain vigilant for any acquisitions available, though are disciplined (as has been proven on our acquisitions to date) to target only value enhancing opportunities.

Delivering for the future

The Group invested in the people, policies, processes and certain other intellectual property of Magnum Utilities, a leading smart meter installer, in Q2 2022. Since then, the team has been working to launch our new business unit, Yü Smart, which has now successfully commenced operation with the first meters installed and a growing team of meter installers in place.

Our Yü Smart business unit will provide metering services to our own energy supply business alongside other suppliers. This service provides significant benefits to our Group: to fully control the customer smart meter installation journey; provide customers with additional insight on their energy usage; and to reduce bad debt exposure in the supply business.

The acquisition also allows new growth initiatives in relation to EV charger installations.

In addition, the Group will invest from Q4 2022 to own smart meter assets, providing a long-term recurring and profitable annuity.

The Board is pleased with performance to date and have increased guidance on two occasions this year. We maintain a positive outlook and note market expectations are rightfully prudent in view of the high volatility in market prices.

That said, the Board is confident on achieving the increased market expectations and on the ability to deliver the Group's medium-term targets of £500m revenues at 4%+ EBITDA.

The talent and commitment I can draw upon from our colleagues is leading us to significantly improved performance, and I reiterate my thanks to them in continuing to deliver the Group's objectives.

Financial Review

<i>£'m unless stated</i>	H1 2022	H1 2021	FY 2021
Revenue	129.2	65.8	155.4
Gross Margin %	14.1%	7.8%	9.8%
Net Customer Contribution %	6.7%	6.8%	6.7%
Overheads %	(4.6%)	(6.1%)	(5.6%)
Adjusted EBITDA %	2.1%	0.7%	1.1%
Adjusted EBITDA	2.7	0.5	1.7
Depreciation	(0.6)	(0.4)	(0.7)
Non-recurring	-	-	(0.6)
Share based payments	-	(0.2)	(0.2)
Financial derivative gain	3.3	1.2	3.3
Tax	(1.0)	(0.2)	1.0
Profit after tax	4.4	0.9	4.5
Earnings per share (diluted):			
Adjusted	10p	0.4p	14p
Statutory	27p	6p	26p
Operating cash flow	10.3	2.3	(0.8)
Overdue customer receivables	7days	7days	7days
Cash	15.7	11.5	7.0

Delivering significant increase in revenue

Group revenue has increased to £129.2m, a 96% increase on H1 2021, or 120% increase after considering the previously announced exit in FY 2021 from a £7m low margin contract.

This strong performance is a factor of the integrations of the various Supplier of Last Resort (“SoLR”) books in late 2021 and early 2022, together with continued high monthly bookings (partially reflecting the high price environment) and an increased contribution from customers wishing to remain on our variable tariff.

<i>£'m unless stated</i>	6 months ended 30 June		
	Change	2022	2021
Revenue			
Firm book (contracted)	51.8	104.3	52.5
Non-firm book (uncontracted)	18.9	23.4	4.5
Other (water and other charges)	(0.1)	1.5	1.6
Exited contract	(7.2)	-	7.2
Total Revenue	63.4	129.2	65.8



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Forward contracted revenue as at 31 August 2022, to deliver in FY 2023, is £119m being 31% up on the comparable position at 31 August 2021. Along with the SoLR books, the increase in uncontracted revenues is a result of customers who have decided to delay entering a new fixed price contract because of the high commodity market environment.

Management has significant confidence in achieving revenue market expectations based on current trading.

Gross margin and Adjusted EBITDA are not expected to be impacted by the government Energy Billing Relief Scheme. BEIS have also noted that the scheme will be cash neutral for suppliers.

Delivering sustainable profitable growth

Gross margin has significantly improved in the period, to 14.1% (H1 2021: 7.8%) largely because of a strong hedge book and the significant uncontracted customer base.

Bad debts have been provisioned at 7.4% (FY 2021: 3.1%) of revenues, on a prudent basis reflecting the increased tariffs being experienced by customers. The Energy Bill Relief Scheme, plus our drive to install additional smart meters, are expected to reduce this level of bad debt in H2 2022, though management will remain focussed on customer payment performance.

General overheads are benefiting from significant efficiency, largely driven through investment in our Digital by Default strategy and continues to reduce cost to acquire and cost to serve. Overheads at 4.6% of revenue are significantly below the 5.6% across FY 2021, and trending positively towards our target to achieve overheads below 3.5% of revenue at £500m revenues.

Whilst the Board are confident that this strong profitability trajectory will continue in the short and medium term, there will be no complacency. Optimisation of our £300m MtM valued hedge book, coupled with further focus on bad debt and leveraging scale benefits in overheads all provide positive momentum into FY 2023. Commercial strategies identified and tested in various market conditions over recent years should also provide opportunity to unlock value – in high or decreasing commodity market environments.

In addition, our activities in Yü Smart will unlock additional value in the supply chain, whilst supporting a reduction in bad debt. A c£1.3m working capital requirement (financed from Group cash reserves) and investment of c£2.7m into meter assets from Q4 2022 and into FY 2023 could generate (post tax, pre indexation) levered returns of over 30% and a recurring, profitable annuity income.

Delivering strong cash flow and working capital

The Group has a strong balance sheet, with £15.7m cash available on 30 June 2022, up from £11.5m at June 2021. The Group continues to have no debt.

