

Yü Group PLC

("Yü Group" or the "Group")

**Final results for the year ended 31 December 2022**

**DELIVERING THE GROWTH STORY AT PACE**

Yü Group PLC (AIM; YU.), the independent supplier of gas, electricity and water to the UK corporate sector, announces its final audited results for the year to 31 December 2022.

**Bobby Kalar, Group Chief Executive Officer, stated:**

*"I'm pleased to report another fantastic year for Yü Group. We have once again clearly demonstrated our ability to surpass financial performance metrics and, with the strong momentum we have in the business, we are confident of this recurring theme continuing into 2023.*

*Our record breaking financial performance and significant strategic progress is a testament to the strength of the Group. Revenue increased 79%, EBITDA increased 359%, contracted revenue is up 57% and cash increased by £11.9m. Reflecting our continued confidence in the business we are also pleased to recommend the reinstatement of a progressive dividend policy. To achieve this despite the backdrop of a turbulent energy market is credit to the strong foundations we have in place and the ability and character of the team.*

*It's been a busy year! Developing and integrating our smart metering business, Yü Smart from a standing start to a fully functioning business performing at pace has been a particular highlight. I'm proud to lead a team who have seized this opportunity to build and grow new capabilities. I clearly see the ability for the Group to accelerate its profitability by leveraging off our growing revenues and providing new services. Cash flow and cash management will remain a key focus, including through our smart meter rollout.*

*The EBRS scheme has worked well and rightly delivered support to our business customers. We will continue working with BEIS to champion assistance to UK businesses.*

*Whilst our industry has been plagued by negative impacts and a lack of investment and support, I am immensely proud to report our progress and development. The market opportunity is huge, we have a scalable platform, and we are primed and ready to grow.*

*We have got off to a fantastic start in 2023 with our exceptional performance continuing. Whilst we remain vigilant, we look forward to delivering continued shareholder value in 2023 and beyond."*

**Financial & Operational Highlights:**

31 December	2022	2021	Change
£'000 unless stated			
<b>Financial:</b>			
Revenue	<b>278,587</b>	155,423	+79%
Adjusted EBITDA <sup>1</sup>	<b>7,909</b>	1,724	+359%
Profit before tax	<b>5,840</b>	3,392	+72%
Earnings per share (pence):			
Adjusted, fully diluted	<b>30p</b>	14p	+114%
Statutory, Basic	<b>29p</b>	27p	+7%
Final dividend per share (pence)	<b>3p</b>	-	+3p
Operating cash inflow/(outflow)	<b>14,737</b>	(774)	+£15.5m
Net Cash <sup>2</sup>	<b>18,810</b>	6,782	+177%
Overdue customer receivables (days) <sup>3</sup>	<b>5 days</b>	7 days	-2 days
<b>Operational:</b>			
Average Monthly Bookings (£'m)	<b>£24.5m</b>	£13.8m	+78%

Contracted Revenue for next FY (£'m)	£247m	£157m	+57%
Meter Points (#)	25,500	31,900	-20%
Smart meter installations (#)	1,033	N.A.	-

#### Strong financial performance

- Strong revenue growth, up 79%, to £278.6m (FY21: £155.4m). Confidence in continuing growth supported by forward order book in excess of £350m, of which £247m (up 57% in the year) delivers in FY23.
- Adjusted EBITDA up 359% to £7.9m (2021: £1.7m) with adjusted operating margin improved significantly to 2.8% (FY21: 1.1%).
- Profit before tax up 72% to £5.8m (FY21: £3.4m), after non-cash charge of £0.9m relating to derivative accounting (2021: £3.3m gain) reflected.
- Earnings per share, adjusted and fully diluted, increased 114% to 30p (FY21: 14p).
- Strong operating cash inflow of £14.7m (FY21: £0.8m outflow), with £18.8m net cash (net of £0.2m lease liability) available as at 31 December 2022 (2021: £6.8m).
- Board proposes a final dividend of 3p per share (2021: nil) as part of progressive dividend policy, balancing working capital and investing for growth.

#### Significant strategic progress

- Further enhancement of 'Digital by Default' platform improving customer experience, driving efficiencies, and creating value through data science.
- Successful roll out of Yü Smart benefiting customers and improving debtor control and profitability. Yü Smart is expected to generate a positive EBITDA contribution in FY23.

#### Current trading and outlook

- Very strong start to 2023 with average monthly bookings significantly ahead of the record £24.5m in FY22 and contracted revenue of £247m as at 31 December 2022 for FY23.
- Meter points now accelerating following strategic rationalisation in FY22 and after the late 2021 uplift from the acquisition of the AmpowerUK portfolio.
- Improving customer cash collection performance and reduced bad debt exposure, alongside continued overhead efficiency benefits from 'Digital by Default' and positive contribution from Yü Smart, all provide potential for additional margin growth.
- Management target further improvement in adjusted EBITDA margin from the 2.8% generated in FY22 (FY21: 1.1%).

#### Analyst presentation

A presentation for analysts will be held at 10am GMT today, Tuesday 14 March 2023. Anyone wishing to attend should please contact [yugroup@teneo.com](mailto:yugroup@teneo.com) for further information.

<sup>1</sup> Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation, and unrealised gains or losses on derivative contracts. For FY21, adjusted EBITDA also excludes share based payments and non-recurring expenses. See reconciliation in note 7 to the financial statements below.

<sup>2</sup> Net cash refers to cash and cash equivalents less the debt in the Group being £0.2m of lease liabilities.

<sup>3</sup> 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).

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#### Notes to editors

##### Information on the Group

*Yü Group PLC 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 and Yü Charge 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%.*

## CHAIRMAN'S STATEMENT

**Delivering high growth, shareholder returns, innovation and expert risk management.**

- **Maintaining a steadfast commitment to "best-in-class" corporate governance as we scale the business to meet our highly ambitious targets in a £50bn+ market.**
- **An experienced, seasoned board and a highly resolute, expert management team have continued to thrive and continued to deliver impressive results in the face of multiple "Black Swan" challenges.**

It is my pleasure to update you on the Group's further progress toward more meaningful and sustainable profitability, and for the first time in recent years, the proposed resumption of a modest dividend. We continue to scale our activities at pace, whilst maintaining a robust and mature approach to governance, margin protection and effective risk mitigation.

Since my appointment as Independent Non-Executive Chairman in January 2020, the Group has successfully weathered and emerged stronger from a succession of "black swan" events. Although still with us, the effects of the pandemic from 2020 onward and severe disruption in the energy supply markets leading to many failed suppliers in 2021 are starting to abate. In 2022 the war in Ukraine and movements in the macro-politics of energy supply in general, ushered in a period of extreme market volatility resulting in greatly increased commodity prices.

Whilst, more recently, commodity prices have normalised (partly due to unusually warm temperatures across Europe, a slight increase in available gas storage levels and relatively lower seasonal demand) we are very aware of the impact across the markets that such market volatility can have. In particular, we give great regard to the effects of this volatility on our loyal customers as well as any resultant changes or moves in the regulatory and political context to which, as suppliers of energy to UK business, we are subject.

I'm pleased and proud to report that the Group, supported by an experienced Board and a resolute, highly expert management team, has continued to thrive and deliver impressive results in the face of these multiple challenges; the ultimate testament to the strength of the Group.

### **Continuing to deliver on our strategic priorities**

Our mantra and priorities remain the same, being Bigger, Better, Faster and Stronger.

Financially, we have delivered results ahead of management's expectations for the year, and our momentum continues to build. Our FY22 revenue increased significantly, up 79.2% to £278.6m. Adjusted EBITDA has grown from £1.7m to £7.9m. Profit before tax is up 71% to £5.8m (FY21: £3.4m). Adjusted, fully diluted, EPS increased from 14p to 30p, a 114% increase. Importantly these results flowed through into cash with net cash held at the end of the period increased to £18.8m, up from £6.8m in 2021.

Reflecting our strengthened balance sheet your Board has recommended a final dividend of 3p per share as part of the reinstatement of a progressive dividend policy. We have deliberately proposed a modest dividend to allow for capital to continue to be invested in to support our continued organic growth and provide flexibility to undertake additional value-accretive potential M&A activities which could further enhance the business and accelerate shareholder returns.

Beyond these financial returns, we are pleased to report strong performance across other metrics: including in customer service and employee engagement.

Encouraged by the indefatigable and entrepreneurial vision of our CEO and supported by a close-knit senior team of industry-leading quality, we have continued to invest in technology to maintain the key customer-centric differentiation of our challenger, agile, business. We continue to position ourselves as the most agile and leading challenger to the more established and larger market participants in a £50bn+ market.

Our strategies are demonstrably delivering results and enable the Group to grow our customer book and increase our top-line sales whilst paying close attention to the quality of our margins across the links in the value-added chain and cash collection. Simultaneously we are promoting continual operational efficiencies within the Group's operations as we drive scale. The recognition that came from having won the Utility Week "Award for Digital Transformation" is a testament to the impact of the work undertaken to date. We have an ongoing programme of further innovations scheduled for 2023 and beyond.

