yü GROUP PLC


# POWERING BUSINESS

**YÜ GROUP PLC**
Annual report and financial statements 2018

## Who we are

# PROVIDERS OF BUSINESS ENERGY AND UTILITY SOLUTIONS

Yü Group PLC is a specialist supplier of energy and utility solutions to UK businesses.

We offer commercial electricity, gas and water supply solutions to SMEs (small and medium-sized enterprises) and corporate customers.

As a business utility specialist, we combine expert, personal service and competitive fixed prices tailored to individual business needs.

We have grown rapidly, in a significant market, and we now supply energy to thousands of sites across the UK.

Our experienced management team has considerable knowledge of the energy sector. This is combined with a *can-do*, *customer first* and *innovative* culture that means we can adapt rapidly to capitalise on opportunities in the evolving energy market.

## WHAT WE DO

We provide a one-stop-shop for businesses' gas, water and electricity needs

We provide excellent service, and continually innovate to provide new solutions to our customers

We are a highly scalable business, in a significant market, and have a strong forward contract book

We have an experienced team, committed to delivering profitable growth

We have invested in systems, governance and controls to enhance the management of our risks

# Business review

## Financial review

- Revenue increased by 77 per cent. to £80.6m (2017: £45.6m)
- Adjusted EBITDA[1] loss of £6.3m (2017: £1.5m profit), following a detailed accounting review
- Restatement of prior year accounts, reducing 31 December 2017 net assets by £2.4m
- Cash and cash equivalents of £14.6m at 31 December 2018
- Contracted revenue for 2019, as at 31 December 2018, of £88m
- Overdue customer receivables[2] of nine days at 31 December 2018, down from 14 days at 31 December 2017
- Raised £11.6m (net of costs) from a share placing in March 2018

1. Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation, and also before non-recurring items, share based payments and unrealised gains or losses on derivative contracts. For FY 2018, it also excludes the impact of first-time adoption of IFRS 9.
2. Overdue customer receivables relate to the total accrued income which is outside of the normal billing cycle, plus overdue trade receivables (net of VAT and CCL), net of provision for doubtful debts.

## Operational review

- Implementation of new control, accounting and governance processes, supported by a third party review by PwC
- Invested in further strengthening management, sales and product development teams, and back office teams to improve systems, controls and management information
- Continued to trade forward gas and electricity markets to reduce risk of energy market volatility
- Launch of our business water retail product offering
- Maintained customer service levels (including three ring pick up policy)

"We have improved our systems and processes, and further strengthened our team, to focus on sustainable growth and margin improvement."



Read more about us on our website
**www.yugroupplc.com**

## Our business model

# BUSINESS UTILITY SPECIALISTS

## Controlled growth in a significant market

Trading under the brand Yü Energy, we supply electricity, gas, water and other solutions to business customers. We are a direct supplier, not a broker. We serve small, medium and large corporate businesses across Great Britain.

Our customer centric approach, combined with our unique multi-utility offering, has enabled us to grow rapidly into one of the UK's leading business energy suppliers.

We are continuously expanding our offering to bring new solutions to our customers that make it easier for them to manage their utilities.

Through our commitment to providing high standards of service, we aim to build strong relationships with our customers and retain their business year after year.

Our experienced management team, growing sales and product teams, and improved systems and governance processes support our business in delivering the foundations for controlled and sustainable growth.

The business has grown rapidly, although we remain a small player with the ability to scale. We are now well placed to leverage our systems and processes to restore and enhance profitability as the business develops.

Our trading and hedging policy, which is supported by strong cash reserves, ensures that we reduce the risk from significant energy market volatility.

**Read about our strategy**
Pages 12 and 13

**Read about our people**
Pages 18 and 19

## OUR MARKETS

### Gas, electricity and water

We provide SMEs and larger corporate businesses with an innovative multi-utility offer covering gas, electricity and water supply. This is specifically designed to help business customers save time and money and is tailored to their specific business needs. This is a substantial market with over a million potential customers in the UK.

### Smart solutions

Our product range is expanding to enhance our business utilities offer. We already offer smart meters, smart devices and electric vehicle charge points. We will continue to bring new solutions to help our customers benefit from technology, making it easier to manage their utilities.