On 31 August 2022 the Group settled its full annual ROC bill on time, and closed August with £5.1m of cash, being ahead of management expectations. Group cash by 31 December 2022 is targeted to significantly exceed the £7.0m cash held on 31 December 2021.

Whilst the Board remain mindful on the pressures on customers, and the level of bad debt provisioning has increased, Overdue Customer Receivables (being an indicator of unprovided for customer receivables at the balance sheet date) have remained flat at 7days of sales (H1 2021: 7 days). The roll out of smart meters under the Yü Smart business will further enhance the Group's debtor controls. The Board are currently examining the most appropriate means to finance the expansion of the Yü Smart business but can confirm it will be without recourse to equity.

Delivering on our financial framework

Our clear management targets remain; to deliver £500m revenue at over 4% EBITDA in the medium term.

We will achieve this by continued discipline across our financial framework: to drive organic and inorganic growth; unlocking customer lifecycle opportunities and optimising our hedge book; whilst benefiting from overhead and digital driven overhead efficiencies as we maintain cash discipline.

The Board look forward to updating stakeholders in the coming months as we progress towards these objectives.



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Condensed consolidated statement of profit and loss and other comprehensive income

For the six months ended 30 June 2022

	Notes	6 months ended 30 June 2022 (Unaudited) £'000	6 months ended 30 June 2021 (Unaudited) £'000	12 months ended 31 December 2021 (Audited) £'000
Revenue		129,221	65,816	155,423
Cost of sales		(111,008)	(60,673)	(140,180)
Gross profit		18,213	5,143	15,243
Operating costs before non-recurring items and share based payment charges		(6,405)	(4,400)	(9,407)
Operating costs – non-recurring items	5	-	-	(644)
Operating costs – share based payment charges	17	(48)	(191)	(249)
Total operating costs	3	(6,453)	(4,591)	(10,300)
Net impairment losses on financial and contract assets	12	(9,614)	(632)	(4,799)
Other gains	5	3,355	1,248	3,344
Operating profit		5,501	1,168	3,488
Finance income	4	-	1	-
Finance costs	4	(24)	(25)	(96)
Profit before tax		5,477	1,144	3,392
Taxation	7	(1,040)	(224)	1,059
Profit and total comprehensive income for the year		4,437	920	4,451
Earnings per share				
Basic	6	£0.27	£0.06	£0.27
Diluted	6	£0.26	£0.05	£0.26



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Condensed consolidated balance sheet

At 30 June 2022

	Notes	30 June 2022 (Unaudited) £'000	30 June 2021 (Unaudited) £'000	31 December 2021 (Audited) £'000
ASSETS				
Non-current assets				
Intangible assets	9	2,578	359	1,333
Property, plant and equipment	10	3,636	3,776	3,751
Right-of-use assets	11	153	233	193
Deferred tax assets		4,892	4,566	5,932
Trade and other receivables	12	1,793	-	870
		13,052	8,934	12,079
Current assets				
Trade and other receivables	12	38,059	19,185	40,441
Cash and cash equivalents	13	15,657	11,473	7,049
		53,716	30,658	47,490
Total assets		66,768	39,592	59,569
LIABILITIES				
Current liabilities				
Trade and other payables	14	(48,754)	(30,439)	(49,743)
Non-current liabilities				
Trade and other payables	14	(4,243)	(3,564)	(541)
Total liabilities		(52,997)	(34,003)	(50,284)
Net assets		13,771	5,589	9,285
EQUITY				
Share capital		83	82	82
Share premium		11,690	11,690	11,690
Merger reserve		(50)	(50)	(50)
Retained earnings/(accumulated losses)		2,048	(6,133)	(2,437)
		13,771	5,589	9,285

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2022

	Share capital £'000	Share premium £'000	Manager reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2022	82	11,690	(50)	(2,437)	9,285
Total comprehensive income for the period					
Profit for the period	-	-	-	4,437	4,437
Other comprehensive income	-	-	-	-	-
	-	-	-	4,437	4,437
Transactions with owners of the Company					
Contributions and distributions					
Equity-settled share based payments	-	-	-	48	48
Deferred tax on share based payments	-	-	-	-	-
Proceeds from share issues	1	-	-	-	1
Total transactions with owners of the Company	1	—	—	48	1
Balance at 30 June 2022	83	11,690	(50)	2,048	13,771
Balance at 1 January 2021	82	11,690	(50)	(7,209)	4,513
Total comprehensive income for the period					
Profit for the period	-	-	-	920	920
Other comprehensive income	-	-	-	-	-
	-	-	-	920	920
Transactions with owners of the Company					
Contributions and distributions					
Equity-settled share based payments	-	-	-	156	156
Deferred tax on share based payments	-	-	-	-	-
Proceeds from share issues	-	-	-	-	-
Total transactions with owners of the Company	-	-	-	156	156
Balance at 30 June 2021	82	11,690	(50)	(6,133)	5,589