Our acquisition of certain assets of Magnum Utilities Ltd in the year, which has been rebranded and is now fully operational as Yü Smart, also launches a new income stream for the Group and is set to unlock significant business control, pricing, rental and big data-mining benefits over the near and medium term.

The Directors have an ongoing mission and mandate to identify and consider further value-enhancing M&A opportunities in order to progress the profitability of the Group. These are supplementary to our ambitious targets for accelerating prudent organic growth.

### **Strength in depth**

Your Board's constant philosophy has been to establish, maintain and encourage a team ready to scale the Group to beyond the £500m mark of revenue. We have at Board, ExCo and senior leadership levels, established highly experienced and ambitious specialist teams. We continue to ensure that all of our teams are fit and capable of realising the Group's ambition to achieve measured acceleration in the increase of revenue and adjusted EBITDA.

The Group's operational evolution into new business unit ("BU") structures, reporting to the CEO, has seen the establishment of focused senior management teams to further drive specified business objectives. Close integration and cultural alignment ensure that optimal outcomes receive meritocratic focus as we continue to unlock cross-functional synergies and extract the maximum from every link in the value added chains across the business. Significant and stretching short-term and long-term targets have been appropriately set to align outcomes with reward.

Your Board anticipates a highly positive impact from this approach, both on the Group's overall performance in 2023 and beyond.

### **Engagement with our stakeholders and regulatory bodies**

During FY22 the Group appointed Liberum as its nominated adviser and broker ("NOMAD") as part of a set of wider objectives to enhance our shareholder reach. Our advisers provide us with robust support in ensuring compliance with AIM regulations, whilst also enhancing the quality of our engagement with both institutional and individual investors.

The Board and management team of the Group take a pro-active approach to engagement with our main Regulators, being Ofgem, Ofwat, the FCA and AIM. We have established and continue to develop best practices across the varying regulated areas as they evolve. During the year there has been an increased level of engagement with Ofgem and BEIS in response to changes in external market conditions and the need to address any potential increase in political and/or reputational risk.

Our approach to customers in debt, and aspects of the management of some of the Group's key assets have been topics of useful dialogue. During the year the Group successfully mobilised to deliver various urgent Government business customer support schemes originating from BEIS. The most material of these was the Energy Bill Relief Scheme ("EBRS") which provides

a large proportion of business customers with a significant reduction in their energy bills from 1 October 2022 to 31 March 2023.

We continue to engage with stakeholders and will fully and promptly pass through all benefits due to our customers to support them through this period of unprecedentedly volatile and high energy commodity prices. Post the EBRs scheme, we will also implement further schemes as appropriate. We note that current lower commodity market pricing conditions still suggest a significant, though hopefully less material, impact on our business customers' bills.

#### **Ensuring good governance and risk management**

To reflect our newer activities in the installation of smart meters and EV charging units, the Group has established a Safety, Health, Environmental and Quality ("SHEQ") Committee comprised of Bobby Kalar (CEO), John Glasgow (Independent non-executive Director) and other appropriately qualified colleagues.

Your Board maintains a steadfast commitment to "best-in-class" corporate governance. We seek to ensure that we can take advantage of the significant market opportunities available to us whilst keeping a tight focus on the mitigation of risk. This we effect by ensuring that our governance framework, structures, and day-to-day practices are fit and robust enough to be able to treat and navigate even abnormal or atypical market developments, both now and in the future, as "business as usual".

We continue to evolve the Group's internal capability as we scale, including through further developing our own internally available risk and internal control resources.

Reports on the activities of the Board, including the various topics considered and the Board's Committees, are set out in the Corporate Governance section of the annual report.

Our risk management framework and principal risks and uncertainties are outlined further in the annual report, and have been well tested and reviewed by management, the Audit Committee and the Board.

#### **Summary: retaining agility and control**

Global and market conditions have thrown us several interesting challenges and yet we have emerged stronger than ever. We continue to deliver our Bigger, Better, Faster and Stronger strategic objectives whilst maintaining our characteristic agility as a determined challenger/disruptor.

Whilst we are pleased with the turn-around in the Group's performance over the last few years we continue to guard against complacency regarding the ongoing improvements in our governance and operational structures.

I'm enthusiastic and confident about what the future holds for your company and very much look forward to further updating Shareholders at our scheduled annual general meeting.

## **CHIEF EXECUTIVE OFFICER'S STATEMENT**

#### **Record financial performance and clear momentum.**

- A record breaking financial, operational and growth performance, exceeding our expectations and delivering shareholder value.
- I am in no doubt that we will continue to deliver strong results and growth over the coming years.

It has been an incredible year for the Group and despite continued uncertainty in wholesale commodity markets I'm very pleased with our performance. I am in no doubt that we will continue to deliver strong results and growth over the coming years.

Our plan was to be Bigger, Better, Faster and even Stronger than in 2021. Having achieved this outcome in 2022, our plan for 2023 is continue this momentum and demonstrate our evolution into a pure scale mode.

Our revenue, adjusted EBITDA, cash generation, and numerous operational indicators exceeded management expectations in 2022. We have also hit the ground running and continuing to build momentum into 2023. I therefore remain very confident in the Group's ability to continue to deliver our ambitious strategy and unlock significant shareholder value.

#### **Demonstrating resilience and growing in an evolving market**

2022 continued to provide market challenges to energy suppliers. In March 2022, as we woke to the announcement that Russia had invaded Ukraine, we saw unprecedented volatility in the wholesale gas market sending all time high forward prices even higher.

The energy industry has seen perennial speculation about the sustainability and profitability of disruptive challengers in the gas and power supply markets. While the domestic supplier sector has experienced headwinds with the energy price cap, I see a clear path to significant growth opportunities in the business supply sector.

Commodity markets have normalised more recently, but prices compared to historic norms remain high, though less than their peak in Q3 2022. In light of this reduction in prices, and the peak over winter 2022/23, we do not anticipate any material impact on the Group through the new amended Government support scheme from April 2023.

We remain fully hedged in our commodity position which is evidenced in our improved profitability despite the market volatility. However, we have seen some operational disruption, particularly as market prices have been so volatile leading to the need for the Group to temporarily and proactively suspend new sales acquisition activities at several points during 2022. This reduced the level of new customer bookings that could otherwise have been achieved. We have also seen, perhaps understandably, customers more willing to fix prices for only a short period, again reducing the forward contract book, though we still exit 2022 with record levels of forward revenue contracted.

Despite this we have managed to continue to deliver high service levels and have significant momentum into 2023, with bookings being at record levels despite this market context and volatility.

Shaking the tree as a growing and leading challenger supplier remains our focus. We pride ourselves on bringing innovation to a benign market, underpinned by our digital by default approach. This continues to provide differentiation for the Group.

We also now see a less crowded business-to-business market, with fewer larger suppliers which leads to a more sustainable market, and also has the benefit of enabling the Group to differentiate as a leading challenger. Barriers to entry are high, and compliance with regulatory requirements even more heightened in view of the wider context.

In summary, in a volatile market we have performed very well; we have maintained our discipline and we combine innovation, including through digital, with robust risk management. I'm convinced, as markets settle, we can improve our performance even further.

#### **Forming Yü Smart**

The Group acquired the management team and certain processes and policies of Magnum Utilities Ltd in May 2022, forming the basis of Yü Smart - a new business set up to deliver installation and maintenance services for smart meters.

I'm pleased with the integration of this new team, who were busy over the summer of 2022 securing appropriate accreditations to operate from August 2022.

Whilst the business will first and foremost focus on installing smart meters for our supply customers, the service is also being offered to other suppliers (in the domestic or non-domestic sectors) and has already secured a contract with a third-

party supplier.

The integration and formation of this new team is an exciting evolution for the Group, backed by a mandate from Government to accelerate the implementation. Smart meters provide significant benefits to our customers and to the Group's operation, and our involvement in the engineering activities is expected to provide further profitability improvement in 2023 and beyond.

#### Ambitious objectives

In addition to the establishment of Yü Smart, we have ambitious further targets to deliver benefits over the short to medium term. These include:

##### Organically scaling the business

Revenue increased by 79% in 2022, to £279m. With bookings continuing the strong momentum from Q4 2022 as we enter 2023, and significant differentiation in our offering including through digital, we target significant organic revenue increase for 2023 and beyond.

##### Reduction of bad debt

Our charge for bad debt has increased in 2022 (from 3.1% to 7.7% of revenue), reflecting the higher commodity markets though also a consequence of the Supplier of Last Resort ("SoLR") appointments made in late 2021 and early 2022. The lack of some customer information through the SoLR process led to difficulties in following our normal debt processes, and it took some time to work through the non-paying customer book (albeit such customers generated higher gross margins). For 2023, we target a significant reduction in bad debt through this newly cleansed book. We also plan further operational improvements to reduce this cost significantly.

##### Value enhancing acquisitions

We have demonstrated over the last three and a half years our ability to identify and implement value enhancing acquisitions. We will continue to assess potential acquisitions and will utilise our strong balance sheet where the target meets our strategic objectives.