### Serving portfolios across Great Britain

We are experts in managing a broad spectrum of energy portfolios from single sites to more complex multi-site business energy requirements. Our core markets span a wide range of different industry sectors such as care homes, retail, food and leisure, offices and industrial sites.

We supply thousands of businesses throughout Great Britain.

### New connections

We provide business meter installations for both gas and electricity, to connect new developments to a utility supply.

### Business to business

We focus on B2B activities, where our experts can add value and long-term partnerships can be made. We do not target the domestic market, where multiple suppliers are present.

## HOW WE DEVELOP OUR BUSINESS

We contract with customers to provide energy supply over a fixed period. This "subscription" model ensures a strong foundation for future growth, and a high degree of visibility of expected revenues.

**At 31 December 2018, the Group had £88m of contracted revenue for the year ending 31 December 2019.**

### Small and medium-sized entities
Our SME sales team engages with clients directly, via our outbound contact centres (including from our expanding offices in Leicester) or through an increasing online presence. We enable businesses to get a quote and sign up to our services quickly and easily.

### Corporate accounts
An experienced team of account and business development managers focus on medium-sized and large scale, multi-site clients that require face to face engagement for their more complex energy requirements.

**We are the official energy partner to Trent Bridge cricket ground providing gas, electricity and water supply together with energy efficiency consultancy.**

### Brokers
We work with carefully selected broker partners which recommend Yü Energy as a supplier. Our broker team engages with these third parties to secure customer acquisitions, renewals and new connections.

### Renewals and relationship management
We have a dedicated team focused on renewing contracts prior to expiry. We also work hard to deliver leading customer service, across the entire customer lifecycle, to ensure the ongoing development of our services offered to existing customers.

## WHAT MAKES US DIFFERENT

### Customer service
Our team provides an expert personal service. We answer the phone in less than three rings, ensuring businesses can quickly resolve any queries, leaving them free to focus on running their businesses.

**Call pick up times average eight seconds.**

### Fixed price and bundled offerings
Our fixed price contracts result in our customers knowing exactly how much they will be paying for their energy.

In addition to gas and electricity supply, we launched our water supply offering in 2018.

### Innovation and growing product range
Our multi-utility offer covers gas, electricity and water supply. We also offer smart technologies, including smart meters, and a range of energy solutions including electric vehicle charge points.

We provide a fresh, new approach to business energy to ensure our customers can access good value, quality solutions.

**We are small enough to be agile, whilst big enough to think beyond our core offer.**

### Flexibility
Different businesses have different needs. That is why we offer a range of different tariffs, billing options, contract durations and structures. We work in partnership with our customers to find the best solution to suit their businesses.

## OUR FOCUS

### Shareholders
Our combination of rapid growth, experienced management, predictable future revenues and strong balance sheet has established the foundations of a scalable business.

The Group continues to invest in systems and processes to focus on improving margin to drive profitability and manage risks, alongside developing new products and services to provide further opportunities to grow in what is a significant UK market.

**Cash at 31 December 2018:**

**£14.6m**

### Customers
Competitive, fixed prices and an expert, responsive personal service is tailored to the needs of businesses, combined with an innovative and growing product offering. This makes it easier for customers to manage their energy needs, providing them with more time to focus on running their business.

**Number of customer meters served at 31 December 2018:**

**9,723**

### People
The rapid growth of the business has created numerous job opportunities in teams across the business. In addition to the Nottingham office, the Group is expanding its presence in Leicester.

**Number of employees as at 31 December 2018:**

**154**

# Chairman's statement

# COMMITTED TO BUILDING SOLID FOUNDATIONS

We have improved and continue to strengthen governance and internal controls.

**Ralph Cohen**
Chairman

## Review of the year

The continued growth of the business in the year was overshadowed by the serious accounting issues identified in a review by our incoming CFO in October 2018. This resulted in a readjustment to the Group's profitability expectations and has led to a deeply disappointing set of results, with a net loss recognised for FY 2018 of £6.3m. In addition, a further £2.4m reduction to the previously reported net assets at 31 December 2017 has been recognised.