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2022

	6 months ended 30 June 2022 (Unaudited) £'000	6 months ended 30 June 2021 (Unaudited) £'000	12 months ended 31 December 2021 (Audited) £'000
Cash flows from operating activities			
Profit for the financial period	4,437	920	4,451
Adjustments for:			
Depreciation of property, plant and equipment	168	72	255
Depreciation of right-of-use assets	40	48	80
Amortisation of intangible assets	332	247	352
Unrealised gains on derivative contracts	(3,355)	(1,248)	(3,344)
Decrease/(increase) in trade and other receivables	4,814	330	(19,700)
Increase in trade and other payables	2,767	1,523	17,468
Cash received on obtaining customer contracts	-	-	378
Finance income	-	(1)	-
Finance costs	24	25	96
Taxation	1,040	224	(1,059)
Share based payment charge	48	156	249
Net cash from/(used in) operating activities	10,315	2,296	(774)
Cash flows from investing activities			
Purchase of property, plant and equipment	(53)	(2,360)	(2,629)
Net payment of software development costs	(1,205)	(119)	(1,079)
Net cash invested on acquisition of assets and on obtaining operating licence	(372)	-	-
Net cash used in investing activities	(1,630)	(2,479)	(3,708)
Cash flows from financing activities			
Cash-settled share based payment charge	-	-	(12)
Net proceeds from share option exercises	1	-	-
Interest (paid)/received	(17)	(24)	(77)
Principal element of lease payments	(61)	(60)	(120)
Net cash used in financing activities	(77)	(84)	(209)
Net increase/(decrease) in cash and cash equivalents	8,608	(267)	(4,691)
Cash and cash equivalents at the start of the period	7,049	11,740	11,740
Cash and cash equivalents at the end of the period	15,657	11,473	7,049



Notes to the condensed consolidated financial statements

1. Significant accounting policies

Yü Group PLC (the "Company") 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.

These condensed consolidated half yearly financial statements as at and for the six months ended 30 June 2022 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily involved in the supply of electricity, gas and water to SMEs and larger corporates in the UK.

Basis of preparation

The condensed consolidated interim financial information for the six months ended 30 June 2022 has been prepared in accordance with UK-adopted International Accounting Standards.

The unaudited condensed consolidated interim financial report for the six months ended 30 June 2022 does not include all of the information required for full annual financial statements and does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. This report should therefore be read in conjunction with the Group annual report for the year ended 31 December 2021, which is available on the Group's investor website (yugroupplc.com). The comparative figures for the year ended 31 December 2021 have been audited. The comparative figures for the half year ended 30 June 2021, and the actual figures for the half year to 30 June 2022, are unaudited.

The accounting policies adopted in these condensed consolidated half yearly financial statements are consistent with the policies applied in the 2021 Group financial statements.

The consolidated financial statements are presented in British pounds sterling (£), which is the functional and presentational currency of the Group. 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 30 June 2022 the Group had net assets of £13.8m (30 June 2021: £5.6m and 31 December 2021: £9.3m) and cash of £15.7m (30 June 2021: £11.5m and 31 December 2021: £7.0m).

Management prepares detailed budgets and forecasts of financial performance and cash flow (including capital commitments) over the coming 12 to 36 months. The Board has confidence in achieving such targets and forecasts and has performed comprehensive analysis of various risks and sensitivities in relation to performance, the energy market and the wider economy.

The Group continues to demonstrate significant progress in its results. This has led to adjusted EBITDA profitability (a close profitability measure to cash generated from operations) in H1 2022 which is significantly above the same period in 2021.

The Group has increased gross margin, whilst controlling general overheads, leading to improved financial outcomes. The Board has continued to invest in state of the art systems which is expected to provide further returns over the short to medium term. The Group's investment into Yu Smart, the engineering capability to accelerate the roll out of smart meters to existing and new customers, also provides confidence in further improving profitability.

Group available cash remains at significant levels, and the Group has met its obligation to pay its annual Renewable Obligation scheme liability for the compliance year to 31 March 2022 to Ofgem by the 31 August 2022 deadline.

The Group has no debt other than £0.2m (£0.3m at 31 December 2021) in respect of the lease for the Group's Nottingham office.

The Board has assessed risks and sensitivities and potential mitigation steps available to it in detail and continues to monitor risk and mitigation strategies in the normal course of business.

Volatile energy markets

Global energy markets have significantly increased, resulting in an underlying increase in costs to acquire wholesale costs which are having to be passed on to customers in their prices.



The Board has reviewed the Group's hedge position, which provides significant mitigation to the rising energy costs from its current portfolio. The Group has also, on various occasions, suspended or amended its sales acquisition targets to prevent signing potentially loss making business.

The Board remain vigilant in relation to the risk of bad debt as customers renew contracts onto significantly increased rates, though note that the level of bad debt rate, and extent of support provided by Government, is under significant public discussion. The Board has considered various scenarios to consider the position in respect of profitability as impacted by the level of bad debt, and the mitigating value of the forward hedge book where markets remain high.

Hedging arrangements

A five year commodity trading arrangement between SmartestEnergy Ltd and the trading entities of the Group (Yü Energy Holding Limited and Yü Energy Retail Limited), signed December 2019, ("the Trading Agreement") enables the Group to purchase electricity and gas on forward commodity markets. The Trading Agreement enables forecasted customer demand to be hedged in accordance with an agreed risk mandate. With the unprecedented increase in commodity market prices for forward gas and electricity, this hedging position has and continues to protect the Group.