##### Providing shareholder value

My team have delivered across numerous stretch targets in 2022 and I have every confidence that they will continue to over deliver in 2023 and further. Alongside these targets, we have also worked hard to improve our stakeholder engagement, including with shareholders.

Our confidence in the Group's balance sheet is reflected in the establishment of a progressive dividend policy, commencing with our recommendation to shareholders of a 3p per share final dividend for FY23. The ex-dividend date is 1 June 2023, with a payment date of 20 June 2023.

We have also worked hard to develop our investor reach, working with Liberum and other stakeholders to engage with numerous potential investors, as well as ensuring engagement with existing stakeholders.

The Group continues to transform. I'm pleased to see the increased business scale being reflected in the engagement we have with existing and potential shareholders.

#### Outlook

- Current trading remains strong as we enter 2023 and we are confident of achieving current market expectations;
- Significant revenue growth expected, supplementing the £247m contracted at the end of 2022 to deliver in 2023;
- Management target continued improvement in adjusted EBITDA margin, with reduced bad debt and continued overhead efficiency benefit as we benefit from our investment in digital;
- Yü Smart now fully operational and targeted to install several thousand meters in 2023; and
- Continue to seek strategic acquisitions where they enhance returns.

#### Continuing to deliver

Despite turbulence in the wider market, I'm pleased and proud to note that we over delivered against our financial and operational targets in 2022.

The opportunity ahead of us remains huge, and I and the rest of the Board and management will continue to drive performance to unlock shareholder benefit. I would also like to thank the entire Yü Group team for their continued efforts.

I look forward to updating the market on our progress in the coming months.

## FINANCE REVIEW

#### Increased revenue, adjusted EBITDA and cash.

- We continue strong momentum in financial results, governed via our clear financial framework

#### In overview

- Revenue increased 79% to £279m
- Contracted revenue for FY23 of £247m, up 57% on prior year
- Adjusted EBITDA increased to £7.9m, up £6.2m year on year
- Profit before tax increased 72% to £5.8m
- Operating cash inflow of £14.7m, with net cash available of £18.8m
- Adjusted, fully diluted, EPS of 30p, up 16p in the year
- Final dividend of 3p per share recommended

Financial metrics £m unless stated	Change	2022	2021
Revenue	+79.2%	<b>278.6</b>	155.4
Gross margin %	+6.0%	<b>15.8%</b>	9.8%
Net customer contribution %	+1.5%	<b>8.2%</b>	6.7%
General overheads %	+0.3%	<b>(5.3%)</b>	(5.6%)
Adjusted EBITDA %	+1.7%	<b>2.8%</b>	1.1%
Adjusted EBITDA	+6.2	<b>7.9</b>	1.7

Profit before tax	+2.4	<b>5.8</b>	3.4
Net cash flow	+16.6	<b>11.9</b>	(4.7)
Closing cash balance	+12	<b>19.0</b>	7.0
Overdue customer receivables	-2 days	<b>5 days</b>	7 days
Earnings per share (adjusted, fully diluted, pence)	+16p	<b>30p</b>	14p
Dividend per share (pence)	+3p	<b>3p</b>	-

#### Results summary

Our financial performance for the year ended 31 December 2022 delivered above management expectations in revenue, EBITDA and cash, and the Board is confident in continuing this strong trajectory.

Revenue of £278.6m represents a 79.2% growth in year, and we exited 2022 with £246.8m (up 57% on the prior year) already contracted to deliver in 2023.

Adjusted EBITDA (the Board's key profitability measure) at £7.9m (2021: £1.7m) represents 2.8% (2021: 1.1%) of revenue. This performance reflects higher net customer contribution margins (as we secure additional customer lifecycle value) combined with improved overhead efficiency from the Group's investment in digital.

Adjusted EBITDA reconciliation £m	2022	2021
<b>Adjusted EBITDA</b>	<b>7.9</b>	1.7
% of revenue	<b>2.8%</b>	1.1%
Adjusted items:		
Non-recurring costs	-	(0.6)
Unrealised (loss)/gain on derivative contracts	<b>(0.9)</b>	3.3
Share based payment charge (FY21 only)	-	(0.2)
Depreciation and amortisation	<b>(1.1)</b>	(0.7)
<b>Statutory operating profit</b>	<b>5.9</b>	3.5

Reported profit before tax has increased by 72% to £5.8m, reflecting significantly higher adjusted EBITDA (up 359%) in the year, though non-cash derivative accounting gains reported in FY21 have not, as expected, continued.

The Group continues to follow its stated financial framework to:

- drive significant organic growth, supplemented by M&A where value enhancing;
- improve profitability via increasing customer margins and unlocking significant overhead leverage savings through our Digital by Default investments; and
- maintain robust cash management.

The Board is pleased to announce the proposal of a final dividend of 3p per share, established under a progressive dividend policy.

#### Building recurring revenue

The Group has recorded a 79.2% growth in revenue year on year (an increase of £123.2m) and has good visibility for FY23.

FY22 revenue included a significant contribution from new bookings, despite some customers in H1 and Q3 2022 delaying entering new contracts based on the high commodity market environment. Record monthly bookings of new customers, at £48.6m for Q4 2022, were noted. FY22 revenue also included £70m (2021: £11m) from uncontracted ("Non-Firm") customers.

Contracted revenue continues to provide significant forward visibility into FY23, with £247m already contracted at the end of 2022 (2021: £157m to deliver in 2022). Contract bookings remain strong as we enter FY23, providing management with significant confidence that the Group will continue its significant growth trajectory on an organic basis.

Non-Firm volume on supply as at 31 December 2022 was 99GWh, representing (based on 31 December 2022 tariffs) annualised revenue of £59m. Non-Firm volume averaged 123GWh in FY22 due to the particularly significant H1 2022 contribution from our appointment as Supplier of Last Resort for AmpowerUK, Xcel Power and Whoop Energy in late 2021 and early 2022.

#### Investment in Yü Smart

Adjusted EBITDA includes £1.1m of operational expenditure during the ramp up of our new smart metering and EV charger installation business.

The Group acquired the management and support team, policies and intellectual property of Magnum Utilities Limited for a total investment (consideration and implementation costs) of £0.2m. Metering assets of £0.3m have also been acquired, in order for the Group to finance installations to provide an annuity revenue stream.

The Group expects to achieve significant returns from this new activity with positive EBITDA from engineering activities in FY23 replacing costs previously outsourced by the Group. In addition, management expects further benefits through increased penetration of smart meters, including:

- additional real-time data to improve billing and hedging accuracy;
- increased growth rates through the ability to offer more appropriate products to certain business segments;
- revenue and bad debt protection, including the potential for customers to access Pay As You Go products; and
- asset returns, from the installation of assets.

In relation to assets, the Board is considering an investment strategy to invest in customer assets, largely funded by debt, which would provide potentially significant additional shareholder value.

#### Leveraging overheads and delivering profit

The Group's overheads were 5.3% of revenue (2021: 5.6%), which includes 0.4% (as % of revenue) impact from the investment in Yü Smart. Excluding Yü Smart overheads were 4.9% of revenue, a 0.7% improvement, driven through digital and scale benefits, with further value expected over the short to medium term.

Management is targeting a 3.7% overhead at £0.5bn revenue, representing a £8m adjusted EBITDA improvement at that scale.

General overheads actual and management target £m	FY22	Medium-Term Target
<b>Revenue</b>	<b>£279m</b>	£500m
General overheads %:		
Cost to acquire	1.1%	0.9%
Cost to serve	1.7%	1.4%
New business and innovation	0.4%	0.2%
General administrative	2.1%	1.5%
<b>Total general overheads %</b>	<b>5.3%</b>	3.7%
<b>Overhead cost</b>	<b>£14.8m*</b>	£18.5m
<b>Overhead saving at scale</b>		£8.0m

\* General overheads comprises £15.85m operating costs charged to the income statement, less depreciation and amortisation (as per note 4) of £1.05m.

The Group has recognised a £0.9m loss (2021: £3.3m gain) on derivative accounting. This is mechanically a result of the falling commodity markets leading to a lower mark-to-market asset in respect of a small proportion of forward commodity hedges. The Group holds a £3.0m financial derivative asset (2021: £4.0m) as at 31 December 2022 which is expected to unwind over the medium term. The Board notes that the derivative accounting gain or loss is a non-cash item, hence its consistent exclusion from the Group's adjusted EBITDA result.

Taxation charge of £1.1m (2021: £1.1m credit) is through deferred taxation, with the Group carrying forward large trading loss allowances (with an asset value of £4.7m) to be set against the Group's future taxable profits. The credit in FY21 included the benefit from an increased corporation tax rate announced, which enhanced the value of carried forward allowances.

#### Cash and balance sheet management

Cash increased by £11.9m in the year. The Group remains debt free save for £0.2m of operating lease liability.