The Group has experienced rapid growth over the last few years and we can now see that certain data, financial and systems processes did not keep up with the requirements of a larger business. Whilst issues such as the level of bad debt and revenue recognised as accrued income had always been reviewed, the quality of the data at operational level was, in hindsight, insufficient. On behalf of the Board I apologise for the damage these shortcomings have inflicted on the Group and assure you that it has intensified my own, and the whole Board's, desire to ensure solid foundations are built for the future.

The Group remains debt free and, at 31 December 2018, held £14.6m of cash. Investment in the Group's growth has continued, with over 35 per cent. of our staff at 31 December 2018 being focused on sales, marketing and product development.

## Market context

The discovery of the accounting issues coincided with a deterioration in trading conditions in energy supply markets. There has been a spate of business failures in the recent past in the domestic energy supply sector, due in some measure to a difficult set of market conditions. Energy commodity costs increased significantly throughout FY 2018, and the adverse weather conditions, particularly the *"Beast from the East"* in early 2018, led to some unexpected costs.

Yü Group, by contrast, operates in the business to business sector. We use our experienced team and strong cash reserves to operate a hedging policy that reduces the Group's exposure to volatile commodity markets in line with an agreed risk mandate.

## Controlling growth

The Group has expanded significantly, from revenues of less than £4m in 2015 to revenues in excess of £80m in 2018. The Board recognises that this rapid growth, despite continued investment, outstripped the capabilities of the Group's systems and controls.

The audit committee and the wider Board have led and implemented numerous measures over recent months to improve governance and internal controls. The weaknesses identified were particularly focused around the control of complex energy data, across many thousands of customer sites; the revenue recognised in our accounts based on these data sources; the recoverability of our trade receivables based on our credit control processes; and the forecasting of gross margin.

The Board has worked tirelessly in investigating and resolving these matters and will continue to make further incremental improvements as appropriate. The Board is also co-operating fully with the Financial Conduct Authority, and all other regulatory bodies.

While many of these governance and internal control improvements have been identified and addressed internally, the Board also commissioned an independent review, by DLA Piper LLP and PwC LLP, in relation to the data and accounting processes, and a more general review of the internal controls in operation across the Group. A new auditor, RSM, was also appointed to provide a clear and fresh review of our financial status and results.

The audit committee recognises the positive reaction by the employees of Yü Group in embracing the new processes and controls required to enhance the business.

Based on this, the Board is confident that our controls and processes are more robust and that the necessary foundations are in place to deliver, in a controlled manner, the future growth of the business.

## The future

My boardroom colleagues and I are absolutely committed to restoring profitability as soon as possible, whilst recognising that it will take a little time for low margin contracts to expire.

Numerous initiatives are in progress to restore shareholder value. These include ensuring that robust and efficient back office systems and controls are in place; cross-selling additional product offerings to our existing customers; and closely monitoring the Group's working capital requirements and bad debt exposure.

The Board considers that the Group's continued customer service focus, strong balance sheet and cash position and significant market opportunity, provide a positive base from which to recover from the setbacks of 2018. I look forward to providing further updates on these topics in due course.

**Ralph Cohen**
**Chairman**
15 May 2019

# Q&A with the Chairman

## I and the rest of the Board are taking all appropriate actions.

### Q What is the role and responsibility of the Board?

**A** As a Board, we recognise our responsibility for ensuring the proper governance and control of the Group and to develop and deliver our strategy. I, together with the Board's other Non-executive Director, John Glasgow, form separate Board committees covering audit and remuneration matters, and our roles provide additional checks and balances to the Executive Directors of the business.

The Board and its sub-committees rely on various internal processes and systems; the skill, diligence and specialist knowledge of Board members; and external partners and advisers. We believe we have a capable and experienced Board, across all functions, which is ever more aware of its roles and responsibilities to govern the business appropriately.

Whilst there have been material lessons in the year, the Board is absolutely committed to returning the Group to profitability and has already made some significant steps forward.

I have every confidence that the commercial and internal control measures already implemented have enhanced our business and that this process is accelerating. The Board and senior management team have the right attitude and experience to identify and implement improvements and there is a real and deep desire to improve shareholder value.

### Q What lessons have been learned from the year?

**A** The Group has experienced rapid growth over the last few years, and we can now see that certain data, financial and system processes could not keep up with the growth.

The last few months have been used to reset the Group's activities to upgrade key internal controls and processes.

We are also being more selective in the growth of our business and more focused on improving profitability through various measures.