As part of the Trading Agreement, SmartestEnergy Ltd holds security over the trading assets of the Group which could, ultimately and in extreme and limited circumstances, lead to a claim on some of the main trading assets of the Group. In return, a variable commodity trading limit is provided, which scales with the Group, having the benefit of significantly reducing the need to post cash collateral from cash reserves.

The Board carefully monitors covenants associated with the Trading Agreement to assess the likelihood of the credit facility being reduced or withdrawn. Management also maintains close dialogue with SmartestEnergy Ltd in respect of such covenants and provides robust oversight of the relevant contracts.

The position in respect of the forward credit exposure is also monitored and forecasted to understand the potential risks which may arise:

- a) Where commodity market prices increase, the Board considers credit and contractual exposure to SmartestEnergy Ltd, which (under a default position) could lead to the unwind of hedges with the loss of value due to the Group if not successfully recovered under the contract. With increased market prices, this exposure increased significantly during the year.
- b) Where commodity market prices decrease, the Board considers whether the credit limit provided under the Trading Agreement is sufficient to prevent the potential for cash calls which may lead to a liquidity issue where in excess of the Group's cash reserves at that time. The Board also considers likely commercial outcomes relevant for such a scenario.

Despite the market volatility experienced in 2021 and 2022, the Trading Agreement continues to operate well providing reliable, efficient and effective access to traded commodity markets.

The Board also considers its business model and compares it with competitors which have failed to determine any other risks related to the volatile energy markets. As part of that assessment, the impact of the price cap on domestic suppliers (which the Group is not materially exposed to) has been considered. The failure of certain unhedged B2B suppliers has also been considered. The Board is satisfied that the Group's business model is adequately differentiated from these market issues.

In view of energy market volatility and the increased risk for the sector, the Board has also identified certain mitigation strategies to manage the commodity market and hedging credit limit exposures noted above, and continually assess the potential for material impact.

Covid-19

The Group's response to Covid-19, with continued operation and servicing of customers, provides confidence in the Group's ability to continue to trade were further lock-downs required due to the pandemic. The Board do not, therefore, foresee any liquidity issues likely to arise as a result of Covid-19, though will continue to monitor the situation.

Summary

Following extensive review of the Group's forward business plan and associated risks and sensitivities to these base forecasts (and available mitigation strategies), the Board concludes that it is appropriate to prepare the financial statements on a going concern basis.

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 intra-Group 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 judgements. 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 remain as detailed in the Group's 2021 annual report.

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, gas, electricity and water 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. It also considers any adjustments expected where an estimated meter reading (using industry data) is expected to be different to the consumption pattern of the customer.

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.

Impairment

The Group has elected to measure credit loss allowances for trade receivables and accrued income at an amount equal to lifetime expected credit losses ("ECLs"). Specific impairments are made when there is a known impairment need against trade receivables and accrued income. When estimating ECLs, the Group assesses reasonable, relevant and supportable information, which does not require undue cost or effort to produce. This includes quantitative and qualitative information and analysis, incorporating historical experience, informed credit assessments and forward looking information. Loss allowances are deducted from the gross carrying amount of the assets.

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.

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 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 separately by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired in a business combination are initially recognised at their fair value at the acquisition date. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at their initial fair value less amortisation and accumulated impairment losses.

Software and system and supply and operating licence assets are recognised at cost, including those internal costs attributable to the development and implementation of the assets to bring them into use. Cost comprises all directly attributable costs, including costs of employee benefits arising directly from the development and implementation of the asset.

Amortisation is charged to the statement of profit and loss on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use. The estimated useful lives are as follows:

- | | | |
|--------------------------------|---|---|
| • Supply and Operating Licence | - | 10 years to 35 years |
| • Customer contract books | - | Over the period of the contracts acquired (typically 2 years) |
| • Software and systems | - | 3 to 5 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 to 5 years

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

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 cost of equity-settled transactions with employees is measured by reference to the fair value on the date they are granted. Where there are no market conditions attaching to the exercise of the option, the fair value is determined using a range of inputs into a Black Scholes pricing model. Where there are market conditions attaching to the exercise of the options a trinomial option pricing model is used to determine fair value based on a range of inputs. The value of equity-settled transactions is charged to the statement of comprehensive income over the period in which the service conditions are fulfilled with a corresponding credit to a share based payments reserve in equity.

Employer's National Insurance costs arising and settled in cash on exercise of unapproved share options are included in the share based payment charge in the profit or loss, with no corresponding credit to reserves in equity.

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.

2. Segmental analysis

Operating segments

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

Geographical segments

100% of Group revenue is generated from sales to customers in the United Kingdom (2021: 100%) and is recognised at a point in time.

The Group has no individual customers representing over 10% of revenue (2021: nil).