Cash flow £m	2022	2021
<b>Adjusted EBITDA</b>	7.9	1.7
Working capital movement	6.8	(2.5)
<b>Operating cash flow</b>	14.7	(0.8)
Investing activities	(2.6)	(3.7)
Financing activities	(0.2)	(0.2)
<b>Net cash movement in year</b>	11.9	(4.7)
<b>Closing cash balance</b>	19.0	7.0

Group receivables and payables have broadly increased in alignment to the Group's business activities, providing a working capital benefit to cash. A VAT deferral of £1.1m related to Covid-19 was fully repaid in Q1 2022 which has been more than off-set by increased payables as the Group benefits from its positive working capital profile.

Capital investment includes £2.2m of Digital by Default investment, targeted to further enhance Group returns through growth and efficiency benefits. It also includes the capital investment of £0.3m in establishing Yü Smart.

#### Dividend and capital management

The Board recommends the payment of a final dividend of 3p per share, being circa £0.5m payable in June 2023. The level of dividend is sized to represent the significant potential opportunities to utilise Group cash to further develop the business.

Capital plans, in order of priority, for the Group are:

1. Working capital and securitisation management, including maintaining or enhancing credit lines for commodity hedging
2. Operational investment in marketing and sales to drive additional organic growth
3. Capital investment in Digital by Default to drive growth and/or overhead efficiency
4. Asset investment, including in smart meters or EV infrastructure, largely supported through debt
5. Inorganic growth, with targeted acquisitions which meet our hurdle rate
6. Dividend or other shareholder return of investment

The Board targets a progressive dividend policy, broadly aligned to earnings growth as the Group benefits from the stated

**Summary: controlled progression**

In summary, the Group is well placed to continue to improve financial returns to shareholders.

There is significant confidence in maintaining strong growth in revenue; and our investment in digital and our focus on customer lifecycle value is expected to further improve adjusted EBITDA margin.

Our approach to commodity hedging continues to deliver despite significant market volatility. Our investment in Yü Smart provides a significant profit improvement opportunity from FY23 and beyond.

The Board is therefore pleased to report these significantly improved results in FY22 at revenue, adjusted EBITDA and cash level, and remain focused on continuing to improve these measures over the short to medium term.

## CONDENSED FINANCIAL STATEMENTS

Condensed consolidated statement of profit and loss and other comprehensive income

For the year ended 31 December 2022

	31 December 2022 Notes	31 December 2021 £'000
Revenue	278,587	155,423
Cost of sales	(234,462)	(140,180)
<b>Gross profit</b>	<b>44,125</b>	<b>15,243</b>
Operating costs before non-recurring items and share based payment charges	(15,565)	(9,407)
Operating costs - non-recurring items	7	(644)
Operating costs - share based payment charges	22	(249)
Total operating costs	(15,849)	(10,300)
Net impairment losses on financial and contract assets	16	(21,420)
Other (losses) / gains	7	(926)
<b>Operating profit</b>	<b>4</b>	<b>5,930</b>
Finance income	5	1
Finance costs	5	(91)
<b>Profit before tax</b>	<b>4</b>	<b>5,840</b>
Taxation	9	(1,071)
<b>Profit and total comprehensive income for the year</b>	<b>4,769</b>	<b>3,392</b>
<b>Earnings per share</b>		
Basic	8	£0.29
Diluted	8	£0.26
		£0.27
		£0.26

Condensed consolidated balance sheet

At 31 December 2022

	31 December 2022 Notes	31 December 2021 £'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	11	3,111
Property, plant and equipment	12	3,641
Right-of-use assets	13	113
Deferred tax assets	15	5,300
Trade and other receivables	16	-
Financial derivative asset	17	1,562
		870
		13,727
		12,079
<b>Current assets</b>		
Stock		345
Trade and other receivables	16	54,339
Financial derivative asset	17	1,484
Cash and cash equivalents	18	18,970
		75,138
		47,490
<b>Total assets</b>		<b>88,865</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	19	(73,860)
<b>Non-current liabilities</b>		
Trade and other payables	19	(206)
<b>Total liabilities</b>		<b>(74,066)</b>
<b>Net assets</b>		<b>14,799</b>
<b>EQUITY</b>		
Share capital	21	83
Share premium	21	11,785
Merger reserve	21	(50)
Retained earnings/(accumulated losses)	21	2,981
		(2,437)
		14,799
		9,285

Condensed consolidated statement of changes in equity

For the year ended 31 December 2022

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
<b>Balance at 1 January 2022</b>	82	11,690	(50)	(2,437)	9,285

	£'000	£'000	£'000	£'000	£'000
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	4,769	4,769
	-	-	-	4,769	4,769
<b>Transactions with owners of the Company</b>					
<b>Contributions and distributions</b>					
Equity-settled share based payments	-	-	-	210	210
Deferred tax on share based payments	-	-	-	439	439
Proceeds from share issues	1	95	-	-	96
<b>Total transactions with owners of the Company</b>	1	95	-	649	745
<b>Balance at 31 December 2022</b>	<b>83</b>	<b>11,785</b>	<b>(50)</b>	<b>2,981</b>	<b>14,799</b>
<b>Balance at 1 January 2021</b>	<b>82</b>	<b>11,690</b>	<b>(50)</b>	<b>(7,209)</b>	<b>4,513</b>
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	4,451	4,451
	-	-	-	4,451	4,451
<b>Transactions with owners of the Company</b>					
<b>Contributions and distributions</b>					
Equity-settled share based payments	-	-	-	237	237
Deferred tax on share based payments	-	-	-	84	84
Proceeds from share issues	-	-	-	-	-
<b>Total transactions with owners of the Company</b>	-	-	-	321	321
<b>Balance at 31 December 2021</b>	<b>82</b>	<b>11,690</b>	<b>(50)</b>	<b>(2,437)</b>	<b>9,285</b>

#### Condensed consolidated statement of cash flows

#### For the year ended 31 December 2022

	31 December 2022 £'000	31 December 2021 £'000
<b>Cash flows from operating activities</b>		
Profit for the financial year	4,769	4,451
Adjustments for:		
Depreciation of property, plant and equipment	325	255
Depreciation of right-of-use assets	80	80
Amortisation of intangible assets	648	352
Unrealised loss/(gains) on derivative contracts	926	(3,344)
Increase in stock	(345)	-
Increase in trade and other receivables	(17,000)	(19,700)
Increase in trade and other payables	23,889	17,468
Cash received on obtaining customer contracts	-	378
Finance income	(1)	-
Finance costs	91	96
Taxation	1,071	(1,059)
Share based payment charge	284	249
<b>Net cash from/(used in) operating activities</b>	<b>14,737</b>	<b>(774)</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(215)	(2,629)
Payment of software development costs	(2,210)	(1,079)
Payment of consideration on business combination	(216)	-
<b>Net cash used in investing activities</b>	<b>(2,641)</b>	<b>(3,708)</b>
<b>Cash flows from financing activities</b>		
Net proceeds from share option exercises	96	-
Cash-settled share based payment charge	(74)	(12)
Interest paid	(76)	(77)
Principal element of lease payments	(121)	(120)
<b>Net cash used in financing activities</b>	<b>(175)</b>	<b>(209)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>11,921</b>	<b>(4,691)</b>
Cash and cash equivalents at the start of the year	7,049	11,740
<b>Cash and cash equivalents at the end of the year</b>	<b>18,970</b>	<b>7,049</b>

#### 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 financial statements ("Financial Statements") as at and for the year ended 31 December 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 small and medium sized entities ("SMEs") and larger corporates in the UK.

##### Basis of preparation

Whilst the financial information included in this preliminary announcement has been prepared on the basis of the requirements of UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 and effective at 31 December 2022, this announcement does not itself contain sufficient information to comply with International Accounting Standards.

The financial information set out in this preliminary announcement does not constitute the Company's statutory financial statements for the years ended 31 December 2022 or 2021 but is derived from those financial statements.

Statutory financial statements for 2021 have been delivered to the registrar of companies and those for 2022 will be delivered in due course. The auditors have reported on those financial statements; their reports were (i) unqualified and (ii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The condensed 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 31 December 2022 the Group had net assets of £14.8m (2021: £9.3m) and cash of £19.0m (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 (including those set out in the Strategic Report) and sensitivities in relation to performance, the energy market and the wider economy.

The Group has demonstrated significant progress in its results. This has led to adjusted EBITDA (a close profitability measure to cash generated from operations) in 2022 of £7.9m (2021: £1.7m), which continues the very strong momentum in the Group's results occurring since 2018. Management is confident in continuing this improvement in profitability based on its business model.

The profitability delivered in 2022 has been achieved by robust and disciplined management of gross margin; the successful integration of new customer books awarded to the Group by Ofgem (AmpowerUK, Xcel and Whoop Energy), and includes £1.1m op-ex investment in Yü Smart, a business which is expected to significantly contribute to the Group's financial performance. The Group has continued its prudent hedging policy protecting the Group from the significant commodity market price volatility recently experienced, and has successfully implemented BEIS's Energy Bill Relief Scheme ("EBRS").

The Group has embarked on an ambitious Digital by Default implementation strategy to help drive further cost efficiency which is expected to further enhance financial performance as the Group scales.

Group available cash is at a historic high level, with £19.0m available at 31 December 2022, a material increase on the £7.0m at the end of 2021. This increase is despite significant investment in digital tools to improve profitability over the medium term, and the investment in Yü Smart.