The key element that stands out is the clear desire across the entire Yü Group team to make things right, to deliver great customer service whilst building a sustainable business. The Board and I will ensure that all lessons learnt continue to be applied, so the Group can be stronger and better prepared to manage growth in the future.

### Q How involved have you and the Board been in implementing new corporate governance policies?

**A** As Chairman of the Board, I have already seen improvements led by the Executive Directors. These initiatives have ranged from the implementation of various new governance policies, to the formalisation of delegated levels of authority and the enhancement of credit and risk management policies and collection processes. Our Chief Financial Officer and Group Financial Controller provide a regular update to the Board on internal control matters. It is clear to me that the entire business has stepped up to focus on fixing historical issues in processes and data management.

I have also enhanced processes to improve the effectiveness of the Board, and the assessment of Directors' performance in their various roles.

John Glasgow and I, as members of the remuneration committee, have reduced our own remuneration level, and the remuneration level of the Chief Executive Officer and Chief Operating Officer, effective 1 April 2019.

In addition, the audit committee has taken various steps to challenge previous ways of working, which had evolved with the Group's rapid growth. Actions have included:

- appointment of RSM as the new external auditor, in January 2019, to ensure a fresh review of the Group's activities;
- meeting more regularly, on a formal and informal basis, to provide greater visibility throughout the business;
- appointing PwC LLP to provide an independent review of the internal control environment and to aid investigation into the data issues being experienced by the Group. Following this initial forensic review, which confirmed internal findings, the audit committee has instructed a follow up health check by PwC, and was pleased to confirm the progress made by management in a short period of time; and
- the instruction, and review of findings, of a detailed and independent investigation by DLA Piper LLP.

# RESTORING PROFITABILITY

We are working tirelessly to enhance our shareholders' confidence in the business.

**Bobby Kalar**
Chief Executive Officer

## Introduction

The Group increased revenue significantly during the year ended 31 December 2018 and continued to deliver excellent customer service whilst remaining focused on driving core growth and investment for the future.

That said, the announcement by the Company on 24 October 2018 regarding the accountancy and systems shortcomings has had a profound effect on both the business and me personally. These issues are of a magnitude that initially shocked, and the financial results have left me deeply disappointed, particularly so in trusted people and partners on whom the business relied upon for expertise. However, I am determined to redress the historical issues and reposition the business to grow shareholder value.

The Group was founded to address a gap in the market for a fresh, nimble supplier which could scale. There remains a considerable opportunity, but as we have seen over the past few years other players have tried to enter the market, resulting in more competition. We have seen competitor models that sacrifice margin and/or take significant market risks to scale and then fall foul to commodity market volatility. We will continue to trade forward gas and electricity markets to reduce risks of market volatility and build a scalable and sustainable business.

Following internal reviews and external advice, policies and procedures have been put in place to allow us to embrace change whilst maintaining continuity of service. In short, lessons have been learnt and implemented. I believe there is still a huge opportunity to grow our business, especially since Ofgem recently announced tighter licensing rules for prospective new suppliers. The business has made good progress and, along with my management team, I remain absolutely committed to pushing the business onwards and upwards and getting us back on track for measured growth, with an aim to restore shareholder faith and value in the business.

Our cash position remains strong with £14.6m as of 31 December 2018, and we are debt free. I believe our cash position will be enhanced by a greater emphasis on credit control and revenue protection.

As a consequence of an upward wholesale commodity market, we have seen greater use of brokers by businesses which require validation and assurance that they are getting the most competitive deal. We work well with a select number of brokers whose aims and ethics are aligned with ours.

Customer service and satisfaction continues to be our driver and a key differentiator. As we have introduced greater policy compliance and processes and focused on ensuring the relationship with our customers is on a sensible commercial basis, there will inevitably be some changes to satisfaction statistics. This is to be expected and I am confident will only be temporary.

The challenge for the year ahead is to continue to invest and grow our core product offering and manage our risks. We also will utilise new technologies to provide greater business efficiency, and plan to strengthen our management team further so that we can more readily deploy innovation and technology to develop and launch products that complement our core business faster.

## Our people

Our people remain at the heart of everything we do. Maintaining a good Company environment and culture whilst experiencing rapid growth has been a challenge but the business has worked hard to develop and foster a set of values and behaviours that has seen a cultural shift in habits and outcomes. Investment in our people has and will continue to yield benefits.