3. Operating expenses

	30 June 2022 £'000	30 June 2021 £'000	31 December 2021 £'000
Profit for the period has been arrived at after charging:			
Staff costs	3,147	2,703	5,634
Depreciation of property, plant and equipment	168	72	255
Depreciation of right-of-use assets	40	48	80
Amortisation of intangible assets	332	247	352

4. Net finance (income)/expense

	30 June 2022 £'000	30 June 2021 £'000	31 December 2021 £'000
Bank interest and other finance charges payable	17	17	77
Interest on lease liabilities	7	8	19
Total finance costs	24	25	96
Bank interest receivable	-	(1)	-
	24	24	96

5. Reconciliation to adjusted EBITDA

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

	30 June 2022 £'000	30 June 2021 £'000	31 December 2021 £'000
Adjusted EBITDA reconciliation			
Operating profit	5,501	1,168	3,488
Add back:			
Non-recurring operational costs	-	-	644
Unrealised gain on derivative contracts	(3,355)	(1,248)	(3,344)
Share based payment charge	-	191	249
Depreciation of property, plant and equipment	168	72	255
Depreciation of right-of-use assets	40	48	80
Amortisation of intangibles	332	247	352
Adjusted EBITDA	2,686	478	1,724

The Board has decided to include, from 2022, the share based payment charge in adjusted EBITDA in order to reflect that such charges are regular operating charges of the business. The share based payment charge was excluded from adjusted EBITDA in 2021. On a comparable basis the 30 June 2021 and 31 December 2021 adjusted EBITDA results would decrease by £191,000 and £249,000 respectively.

The 2021 non-recurring operational costs of £644,000 relates to accrued industry costs, from legislation governing the Renewable Obligation scheme, which are mutualised (i.e. spread) across energy market participants.

Unrealised gains on derivative contracts and depreciation and amortisation of assets are excluded from adjusted EBITDA. This exclusion of gains and losses is in order for a "near cash, recurring profit" metric to be derived.

The unrealised gain on derivative contracts of £3,355,000 (30 June 2021: £1,248,000 and 31 December 2021: £3,344,000) arises from a small proportion of forward commodity hedges which do not meet the strict "own use" criteria under IFRS 9 ("Financial Instruments"). Such forward commodity trades are therefore recognised at their fair value, being a financial asset.

The directors consider adjusted EBITDA to be a more accurate representation of underlying business performance and therefore utilise this measure as the primary profit measure in setting targets and managing financial performance.

6. Earnings per share

Basic earnings per share

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

	30 June 2022 £'000	30 June 2021 £'000	31 December 2021 £'000
Profit for the year attributable to ordinary shareholders	4,437	920	4,451
	30 June 2022	30 June 2021	31 December 2021
Weighted average number of ordinary shares			
At the start of the period	16,316,215	16,281,055	16,281,055
Effect of shares issued in the period	125,000	-	18,591
Number of ordinary shares for basic earnings per share calculation	16,441,215	16,281,055	16,299,646
Dilutive effect of outstanding share options	804,932	1,303,043	1,099,153
Number of ordinary shares for diluted earnings per share calculation	17,246,147	17,584,098	17,398,799
	30 June 2022	30 June 2021	31 December 2021
Basic earnings per share	£0.27	£0.06	£0.27
Diluted earnings per share	£0.26	£0.05	£0.26

Adjusted earnings per share

Adjusted earnings per share is based on the result attributable to ordinary shareholders before non-recurring items after tax and unrealised gains on derivative contracts and, for 2021, the cost of cash and equity-settled share based payments, and the weighted average number of ordinary shares outstanding:

	30 June 2022 £'000	30 June 2021 £'000	31 December 2021 £'000
Adjusted earnings per share			
Profit for the year attributable to ordinary shareholders	4,437	920	4,451
Add back (per note 5):			
Non-recurring items after tax	-	-	522
Unrealised gain on derivative contracts after tax (gross gain, before tax, of £3,355,000)	(2,718)	(1,011)	(2,709)
Share based payments after tax	-	155	202
Adjusted basic profit for the period	1,719	64	2,466
Adjusted earnings per share	£0.10	£0.004	£0.15
Diluted adjusted earnings per share	£0.10	£0.004	£0.14

7. Taxation

The tax charge for the period has been estimated using a rate of 19% on taxable profits. The Group has incurred a charge against deferred tax in the period, rather than a current tax charge.

Deferred taxes at the balance sheet date have been estimated using the enacted tax rates at that date and are reflected in these financial statements on that basis. Following the March 2021 Budget, the tax rate effective from 1 April 2023 increases from the current 19% to 25%.

8. Dividends

The directors do not propose an interim dividend in relation to 2022 (2021: nil per share).

9. Intangible assets

	Goodwill £'000	Operating licence £'000	Customer books £'000	Software and systems £'000	Total £'000
Cost					
At 1 January 2022	-	62	686	1,079	1,827
Additions	230	142	-	1,205	1,577
At 30 June 2022	230	204	686	2,284	3404
Amortisation					
At 1 January 2022	-	14	473	7	494
Charge for the year	-	1	172	159	332
At 30 June 2022	-	15	645	166	826
Net book value at 30 June 2022	230	189	41	2,118	2,578

Investments in intangible assets include the costs related to the formation of the Yü Smart business which will install, maintain and finance smart meters, and provide electric vehicle charger installations. Goodwill arises on the purchase of assets from Magnum Utilities Limited, including the proven management and support team and operational policies and procedures. Investments also include the costs to obtain appropriate licences and accreditations and bring the business into operation.

Software and systems assets relate to investments made in third-party software packages, and directly attributable internal personnel costs in implementing those platforms, as part of the Group's Digital by Default strategy.

The amortisation charge is recognised in operating costs in the income statement.

For comparative purposes, the net book value of intangible assets decreased from £606,000 at 1 January 2021 to £359,000 at 30 June 2021.