The Group has no debt other than £0.2m (at 31 December 2022) 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.

#### *Customer receivables and bad debt*

The Board consider customer receivable risks in view of increased energy prices and cost of living pressures which impact the wider market. With increased levels of bad debt in FY22, the Board perform sensitivities on material changes to customer payment behaviour including the timing of payments or if bad debt levels continue to increase.

The Group has extensive mitigating actions in place. This includes credit checks at point of sale and throughout the customer lifecycle, the requirement for some customers to pay reasonable security deposits at the point of sale, and the offering (ensuring compliance with regulation and good industry practice) of pay as you go products which enable certain customers to access more favourable tariffs. The Group also supports customers with payment plan arrangements, for those customers who will, when able, provide payment, and will ultimately (for some customers, as appropriate based on the circumstances) progress legal and/or disconnection proceedings to mitigate ongoing bad debt.

The Board has also considered the impact of reduced regulatory support following the planned removal of the Energy Bill Relief Scheme ("EBRS") from 1 April 2023, to be replaced with a less significant scheme for business customers.

In view of the reduced market prices, and the Group's ability to manage debt through various mitigating actions, the Board is confident that there will be no material impact relevant to the going concern assumption.

#### *Hedging arrangements and volatile energy markets*

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 (further detailed in the Group's risk and uncertainties reporting in the Strategic Report). With the unprecedented volatility in commodity market prices for forward gas and electricity, this hedging position and the Board defined risk strategy 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 or all of the 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 2021 and Q3 and early Q4 of 2022.

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 be more than the Group's available cash reserves. The Board also considers likely commercial outcomes relevant for such a scenario, and mitigating actions available to the Group. Mitigating actions include, where possible, unwinding forward commodity hedge positions to prevent the credit position increasing further, which may expose the Group to increased risk over the medium to long term.

Despite the market volatility experienced in 2022 and early 2023, the Trading Agreement continues to operate well and provides 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. This risk is considered lower than in the previous year, and the Board is satisfied that the Group's business model is adequately differentiated from these market issues.

The Board has also considered the impact of reduced regulatory support following the planned removal of the Energy Bill Relief Scheme ("EBRS") from 1 April 2023, replaced with a less significant scheme for business customers. In view of the reduced market prices, and the Group's ability to manage debt, the Board is confident that there will be no material impact relevant to the going concern assumption for the accounts.

After a detailed review, the Board has concluded that there are no liquidity issues likely to arise (outside of available mitigating strategies) in relation to the hedging arrangements and current market context.

#### *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 can affect those returns through its power

has rights, to variable returns from its involvement with the investee and can 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 are:

- **the estimated consumption (in lieu of accurate meter readings) of energy by customers;**

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. The utilisation of smart or automatic meters is significant and growing in the Group, which reduces the amount estimated.

- **the level of accrual for unbilled revenue;**

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. The estimate of customer consumption is based on available industry data, and also seasonal usage curves that have been estimated through historical actual usage data. The accrual for unbilled revenue is based on prudent assumptions where management has some doubt on the ability to bill such charges to customers.

- **the accrual for certain energy costs;**

Certain gas and electricity costs (for example, balancing of the Group's commodity purchases across industry participants; or the allocation to the Group of "unidentified gas" which the industry spreads across market participants) are based on industry or management estimates based on knowledge of the market, historic norms and estimates of the expected out-turn position which may be over or underestimates.

- **the recoverability of trade receivables and related expected credit loss provision;**

Trade receivables recoverability is estimated, with appropriate allowance for expected credit loss provisions, based on historical performance and the directors' estimate of losses over the Group's customer receivable balances. Management also conducts a detailed review of significant debtor balances at the year end, including exposure after VAT and CCL, provisions and other accounting adjustments are considered. Sensitivity analysis on estimates is provided in note 20.

- **the level of forward energy commodity contracts which are not strictly for "own use" under IFRS 9;**

The Group enters forward purchase contracts to hedge its position to closely match customers' expected demand over the term of the contract and does not engage in speculative trading. Factors such as the shape/granularity of traded products available (which do not perfectly align with customer demand) and variations in energy consumed by customers (as a result of varying customer behaviour and activity, and (particularly for gas) the weather impact) can influence the extent of trades which are not strictly for the Group's "own use". Such contracts are accounted for at fair value through the Group's profit or loss. The Board estimates the proportion of forward contracts which are to be assessed at fair value by considering the expected "normalised" forward traded position, with reference to historical performance on matching customer demand and the Group's robustly controlled hedging and risk strategy. Sensitivity analysis on estimates is provided in note 20.

- **the assumptions input to the IFRS 2 share option charge calculations;**

The share option charge requires certain estimates, including the volatility in share price, risk-free rates and dividend yields, together with assessment of achievement of certain vesting conditions including achievement of share price and EBITDA targets in performance shares.

- **the recoverability of deferred tax assets.**

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

#### **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.

The Group's operations include the supply of metering services, or the installation of metering assets, on behalf of Group companies. Such revenues are eliminated on consolidation. Where services for metering services or metering installation services are for the benefit of third parties, revenue is recognised in line with the work performed. Revenue for smart metering services is recognised at a point in time.

#### **Government support to customers**

The Energy Bills Relief Scheme ("EBRS"), and certain less material (for the Group) other schemes, implemented by HM Government, through BEIS, results in customers being provided financial support through a contribution to their energy charges. Under the EBRS arrangement, amounts receivable from BEIS do not impact the Group's contract with customers, and therefore the amounts contributed under EBRS are treated as a cash payment towards customer bills. As such, revenue recognised is based on the amount chargeable per the contract with customers which is gross of the amount contributed through EBRS.

#### **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 exclude any cash collateral posted with third parties and bank accounts which are secured by the Group's bankers (or others). It also excludes cash held in bank accounts which have, as part of government schemes such as EBRS, cash balances which are not yet transferred to the Group's main operating bank accounts.

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. Most 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.

Details of the sensitivity analysis performed in relation to the Group's financial instruments are included in note 20.

#### *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. After initial recognition, intangible assets acquired in a business combination are reported at their initial fair value less amortisation and accumulated impairment losses.

Goodwill arising on business combination is accounted for in line with the business combination disclosure.

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

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:

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

Goodwill is not amortised, as it is subject to impairment review.

#### *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
• Plant and machinery	-	5 to 15 years
• Computer equipment	-	3 years
• Fixtures and fittings	-	3 years

Assets under construction include smart metering, or other metering, assets which are acquired by the Group on the basis that they will be installed on customer premises.

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

#### *Business combinations*

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree.

All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition date.

Contingent consideration to be transferred by the Group is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability are recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired and liabilities assumed, and the fair value of the consideration transferred is recognised as goodwill. If the consideration transferred and the pre-existing fair values are less than the fair value of the identifiable net assets acquired, being a bargain purchase to the Group, the difference is recognised as a gain directly in profit or loss on the acquisition date, but only after a reassessment of the identification and measurement of the net assets acquired and the consideration transferred.

Business combinations are initially accounted for on a provisional basis. The Group retrospectively adjusts the provisional amounts recognised and recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition date. The measurement period ends on the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

In determining whether an acquisition of an acquired set of activities and assets is a business, the "concentration test" methodology as outlined in IFRS 3 is utilised. Where substantially all the fair value of the gross assets acquired are attributable to a single identifiable asset group, such as a customer list, then a business combination will not occur.

### **Leased assets**

#### *The Group as a lessee*

For any new contract entered into 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 assesses whether it has the right to direct "how and for what purpose" the asset is used throughout the period of use.

#### *Measurement and recognition of leases as a lessee*

At the 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 are separately identified and lease liabilities have been included in trade and other payables.

### **Stock**

Stock is held at the lower of cost and net realisable value.

### **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.

### **Pension and post-retirement benefit**

The Group operates a defined contribution scheme which is available to all employees. The assets of the scheme are held separately from those of the Group in independently administered funds. Payments are made by the Group to this scheme and contributions are charged to the statement of comprehensive income as they become payable.

#### **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. Consequently, 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 profit, 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 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.

## **2. Segmental analysis**

#### **Operating segments**

The directors consider there to be two operating segments, being the supply of utilities to businesses ("Yü Retail") and the installation, maintenance and financing of energy assets ("Yü Smart"). Information on the revenues arising from the installation, maintenance and financing of energy assets will be disclosed as an operating separately when the revenue becomes material to the Group. Segmental assets and liabilities are not reviewed by the Board.

#### **Geographical segments**

100% of Group revenue, for both financial years, 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: none).