Finding colleagues with the right mix of skills and experience to help drive the performance of the business is vital for ensuring the continuing strength of the Group. Looking at our people and trying to understand how we can help them help the Group is something we have done throughout the year.

Our new Chief Financial Officer, Paul Rawson, joined in September 2018. Paul has many years of financial and operational experience and, most significantly, relevant sector expertise having previously been responsible for a large energy business. Paul has been a welcome addition to the team and is working hard to further strengthen the finance and operational functions.

We have also developed our management team in the last year, with some senior appointments across sales, product development, commercial, operations, finance, debt collection and credit control.

Our increasing investment in our teams across all business activities provides a genuine opportunity for the Group's future. We are small enough to maintain a focus on customer service, delivering great new products to market, and to harness an agile and innovative culture. We also have the necessary scale to be able to invest in the people, processes and systems to ensure we are an efficient and professional business.

With our focus on involving our employees in our journey, I am pleased to confirm that in 2019 we will be launching a Save As You Earn scheme for employees to invest in the shares of the Group.

## Growth

We continue to invest in sales and strategy to help deliver better sales through different platforms and teams. Increased investment in sales systems has helped promote customer engagement and improve the onboarding journey.

During FY 2018 our average monthly new bookings (being the annualised revenue value of contracts secured) was £8.4m. The Group is now being more prudent in the new business it books, with an increased focus on quality, and average monthly new bookings have therefore significantly reduced in the first four months of 2019.

In an upward commodity market, we have seen greater use of Third Party Intermediaries ("TPI") by businesses which require validation and assurance that they are getting the most competitive deal. The TPI channel, which is high volume but lower margin, has been impacted with the increased focus on the quality of business and margin. We are working hard to be selective in what contracts we onboard, with particular emphasis on credit risk, sector and margin.

2019 and beyond will see the business leveraging the overhead investment in product development, design and deployment. We will continue to scale our portfolio in a measured way but also use our customer portfolio to identify opportunities that complement our core product range and offer these through all of our sales channels.

The Board is focused on identifying incremental revenue opportunities within our existing commercial book throughout 2019. Retention of customers is very important to the growth of our business and our average contract term for contracts live at 31 December 2018 is 22 months, up from 18 months in December 2017.

Our retention rate tracks the level of customer meters that are still supplied gas, power and water over a given period. The retention rate was 43 per cent. between 31 December 2017 and 31 December 2018 (consistent with the 43 per cent. for the previous year). We continue to provide customers with favourable new contract terms or flexible transition arrangements for times when their initial contract expires.

## New products

Whilst our core business is as a regulated supplier of utilities, we see synergies around value added products and services which would help our customers either make better or more efficient use of their energy usage.

The Group has developed various new propositions during the last 12 months and will continue to provide solutions to meet the needs of our customers.

We have successfully launched a water supply offering and are the only major licensed provider of gas, power and water to GB businesses.

More recently, the Group has launched a product providing customers with access to smart meters and smart devices. This has been in response to the Government's SMETS 2 2020 deadline. Customers can request a free smart meter from us to be installed at their convenience.

Electric vehicles are on the increase as cost and access improve in the UK. In response we have launched an EV charging product for business customers who see the benefits and returns of having charging points installed in their car parks.

We have also launched an online quoting tool, enabling small businesses to get a business energy quote in under a minute. This helps to drive additional customer acquisition for time-pressured business customers who want a quick and easy approach to switching their energy.

## Risk management

The Group has continued to forward purchase its energy commodity requirements to create an effective hedge to volatile energy markets. Whilst it is not possible for any energy supplier to remove all the financial risk, I am confident that we have a robust hedging policy that mitigates our exposure to a manageable level. The Group is fortunate to have significant sector expertise in this area.

Credit lines with trading partners have not grown with the increased revenue. Cash is currently being used to manage the collateral requirements of the Company's hedging policy. We continue to explore improved trading arrangements which may allow the Group to redirect cash into growth opportunities.

We have also enhanced, and continue to improve, our controls around customer credit checking and protecting our income, and have strengthened our team in this area.