10. Property, plant and equipment

Group	Freehold land £'000	Freehold property £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost					
At 1 January 2022	150	3,274	337	353	4,114
Additions	-	-	-	53	53
Disposals	-	-	-	-	-
At 30 June 2022	150	3,274	337	406	4,167
Depreciation					
At 1 January 2022	-	73	103	187	363
Charge for the year	-	55	57	56	168
Disposals	-	-	-	-	-
At 30 June 2022	-	128	160	243	531
Net book value at 30 June 2022	150	3,146	177	163	3,636

For comparative purposes, the net book value of property, plant and equipment assets increased from £1,377,000 at 1 January 2021 to £3,776,000 at 30 June 2021 as a result in the investment in the Group's freehold property in Leicester.

11. Right-of-use assets and lease liabilities

Group	Right-of-use assets £'000
Cost	
At 1 January 2022	799
Additions	-
Disposals	-
At 30 June 2022	799
Depreciation	
At 1 January 2022	606
Charge for the year	40
Disposals	-
At 30 June 2022	646
Net book value at 30 June 2022	153

The Group has a lease arrangement for its office facilities in Nottingham. Other leases are short term or of low value underlying assets.

For comparative purposes, the net book value of right-of-use assets decreased from £273,000 at 1 January 2021 to £233,000 at 30 June 2021.

12. Trade and other receivables

	30 June 2022 £'000	30 June 2021 £'000	31 December 2021 £'000
Current			
Gross trade receivables	23,320	11,017	11,618
Provision for doubtful debts and expected credit loss	(13,672)	(6,272)	(6,007)
Net trade receivables	9,648	4,745	5,611
Accrued income – net of provision	14,994	8,569	21,972
Prepayments	3,854	2,094	4,183
Other receivables	4,029	1,901	5,573
Financial derivative asset	5,534	1,876	3,102
Adjusted earnings per share	£0.10	£0.004	£0.15
Diluted adjusted earnings per share	£0.10	£0.004	£0.14
Non-current			
Financial derivative asset	1,793	-	870

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

	30 June 2022 £'000	30 June 2021 £'000	31 December 2021 £'000
Opening balance	6,007	5,162	5,162
Provisions recognised less unused amounts reversed	10,813	1,110	4,185
Provision utilised in the year	(3,148)	-	(3,340)
Closing balance – provision for doubtful debts and expected credit losses	13,672	6,272	6,007

The directors have assessed the level of provision at 30 June 2022 by reference to the recoverability of customer receivable balances post the year end, and believe the provision carried is adequate.

The total net impairment losses on financial and contract assets of £9,614,000 (30 June 2021: £632,000 and 31 December 2021: £4,799,000) consists of a credit of £1,199,000 (30 June 2021 credit: £478,000 and 31 December 2021 charge: £614,000) for expected credit loss on accrued income, and £10,813,000 (30 June 2021 charge: £1,110,000 and 31 December 2021 charge: £4,185,000) provision for bad debts and expected credit loss on trade receivables.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value due to their maturities being short term.

The current and non-current financial derivative asset of £7,327,000 (30 June 2021: £1,876,000 and 31 December 2021: £3,972,000) is the fair value of a small proportion of the Group's overall forward gas and power purchase contracts. Such contracts do not meet the strict criteria of being for the Group's "own use" under IFRS 9. They are stated at their Mark to Market fair value (being the excess of: i) the volume of commodity purchased valued at market prices available at the balance sheet date; over ii) the traded price of the forward contracts). The asset has increased from the start of 2021 due to the significant increase in forward gas and power market prices.

13. Cash and cash equivalents

	30 June 2022 £'000	30 June 2021 £'000	31 December 2021 £'000
Cash at bank and in hand	15,657	11,473	7,049
	15,657	11,473	7,049

The cash and cash equivalents balance exclude £500,000 of cash which is included in other receivables. This cash balance is held on deposit and secured under arrangements with the Group's bankers.

14. Trade and other payables

	30 June 2022 £'000	30 June 2021 £'000	31 December 2021 £'000
Current			
Trade payables	3,134	2,272	3,690
Accrued expenses and deferred income	31,783	17,589	34,545
Lease liabilities	109	80	107
Tax and social security	5,176	5,583	6,188
Other payables	8,552	4,915	5,213
	48,754	30,439	49,743
Non-current			
Accrued expenses and deferred income	4,139	3,330	381
Lease liabilities	104	234	160
	4,243	3,564	541

The Group had previously taken advantage of the UK Government's Covid-19 business relief schemes. Such liabilities have now been settled in full and were previously included in tax and social security (30 June 2021: £3,400,000 and 31 December 2021: £1,400,000).

Current accrued expenses at 30 June 2022 includes the Group's liability to pay Ofgem the Renewable Obligation payment for the scheme period ended 31 March 2022. This liability was settled on-time on the payment due date of 31 August 2022.

15. Financial instruments and risk management

The Group's principal financial instruments are cash, trade and other receivables, trade and other payables and derivative financial assets.

Derivative instruments, related to the Group's hedging of forward gas and electricity demand, are level 1 financial instruments and are measured at fair value through the statement of profit or loss. Such fair value is 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.

The Group has exposure to the following risks (including the impact of the Covid-19 pandemic) from its use of financial instruments:

- a) commodity hedging and derivative instruments (related to customer demand and market price volatility, and counterparty credit risk);
- b) customer credit risk; and
- c) liquidity risk.