## **3. Auditor's remuneration**

	2022 £'000	2021 £'000
Audit of the Group financial statements	95	72
Amounts receivable by auditor in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	55	44
	<u>150</u>	<u>116</u>

## **4. Operating profit**

	2022 £'000	2021 £'000
Profit for the year has been arrived at after charging:		
Staff costs (see note 6)	9,045	5,634
Depreciation of property, plant and equipment	325	255
Depreciation of right-of-use assets	80	80
Amortisation of intangible assets	648	352

## **5. Net finance (income)/expense**

	2022 £'000	2021 £'000
Bank interest and other finance charges payable	77	77
Interest on lease liabilities	14	19
Total finance costs	91	96
Bank interest receivable	(1)	-
	<u>90</u>	<u>96</u>

## **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:

	2022 Number	2021 Number
Engineering	7	-
Sales	24	31
Administration	159	114
	<u>190</u>	<u>145</u>

The aggregate payroll costs of these persons were as follows:

	2022 £'000	2021 £'000
Wages and salaries	8,004	5,043

<b>Wages and salaries</b>		
Social security costs	719	539
Pension costs	144	97
Share based payments	284	249
	<b>9,151</b>	<b>5,928</b>
Of which:		
Amounts charged to operating profit	9,045	5,634
Amounts related to development and implementation of computer software	106	294

There were three persons employed directly by the Company during the year ended 31 December 2022 (2021: three), being the non-executive directors. The Company's two (2021: two) 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 (being members of the Group's Executive Committee comprising the Chief Executive Officer, Chief Financial Officer and other senior leaders) is set out below:

	2022 £'000	2021 £'000
Short-term employee benefits	2,445	1,191
Social security and pension costs	375	165
Share based payments	252	228
	<b>3,072</b>	<b>1,584</b>

The highest paid director and remuneration of the executive directors are as disclosed in the Remuneration Committee Report in the annual report.

#### **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.

	2022 £'000	2021 £'000
<b>Adjusted EBITDA reconciliation</b>		
Operating profit	5,930	3,488
Add back:		
Share based payment charge	-	249
Unrealised loss/(gain) on derivative contracts	926	(3,344)
Non-recurring operational costs	-	644
Depreciation of property, plant and equipment	325	255
Depreciation of right-of-use assets	80	80
Amortisation of intangibles	648	352
<b>Adjusted EBITDA</b>	<b>7,909</b>	<b>1,724</b>

The directors consider adjusted EBITDA to be a more accurate representation of underlying business performance (linked to cash from recurring and normalised profitability, and available for shareholders) and therefore utilise it as the primary profit measure in setting targets and managing financial performance.

From 2022, share based payment charges are included (i.e. set against) adjusted EBITDA.

The unrealised loss on derivative contracts of £926,000 (2021: gain of £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, as further described in note 17. Such amounts are typically non-cash impacting.

The non-recurring operational costs in 2021 of £644,000 relates to accrued industry costs mutualised across energy market participants. There are no such costs or gains in 2022.

#### **8. 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.

	2022 £'000	2021 £'000
Profit for the year attributable to ordinary shareholders	4,769	4,451
<b>Weighted average number of ordinary shares</b>		
At the start of the year	16,316,215	16,281,055
Effect of shares issued in the year	180,818	18,591
Number of ordinary shares for basic earnings per share calculation	16,497,033	16,299,646
Dilutive effect of outstanding share options	1,722,632	1,099,153
Number of ordinary shares for diluted earnings per share calculation	18,219,665	17,398,799
	2022 £	2021 £
Basic earnings per share	0.29	0.27
Diluted earnings per share	0.26	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, unrealised losses or gains on derivative contracts and the weighted average number of ordinary shares outstanding (for 2021, the share based payment charge is excluded):

	2022 £'000	2021 £'000
<b>Adjusted earnings per share</b>		
Profit for the year attributable to ordinary shareholders	4,769	4,451
Add back operating profit adjusting items (per note 7):		
Non-recurring items after tax	-	522
Unrealised loss/(gain) on derivative contracts after tax (gross loss, before tax, of £926,000)	750	(2,709)
Share based payments after tax	-	202
<b>Adjusted basic profit for the year</b>	<b>5,519</b>	<b>2,466</b>

\* Adjusted earnings per share

Adjusted earnings per share	£0.33	£0.15
Diluted adjusted earnings per share	£0.30	£0.14

## 9. Taxation

	2022 £'000	2021 £'000
<b>Deferred tax charge/(credit)</b>		
Current year	1,365	(631)
Adjustment in respect of prior years	(294)	(428)
<b>Total tax charge/(credit)</b>	<b>1,071</b>	<b>(1,059)</b>
<b>Tax recognised directly in equity</b>		
Current tax recognised directly in equity	-	-
Deferred tax recognised directly in equity	(439)	(84)
<b>Total tax recognised directly in equity</b>	<b>(439)</b>	<b>(84)</b>
<b>Reconciliation of effective tax rate</b>		
Profit before tax	5,840	3,392
Tax at UK corporate tax rate of 19% (2021: 19%)	1,110	644
Expenses not deductible for tax purposes	50	26
Tax relief on exercise of share options	(135)	(18)
Impact of temporary differences	130	(94)
Adjustments in respect of prior periods - deferred tax	(243)	(428)
Timing difference on utilisation of deferred tax balances	159	-
Increase in tax rate on deferred tax balances	-	(1,189)
<b>Tax charge/(credit) for the year</b>	<b>1,071</b>	<b>(1,059)</b>

There is no current tax charge for the year (2021: nil).

Deferred taxes at the 31 December 2022 and 31 December 2021 have been measured 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%.

## 10. Dividends

The Group did not pay an interim dividend in relation to 2022 (2021: nil per share).

The directors propose a final dividend in relation to 2022 of 3p per share (2021: nil per share).

## 11. Intangible assets

	Electricity licence £'000	Goodwill £'000	Customer books £'000	Software and systems £'000	Total £'000
<b>Cost</b>					
At 1 January 2022	62	-	686	1,079	1,827
Additions	-	216	-	2,210	2,426
<b>At 31 December 2022</b>	<b>62</b>	<b>216</b>	<b>686</b>	<b>3,289</b>	<b>4,253</b>
<b>Amortisation</b>					
At 1 January 2022	14	-	473	7	494
Charge for the year	2	-	213	433	648
<b>At 31 December 2022</b>	<b>16</b>	<b>-</b>	<b>686</b>	<b>440</b>	<b>1,142</b>
<b>Net book value at 31 December 2022</b>	<b>46</b>	<b>216</b>	<b>-</b>	<b>2,849</b>	<b>3,111</b>
<b>Cost</b>					
At 1 January 2021	62	-	686	-	748
Additions	-	-	-	1,079	1,079
<b>At 31 December 2021</b>	<b>62</b>	<b>-</b>	<b>686</b>	<b>1,079</b>	<b>1,827</b>
<b>Amortisation</b>					
At 1 January 2021	12	-	130	-	142
Charge for the year	2	-	343	7	352
<b>At 31 December 2021</b>	<b>14</b>	<b>-</b>	<b>473</b>	<b>7</b>	<b>494</b>
<b>Net book value at 31 December 2021</b>	<b>48</b>	<b>-</b>	<b>213</b>	<b>1,072</b>	<b>1,333</b>

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.

Goodwill of £216,000 arises on the acquisition of the management and certain other assets of Magnum Utilities Limited in May 2022, as disclosed in note 26. The acquisition created the foundations for the Yü Smart business unit established in the year.

Goodwill is reviewed annually for signs of impairment. The underlying assets related to the goodwill have been classified in a wider cash generating unity related to smart metering activities.

The customer book intangibles relate to the two separate acquisitions that took place in 2020. They represent the fair value of the customer contracts purchased in those acquisitions. The intangible assets were amortised over a useful economic life of two years, representing the average contract length of the customer books acquired.

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.

## 12. Property, plant and equipment

Group	Freehold land and property £'000	Assets under construction £'000	Fixtures and fittings £'000	Plant and machinery £'000	Computer equipment £'000	Total £'000
<b>Cost</b>						
At 1 January 2022	3,424	-	337	-	353	4,114
Additions	-	-	5	73	137	215
<b>At 31 December 2022</b>	<b>3,424</b>	<b>-</b>	<b>342</b>	<b>73</b>	<b>490</b>	<b>4,329</b>
<b>Depreciation</b>						
At 1 January 2022	73	-	103	-	187	363
Charge for the year	109	-	102	-	114	325
<b>At 31 December 2022</b>	<b>182</b>	<b>-</b>	<b>205</b>	<b>-</b>	<b>301</b>	<b>688</b>
<b>Net book value at 31 December 2022</b>	<b>3,242</b>	<b>-</b>	<b>137</b>	<b>73</b>	<b>189</b>	<b>3,641</b>

<b>Cost</b>						
At 1 January 2021	150	1,013	80	-	335	1,578
Transfer from asset under construction	1,013	(1,013)	-	-	-	-
Additions	2,261	-	265	-	103	2,629
Disposals	-	-	(8)	-	(85)	(93)
<b>At 31 December 2021</b>	<b>3,424</b>	-	<b>337</b>	-	<b>353</b>	<b>4,114</b>
<b>Depreciation</b>						
At 1 January 2021	-	-	41	-	160	201
Charge for the year	73	-	70	-	112	255
Disposals	-	-	(8)	-	(85)	(93)
<b>At 31 December 2021</b>	<b>73</b>	-	<b>103</b>	-	<b>187</b>	<b>363</b>
<b>Net book value at 31 December 2021</b>	<b>3,351</b>	-	<b>234</b>	-	<b>166</b>	<b>3,751</b>

Freehold land of £150,000 (at cost and net book value) is included in freehold land and property.