I am confident that we now have robust management information, processes and systems that will enable us to focus on mitigating risk and maximising financial returns in the future.

## Summary

The Board has worked tirelessly to steer the business through an extremely challenging period and we look forward to a period of stability.

Repositioning the business for sustainable growth and profitability is a key priority of mine. Whilst much has been done over the past six months to strengthen process and standardise working practices, I will not be content until we have restored shareholder trust and value.

The Group will continue to concentrate on getting value out of its contracted order book for 2019 and continue to selectively onboard profitable business. Being more efficient in our operations to capture value and recover cash is already yielding results and we will continue to find opportunities to strengthen this further.

I strongly believe that significant opportunities remain to continue to grow the business both in terms of scaling our supply offering and by launching products that sit comfortably within our core business.

I thank my team for all its work over the last few months, and I am convinced that the Group has a great future.

## Outlook

Contracted revenue for FY 2019 was £88m at 31 December 2018, and the Board therefore expects revenues to exceed the level recognised in FY 2018. The Board is, however, anticipating the year on year growth rate to be significantly below that previously achieved as a result of a more prudent level of bookings being targeted.

The Board targets gross margin of between 7.5 per cent. and 10 per cent. for FY 2019 and remains committed to managing overheads to target a positive adjusted EBITDA as soon as possible.

While there are opportunities in the B2C market, our commitment remains to be focused in the B2B market, where I believe we have an expertise.

**Bobby Kalar**
**Chief Executive Officer**
15 May 2019

# Q&A with the CEO

We have an experienced team, bringing together an innovative and customer centric ethos, a can-do attitude, and a renewed focus on financial and operational control.

**Q What work has been prioritised over the last six to 12 months?**

**A** I believe we have reset the business – establishing a new foundation to prepare us for the next five years.

We have been, rightly, prioritising governance, process and data management improvement and I believe we have come a long way in enhancing our financial and operational controls and management information.

We have upgraded certain systems, accounting and data processes, and recruited and will continue to recruit new team members to further strengthen our business as required.

Whilst this has kept us busy, we have continued to focus on growth and have developed various new products to provide to our core customer base.

As majority shareholder and founder of the Group, I am absolutely committed to the future success of the business for all of its stakeholders."

Bobby Kalar
Chief Executive Officer

**Q What are your biggest focus areas for 2019 and beyond?**

**A** My focus can be summarised in three words: excellence, results and growth.

As well as excellence in our systems and processes, more fundamentally I believe our customers deserve an excellent service and we will not compromise our standards.

Our margins, profitability and cash generation results are equally as important. Whilst our cash position is strong, and we continue to hold no debt, we will not be complacent. We have already implemented (and will continue to do so) various initiatives to enhance the commercial opportunity ahead of us.

Finally, we are committed to realising growth – but in a controlled manner. From retention of existing customers to driving new sales through multiple channels, I am confident that we will continue to develop our relatively small position in what is a significant UK market.

**Q What gives you confidence in the future of the Group?**

**A** I am immensely proud of the business that I founded in 2013. We operate in a market which has not been known, traditionally, for its customer service, innovation and value. However, I believe we are disrupting that and layering in further differentiation will further strengthen our position.

My confidence is founded in the exceptional team that has been created along the way. My colleagues across the business have a wide range of experience from large and small companies. We have the knowledge, resources and passion throughout the business, and it is those values that will drive our future success.

I have every confidence that the Group will deliver sustainable and profitable growth, alongside great customer service and the creation of new opportunities for our people.

# IMPROVING CONTROLS AND RESULTS

I am confident that we have fixed the material system and process issues and can now build on these business foundations.

**Paul Rawson**
**Chief Financial Officer**

## Results

The results for the year to 31 December 2018 have seen a 77 per cent. growth in revenues, to £80.6m (2017: £45.6m).

Gross profit for FY 2018 was £5.9m (2017, as restated: £6.8m), resulting in a decline in gross margin percentage to 7.3 per cent. (2017, as restated: 14.9 per cent.). This level of profitability is a result of a number of low margin contracts entered in to during 2017 and 2018, which has diluted the overall level of profitability achieved by the Group. Such contracts will take time to expire in the context of our average contract term being 22 months.

The Group has recognised a net loss for the year of £6.3m (2017, as restated: profit of £0.7m).