The Group has limited exposure to foreign exchange risk, save for the impact on global commodity markets.

(a) Commodity hedging and derivative instruments

The Group is exposed to market risk in that changes in the price of electricity and gas may affect the Group's income or liquidity position. The use of derivative financial instruments to hedge customer demand also results in the Group being exposed to risks from significant changes in customer demand (beyond that priced into the contracts), and counterparty credit risk with the trading counterparty.

Commodity and energy prices and customer demand

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 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% of the volume hedged is not delivered to the Group's customers and is instead sold back via the commodity settlement process 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 and loss.

As far as practical, in accordance with the risk mandate, the Group attempts to match new sales orders (based on estimated energy consumption, assuming normal weather patterns, over the contract term) 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.

Well-publicised increases in global gas and electricity commodity prices have increased the potential gain or loss for an over or under-hedged portfolio, and the Group continues to closely monitor its customer demand forecast to manage volatility. The Group also applies premia in its pricing of contracts to cover some market volatility (which has proven to be robust despite the market context), and contracts with customers also contain the ability to pass through costs which are incurred as a result of customer demand being materially different to the estimated volume contracted.



The fair value Mark to Market adjustment at 30 June 2022 for those contracts not assumed to be strictly for “own use” is a gain of £3,355,000 (30 June 2021: gain of £1,248,000 and 31 December 2021: gain of £3,344,000). See note 12 for the corresponding derivative financial asset.

Sensitivity analysis in relation to the movement in energy commodity markets were noted in the annual financial statements.

Liquidity risk from commodity trading

The Group's trading arrangements can result in the need to post cash or other collateral to trading counterparties when commodity markets are below the Group's average weighted price contracted forward. A significant reduction in electricity and gas markets could lead to a material cash call from these trading counterparties in the absence of a suitable trading credit limit. Whilst such a cash call would not impact the Group's profit (as it represents a forward credit risk assessment of the counterparty), it would have an impact on the Group's cash reserves.

The structured trading arrangement, entered into with SmartestEnergy in December 2019, has reduced this liquidity risk in view of the significant credit limit being provided. This arrangement provides a significant trading credit limit (secured on the main trading entities of the Group and subject to compliance with certain covenants) and as such reduces the need to lodge cash collateral when commodity markets decrease. As disclosed in note 1, the Board has considered the cash flow forecasts, along with the interaction in trading credit limits and the potential need for cash collateral or Letter of Credit support. The Board also monitors the position in respect of commodity markets and has mitigation plans in place where credit limits are predicted to be exceeded to reduce, where possible, the potential impact on the Group due to short-term cash calls. In extreme circumstances, such mitigation may include (prior to security being enacted) reducing the Group's hedged position (reducing liquidity risk in exchange for increased risk to future market increases) through to commercial discussion to waive the requirement to post cash collateral over a short to medium-term period; or the agreement to provide additional remedial action.

Trading counterparty credit risk

In mirror opposite to the liquidity risk noted above, the Group carries credit risk to trading counterparties where market prices are above the average weighted price contracted forward. In view of the significant rise in energy commodity markets this credit risk has increased significantly to be greater than £250m at certain periods. This credit exposure is predominantly with the Group's main trading counterparty.

The Board monitors the position in respect of credit exposure with its trading counterparties, and contracts only with major organisations which the Board considers to be robust and of appropriate financial standing.

(b) Customer or other counterparty 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 (in addition to trading counterparties as noted in section (a) above).

These operational exposures are monitored and managed at Group level. All customers operate in the UK 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.

The Board is aware of the Government's proposed energy price support package to business to assist in mitigating the impact on significant price increases which may reduce the likelihood of additional bad debt costs in the future.

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 climate change levy (“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 Board considers the exposure to debtors based on the status of customers in its internal debt journey, the level of customer engagement in financing an appropriate solution, the customer's creditworthiness, the provision for doubtful debts and expected credit loss held, the level of reclaimable VAT and CCL on the balances, and cash received after the period end.

**(c) 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.

Management also monitors the position in respect of the Group's performance against covenants as part of its trading arrangements, to ensure credit limits as part of such transactions are monitored, and any credit cover requirements for other industry participants which are standard in the energy sector.

Any excess cash balances are held in short-term deposit accounts which are either interest or non-interest accounts.

16. Share capital and reserves

Share capital	30 June 2022 £'000	30 June 2021 £'000	31 December 2021 Number	31 December 2021 £'000
Allotted and fully paid ordinary shares of £0.005 each	16,566,215	83	16,316,215	82

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.

The Group movement in reserves is as per the statement of changes in equity.

Share capital represents the value of all called up, allotted and fully paid shares of the Company. On 13 May 2022, 250,000 share option were exercised at a price of £0.005 per share.

The share premium account represents amounts received in excess of the nominal value of shares on the issue of new shares, net of any direct costs of any shares issued.

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

Retained earnings comprises the Group's cumulative annual profits and losses.

17. Share based payments

The Group operates a number of share option plans for qualifying employees. Options in the plans are settled in equity in the Company. The options are subject to a vesting schedule, details of which are listed below.