Assets under construction acquired in 2022 relates to smart meters which are targeted to fit on customer sites.

### 13. Right-of-use assets and lease liabilities

Group	Right-of-use assets £'000
<b>Cost</b>	
At 1 January 2022	799
Additions	-
<b>At 31 December 2022</b>	<b>799</b>
<b>Depreciation</b>	
At 1 January 2022	606
Charge for the year	80
<b>At 31 December 2022</b>	<b>686</b>
<b>Net book value at 31 December 2022</b>	<b>113</b>
<b>Cost</b>	
At 1 January 2021	799
Additions	-
<b>At 31 December 2021</b>	<b>799</b>
<b>Depreciation</b>	
At 1 January 2021	526
Charge for the year	80
<b>At 31 December 2021</b>	<b>606</b>
<b>Net book value at 31 December 2021</b>	<b>193</b>

The Group has a lease arrangement for its main office facilities in Nottingham. Other leases are short term or of low value underlying assets. The Nottingham office lease is reflected on the balance sheet as a right-of-use asset and a lease liability at 31 December 2022 and 31 December 2021.

The table below provides details of the Group's right-of-use asset and lease liability recognised on the balance sheet at 31 December 2022:

Right-of-use asset	Remaining term	Borrowing rate	Asset carrying amount	Lease liability	Depreciation expense	Interest expense
Premises	1.5 years	5%	£113,000	£160,000	£80,000	£14,000

The total cash outflow for leases in 2022 was £161,000 (2021: £120,000).

#### **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 terms of 12 months or less) or leases of low value assets. Payments under such leases are expensed on a straight-line basis. During FY22 the amount expensed to profit and loss was £40,000 (2021: £1,000).

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, all of which are incorporated in the United Kingdom:

Company name	Holding	Proportion of shares held	Nature of business
Yü Energy Holding Limited	Ordinary shares	100%	Gas shipping services and holding company
Yü Energy Retail Limited	Ordinary shares	100% <sup>1</sup>	Supply of energy to businesses
Yu Water Limited	Ordinary shares	100%	Supply of water to businesses
KAL Portfolio Trading Limited	Ordinary shares	100%	Dormant
Yü-Smart Limited	Ordinary shares	100%	Smart metering installation and maintenance
Yü Services Limited	Ordinary shares	100%	Dormant, holding company
Yü PropCo Limited	Ordinary shares	100% <sup>2</sup>	Dormant
Kensington Meter Assets Limited	Ordinary shares	100% <sup>2</sup>	Financing of energy meter assets

All of the above entities are included in the condensed consolidated financial statements and are direct holdings of the Company except:

<sup>1</sup> Yü Energy Retail Limited is a subsidiary of Yü Energy Holding Limited

<sup>2</sup> Yü PropCo Limited and Kensington Meter Assets Limited are both subsidiaries of Yü Services Limited

### 15. Deferred tax assets

Deferred tax assets are attributable to the following:

	2022 £'000	2021 £'000
Property, plant and equipment Tax value of loss carry-forwards	(21)	(45)

tax value of loss carry-forwards	604	165
Share based payments	5,300	5,932

Movement in deferred tax in the period:

	At 1 January 2022 £'000	Recognised in income £'000	Recognised directly in 31 December equity £'000	At 31 December 2022 £'000
Property, plant and equipment	(45)	24	-	(21)
Tax value of loss carry-forwards	5,812	(1,095)	-	4,717
Share based payments	165	-	439	604
	5,932	(1,071)	439	5,932

	At 1 January 2021 £'000	Recognised in income £'000	Recognised directly in 31 December equity £'000	At 31 December 2021 £'000
Property, plant and equipment	(32)	(13)	-	(45)
Tax value of loss carry-forwards	4,740	1,072	-	5,812
Share based payments	81	-	84	165
	4,789	1,059	84	5,932

The deferred tax asset is expected to be utilised by the Group in the coming years and there is no time limit to utilisation of such losses. The Board forecasts sufficient taxable income as a result of the growth in the customer base and increased profitability against which it will utilise these deferred tax assets.

#### 16. Trade and other receivables

	2022 £'000	2021 £'000
<b>Current</b>		
Gross trade receivables	30,977	11,618
Provision for doubtful debts and expected credit loss	(19,499)	(6,007)
Net trade receivables	11,478	5,611
Accrued income - net of provision	31,842	21,972
Prepayments	3,065	4,183
Other receivables	7,954	5,573
	54,339	37,339

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

	2022 £'000	2021 £'000
Opening balance	6,007	5,162
Provisions recognised less unused amounts reversed	21,071	4,185
Provision utilised in the year	(7,579)	(3,340)
Closing balance - provision for doubtful debts and expected credit losses	19,499	6,007

The directors have assessed the level of provision at 31 December 2022 by reference to the recoverability of customer receivable balances post the year end, and believe the provision carried is appropriate.

An additional provision of £349,000 (2021: £614,000) for expected credit loss on accrued income was charged in the period, leading to a total provision at 31 December 2022 of £1,830,000 (2021: £1,481,000). Expected credit losses and the recognition, where appropriate, of previous customer credit balances are recognised in the income statement as net impairment losses on financial and contract assets.

The net impairment losses on financial and contract assets of £21,420,000 (2021: £4,799,000) consist of £349,000 (2021: £614,000) provision charged for expected credit loss on accrued income, and £21,071,000 (2021: £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.

Other receivables include £2,100,000 receivable from the Government's Energy Bill Relief Scheme (2021: £nil). Such amount was reclaimed and received by the Group in January 2023.

Other receivables include a further £69,000 of cash held in bank accounts owned by the Group which are related to Government led support for customers.

#### 17. Financial derivative assets

	2022 £'000	2021 £'000
<b>Current</b>		
Financial derivative asset	1,484	3,102
<b>Non-Current</b>		
Financial derivative asset	1,562	870

The current and non-current financial derivative asset of £3,046,000 (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 the volume of commodity purchased valued at market prices available at the balance sheet date over the traded price of the forward contracts). The asset has decreased in the year largely due to the decrease in forward gas and power market prices and as previous lower priced trades delivered in 2022. The risks and sensitivities in relation to the asset are further detailed in note 20.

#### 18. Cash and cash equivalents

	2022 £'000	2021 £'000
Cash at bank and in hand	18,970	7,049
	18,970	7,049

The cash and cash equivalents amounts exclude £569,000 of cash which is included in other receivables. £500,000 of this cash balance is held on deposit and secured under arrangements with the Group's bankers, with a further £69,000 having been transferred to the Group as part of Government led schemes which remains due to customers at the balance sheet date.

## 19. Trade and other payables

	2022 £'000	2021 £'000
<b>Current</b>		
Trade payables	4,636	3,690
Accrued expenses	55,281	34,545
Lease liabilities	112	107
Tax and social security	5,587	6,188
Other payables	8,244	5,213
Amounts due to subsidiary undertakings	-	-
	<b>73,860</b>	<b>49,743</b>
<b>Non-current</b>		
Accrued expenses	158	381
Lease liabilities	48	160
	<b>206</b>	<b>541</b>

## 20. 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 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;
- c) liquidity risk; and
- d) foreign exchange risk.

### (a) Commodity trading 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.

Increased volatility of global gas and electricity commodity prices has 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 31 December 2022 for those contracts not assumed to be strictly for "own use" is a charge of £926,000 (2021: gain of £3,344,000). See note 17 for the corresponding derivative financial asset.

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 (determined based on calculated or implied volatilities where available, or historical data) had occurred and been applied to the risk exposures in place at that date. In view of the volatile nature of commodity markets, the sensitivity analysis is based on a change of up to +/- 25% in commodity markets, though additional volatility may be incurred in view of the current, unprecedented, energy market context of volatility.

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.

	2022 Reasonably possible increase/ decrease in variable	Impact on profit and net assets £'000	2021 Impact on profit and net assets £'000
Open market price of forward contracts			
UK gas (p/therm)	+/-25%	831	793
UK power (£/MWh)	+/-25%	2,227	1,470
		<b>3,058</b>	<b>2,263</b>

In addition to the sensitivity noted above, the estimate of the forward derivative contracts assessed as "own use"

results in the financial asset recognised. If the level of own use of such forward contracts was amended by +/-1%, then the financial asset and resulting impact on profit and net assets would be £466,000 (2021: £1,088,000). Such a sensitivity could occur if, for example, the Group's estimated forecasted demand from customer contracts was impacted by factors such as prolonged abnormal weather patterns, or further unexpected and severe Covid-19 lockdowns. In mitigation, however, demand balancing activities and trading will significantly reduce any potential gain or loss arising from the sensitivity noted above, and the Board approved hedging policy is designed to protect (to the extent possible) the gross margin as sold on each contract. Customer prices also include premia in their pricing to account for certain levels of market risk because of the above in order to reduce the potential for negative impact on Group profitability.