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

Date of grant	Expected term	Commencement	Lapse	Exercise price	Vesting schedule	Amount outstanding at 30 June 2022	Amount outstanding at 31 December 2021
17 February 2016	3	17 February 2019	17 February 2026	£0.09	1	27,000	27,000
22 December 2016	3	22 December 2019	22 December 2026	£3.25	1	13,500	13,500
6 April 2017	3	6 April 2020	6 April 2027	£0.005	1	43,950	43,950
6 April 2017	6.5	6 April 2020	6 April 2027	£2.844	1	87,900	87,900
28 September 2017	6.5	28 September 2020	28 September 2027	£5.825	1	40,500	40,500
9 April 2018	6.5	9 April 2021	9 April 2028	£10.38	1	59,084	59,084
26 September 2018	6.5	26 September 2021	26 September 2028	£8.665	1	6,539	6,539
25 February 2019	6.5	25 February 2022	25 February 2029	£1.09	1	48,497	48,497
25 February 2019	3	25 February 2022	25 February 2029	£0.005	1	-	250,000
18 June 2019	3	1 August 2022	1 February 2023	£1.40	2	56,570	62,483
4 October 2020	3	30 April 2023	4 October 2030	£0.005	3	210,696	210,696
4 October 2020	3	30 April 2024	4 October 2030	£0.005	3	172,388	172,388
1 June 2021	3	30 April 2024	4 October 2030	£0.005	3	-	76,616
13 May 2022	3	30 April 2024	4 October 2030	£0.005	3	38,308	-
						804,932	1,099,153

The following vesting schedules apply:

- 100% of options vest on third anniversary of date of grant.
- 100% of options vest on third anniversary of the Save As You Earn ("SAYE") savings contract start date. The SAYE shares were exercised in full in early H2 2022 as disclosed in note 21.
- Level of vesting is dependent on a performance condition, being the Group's share price at pre-determined dates in the future.

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

	30 June 2022 shares	31 December 2021 shares
Balance at the start of the period	1,099,153	1,290,699
Granted	38,308	76,616
Forfeited	(82,529)	(233,002)
Lapsed	-	-
Exercised	(250,000)	(35,160)
Balance at the end of the period	804,932	1,099,153
Vested at the end of the period	326,970	278,473
Exercisable at the end of the period	326,970	278,473
Weighted average exercise price for:		
Options granted in the period	£0.005	£0.005
Options forfeited in the period	£0.10	£1.88
Options exercised in the period	£0.005	£0.005
Exercise price in the range:		
From	£0.005	£0.005
To	£0.005	£10.38



The fair value of each option grant is estimated on the grant date using an appropriate option pricing model with the following fair value assumptions:

	30 June 2022 shares	31 December 2021 shares
Dividend yield	0%	0%
Risk-free rate	1.5%	1.5%
Share price volatility	109.7%	114.6%
Expected life (years)	2 years	3 years
Weighted average fair value of options granted during the period	£2.07	£2.30

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:

	30 June 2022 £'000	31 December 2021 £'000
Equity-settled share based payment expense	48	237
Cash-settled share based payment expense	-	12
Total share based payment charge	48	249

18. Commitments

Capital commitments

The Group has entered into contracts to develop its digital platform as part of the Digital by Default strategy. Such contracts may be terminated with a limited timescale and as such are not disclosed as a capital commitment.

The Group has no other capital commitments at 30 June 2022 (30 June 2021: nil).

Security

Yü Group PLC provides parent company guarantees on behalf of its wholly owned subsidiaries to a small number of industry counterparties as is common-place for the energy sector.

The Group entered into an arrangement with a commodity trading counterparty, SmartestEnergy Ltd, in December 2019. As part of the arrangement, there is a requirement to meet certain covenants and a fixed and floating charge over the main trading subsidiaries of the Group, Yü Energy Holding Limited and Yü Energy Retail Limited.

Included in other receivables of the Group 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 30 June 2022 (2021: £nil).

19. Related parties and related party transactions

The Group has transacted with CPK Investments Limited (an entity owned by Bobby Kalar). CPK Investments Limited owns one of the properties from which the Group operates via a lease to Yü Energy Retail Limited. During the period the Group paid £60,000 in lease rental and service charges to CPK Investments Limited (30 June 2021: £60,000). There was no amount owing to CPK Investments Limited at 30 June 2022 (2021: £nil).

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

20. Net cash/(net debt) reconciliation

The net cash/(net debt) and movement in the period were as follows:

	30 June 2022 shares	30 June 2022 shares	31 December 2021 shares
Cash and cash equivalents	15,657	11,473	7,049
Lease liabilities	(213)	(314)	(267)
Borrowings	-	-	-
Net cash	15,444	11,159	6,782

	Borrowings £'000	Leases £'000	Cash £'000	Total £'000
Net cash/(net debt) as at 1 January 2022	-	(267)	7,049	6,782
Cash flows	-	61	8,625	8,686
Interest and other changes	-	(7)	(17)	(24)
Net cash/(net debt) as at 30 June 2022	-	(213)	15,657	15,444

21. Post-balance sheet events

On 9 August 2022 the Group announced the exercise of 56,570 Save As You Earn share options at an exercise price of £1.40 per share.

On 8 September 2022 there was an announcement that the Government would launch an energy price support scheme for domestic and non-domestic customers to mitigate some of the impact of increased prices due to high global commodity markets. The scheme is anticipated to run from 1 October 2022 for a period of six months.

There are no other significant or disclosable balance sheet events.