*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 (as noted above) 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 with SmartestEnergy in December 2019, has reduced this liquidity risk in view of the significant credit limit being provided. This arrangement provides the 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. Where markets fall rapidly and unexpectedly, the cash collateral requirement may be greater than the Group's cash reserves. In extreme circumstances, 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 such as holding growth activities.

*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 lower energy commodity markets experienced at the end of 2022, this credit risk has reduced to approximately £47m as at 31 December 2022, and has decreased in early 2023 as global market prices have softened. 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, though increased prices have resulted in greater amounts owed by some customers. New customers have their credit checked using an external credit reference agency prior to being accepted as a customer. The provision of a smart meter is also mandatory for some sales channels.

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, and required security deposits in advance where appropriate. At 31 December 2022 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.

At 31 December 2022 the Group held a provision against doubtful debts and expected credit loss of £21,329,000 (2021: £7,488,000). This is a combined provision against both trade receivables at £19,499,000 (2021: £6,007,000) and accrued income at £1,830,000 (2021: £1,481,000). The increase reflects an increased business activity and a higher value of Non-Firm revenue due to increased market prices.

In relation to trade receivables, after provision and accounting for VAT reclaimable, the exposure assessed by directors is less than 5% of the gross balance. If this exposure was +/-1% of that assessed, the gain or loss arising recognised in the income statement and impacting net assets would be +/-£316,000.

If the expected customer credit loss rate on accrued income was +/-10%, the gain or loss arising would be +/-£183,000.

**(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.

The Board 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. Scenarios of falling commodity markets, including potential to mitigate to avoid significant margin calls for cash collateral, are also considered by the Board.

In a very low probability scenario where long-term commodity prices along the curve hedged by the Group decrease (from forward prices at 1 February 2023) by 25% for the Summer of 2023, and 50% thereafter, the Group could fully utilise its credit line and require collateral of up to £22m unless this is otherwise mitigated by actions from management. The Board believes such a scenario to be a low probability, though monitors the position regularly to ensure appropriate mitigating actions are instigated where appropriate. Such mitigating actions would include, in certain market conditions, the need to temporarily extend credit lines with trading counterparties, or to unwind some of the forward hedged position to prevent this credit exposure arising to a level which could not be met by the Group's cash reserves.

Any excess cash balances are held in short-term deposit accounts which are either interest or non-interest accounts. At 31 December 2022 the Group had £18,970,000 (2021: £7,049,000) of cash and bank balances (as per note 18).

**(d) Foreign currency risk**

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

**21. Share capital and reserves**

	2022 Number	2022 £'000	2021 Number	2021 £'000
Share capital Allotted and fully paid ordinary shares of £0.005 each	16,649,618	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 movement in reserves is as per the condensed statement of changes in equity.

Share capital represents the value of all called up, allotted and fully paid shares of the Company. The movement in the year relates to the exercise of various share options, at exercise prices of between £0.005 and £1.40.

The share premium account represents amounts received on the issue of new shares in excess of their nominal value, net of any direct costs of any shares issued. The share premium movement in the year relates to the excess, where appropriate, of the price at which options were exercised during the year over the £0.005 par value of those shares.

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.

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

Date of grant	Expected term	Exercisable between			Exercise price	Vesting schedule	December 2022	Amount outstanding at 31 December 2022	Amount outstanding at 31 December 2021
		Commencement	Lapse	31					
17 February 2016	3	17 February 2019	17 February 2026	1	£0.09	1	13,500	27,000	
22 December 2016	3	22 December 2019	22 December 2026	1	£3.25	1	13,500	13,500	
6 April 2017	3	6 April 2020	6 April 2027	1	£0.005	1	43,950	43,950	
6 April 2017	6.5	6 April 2020	6 April 2027	1	£2.844	1	87,900	87,900	
28 September 2017	6.5	28 September 2020	28 September 2027	1	£5.825	1	40,500	40,500	
9 April 2018	6.5	9 April 2021	9 April 2028	1	£10.38	1	59,084	59,084	
26 September 2018	6.5	26 September 2021	26 September 2028	1	£8.665	1	6,539	6,539	
25 February 2019	6.5	25 February 2022	25 February 2029	1	£1.09	1	20,000	48,497	
25 February 2019	3	25 February 2022	25 February 2029	1	£0.005	1	-	250,000	
18 June 2019	3	1 August 2022	1 February 2023	2	£1.40	2	-	62,483	
4 October 2020	3	30 April 2023	4 October 2030	3	£0.005	3	210,696	210,696	
4 October 2020	3	30 April 2024	4 October 2030	3	£0.005	3	172,388	172,388	
1 June 2021	3	30 April 2024	4 October 2030	3	£0.005	3	-	76,616	
13 May 2022	1	30 April 2023	4 October 2030	3	£0.005	3	12,769	-	
13 May 2022	2	30 April 2024	4 October 2030	3	£0.005	3	25,539	-	
1 December 2022	3	1 January 2026	4 October 2030	2	£0.005	2	179,267	-	
19 December 2022	3.3	30 April 2024	4 October 2030	4	£0.005	4	837,000	-	
							1,722,632	1,099,153	
Weighted average remaining contractual life of options outstanding at 31 December 2022							8.0 years	7.1 years	

The following vesting schedules apply to the options:

- 100% of options vest on the third anniversary of date of grant.
- 100% of options vest on the third anniversary of the Save As You Earn ("SAYE") savings contract start date.
- The level of vesting is dependent on a performance condition, being the Group's share price at pre-determined dates.
- The level of vesting is dependent on a performance condition, being the Group's EBITDA performance (or for 75,000 outstanding options, asset installation targets) over a qualifying period.

The share price at the date of grant of options during 2022 was £2.08 at 13 May 2022, £3.93 at 1 December 2022 and £4.18 at 19 December 2022.

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

	2022 shares	2021 shares
Balance at the start of the period	1,099,153	1,290,699
Granted	1,055,364	76,616
Forfeited	(98,482)	(233,002)
Lapsed	-	-
Exercised	(333,403)	(35,160)
Balance at the end of the period	1,722,632	1,099,153
Vested at the end of the period	284,973	278,473
Exercisable at the end of the period	284,973	278,473
Weighted average exercise price for:		
Options granted in the period	£0.393	£0.005
Options forfeited in the period	£0.256	£1.880
Options exercised in the period	£0.289	£0.005
Exercise price in the range:		
From	£0.005	£0.005
To	£10.38	£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:

	2022	2021
Dividend yield	0%	0%
Risk-free rate	2.1%	1.5%
Share price volatility	117%	115%
Expected life (years)	3 years	3 years
Weighted average fair value of options granted during the period	£3.87	£2.30

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

The total fair value recognised for the year arising from share based payments was as follows:

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

	2022 £'000	2021 £'000
Equity-settled share based payment expense	210	237
Cash-settled share based payment expense	74	12
<b>Total share based payment charge</b>	<b>284</b>	<b>249</b>

Cash-settled share based payment expense relates to employer's National Insurance payable on the exercise of unapproved (for tax purposes) share options.

### 23. 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 31 December 2022 (2021: £nil).

#### *Security*

The Group entered 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.

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

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 2022 (2021: £nil).

### 24. 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 2022 the Group paid £120,000 in lease rental and service charges to CPK Investments Limited (2021: £130,000). There was no amount owing to CPK Investments Limited at 31 December 2022 (2021: £nil).

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

### 25. Net cash/(net debt) reconciliation

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

	2022 £'000	2021 £'000
Cash and cash equivalents	18,970	7,049
Lease liabilities	(160)	(267)
Borrowings	-	-
<b>Net cash</b>	<b>18,810</b>	<b>6,782</b>

	Borrowings £'000	Leases £'000	Cash £'000	Total £'000
<b>Net cash/(net debt) as at 1 January 2021</b>	-	(368)	11,740	11,372
Cash flows	-	120	(4,691)	(4,571)
Interest and other changes	-	(19)	-	(19)
<b>Net cash/(net debt) as at 31 December 2021</b>	-	(267)	7,049	6,782
Cash flows	-	121	11,921	12,042
Interest and other changes	-	(14)	-	(14)
<b>Net cash/(net debt) as at 31 December 2022</b>	-	(160)	18,970	18,810

### 26. Business combinations

On 9 May 2022 the Group acquired (from administration) certain assets of Magnum Utilities Limited, including the management team of the business. The acquisition provided the foundation to create Yü Smart, being new Group capability to install, service and maintain smart meters and EV charging assets.

The values identified in relation to the acquisition are final at 31 December 2022. The fair values of the identifiable assets acquired and recognised at the date of acquisition were £224,000 comprising IT and office equipment of £8,000 and goodwill of £216,000. The goodwill is attributable to the management team, operational and industry knowledge and policies and processes of the acquired business.

Total consideration and other costs of £224,000 were paid at or closely after completion. No further consideration is payable. The new business contributed no revenue and total operating costs of £1,100,000 during the year, expensed to operating costs in the income statement.

No business combinations or acquisitions took place in 2021.

### 27. Post-balance sheet events

There are no significant post-balance sheet events.

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