A substantial increase in the bad debt provision of the Group has been incurred in FY 2018, with a charge to the income statement of £5.4m (FY 2017 restated charge of £0.2m). These losses are largely as a result of a high proportion of the growth from contracts booked in FY 2017 and FY 2018 being with customers who have a poor payment history. This resulted in limited recovery of trade receivables, and a significant expected credit loss at the end of the year. The £5.4m charge for FY 2018 consists of a £3.6m bad debt charge and £1.8m in relation to the first-time adoption of IFRS 9. Management of trade receivables is clearly a continued focus area of the Group for FY 2019 in view of the material impact on profitability during FY 2018.

## Cash and working capital

The Group held £14.6m of cash and cash equivalents at 31 December 2018 (2017: £4.9m).

The Group had an operating cash outflow of £1.3m (2017: £0.5m inflow) for the year, with a net increase in cash and cash equivalents of £9.7m (2017: £0.3m outflow). The Group raised £11.6m, net of costs, in March 2018 through a placing of 1,200,000 new ordinary shares of £0.005 each. The Group also paid dividends of £0.5m during the year.

The Board has now increased control and visibility of its working capital requirement, and particularly overdue customer receivables[1], which measures the days outstanding of overdue trade receivables and overdue billing. The Board is pleased to see a 36 per cent. reduction from the 14 days outstanding at 31 December 2017 to the nine days outstanding at 31 December 2018, although it will not be complacent in monitoring the position.

Of the £14.6m cash balance, £3.5m is held in deposits with the Group's bankers to support letters of credits ("LoCs") provided to trading counterparties. Such LoCs provide a level of collateral required to support the Group's trading activities. The Board continues to monitor the level of cash collateral required, including via LoCs, to maintain the increase in trading activities in line with expected revenue growth. This requirement for cash collateral can also lead to volatility in the Group's cash balance in a falling commodity market, which the Board continues to monitor closely. For this reason, the Board is reviewing alternative options for its trading arrangements.

## Review of prior years

Following an internal review of data from the Group's billing and accounting systems and a review of the recoverability of trade receivables owed by customers and of the process for accounting for accrued income, the Board has concluded that a restatement of prior year accounts is necessary.

As a result, the Group's net assets at 31 December 2017 have been reduced by £2.4m. This adjustment mainly relates to a reduction in the trade and other receivables balance at 31 December 2017 and 1 January 2017 of £2.8m and £1.3m respectively.

Further information in relation to these matters is included in the Q&A with the CFO (page 11) and note 3 to the accounts.

1. Overdue customer receivables relate to the total accrued income which is outside of the normal billing cycle, and overdue trade receivables (net of VAT and CCL), net of provision for doubtful debts.

I am pleased with the progress made in understanding the detailed financial position of the Group. I now feel able to focus on driving commercial initiatives, building on the system and process improvements made over a relatively short period of time."

## Revenue visibility

A feature of the Group's business model is that it enters into contracts with businesses to supply essential services. These contracts typically have a fixed price per kWh of energy consumed, for an estimated level of consumption. Whilst consumption can vary from this forecast, the Board has a good level of certainty over the revenue to be expected from its contracts, following improvements to the management of data in relation to revenue recognition processes.

The Group also benefits from economies of scale as the business grows its offer, having established appropriate systems and teams to cater for growth.

At the end of 2018 the Group supplied over 9,700 separate meters with gas, electricity or water. The majority of these services were provided to small, medium and multi-site corporate businesses across Great Britain. The level of meters supplied represents only 0.3 per cent. of the GB business market, highlighting the size of the opportunity available to the Group.

At 31 December 2018, the Group had £88m of revenue contracted for FY 2019 (31 December 2017: £50m for FY 2018). Whilst encouraging in revenue terms, the margin achievable from these contracts, and the level of bad debt charge being experienced by the Group, has led the Board to review its sales acquisition and customer lifecycle strategy. This has led to a significantly reduced level of monthly bookings in the first four months of FY 2019 when compared with the same period for FY 2018.

## Profitability

The Group has previously reported adjusted profit before tax as a key alternative business measure. Following review, the Board now considers that adjusted earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA") is a more appropriate measure[2] in order to review the normalised profit which is potentially convertible to cash.

Adjusted EBITDA for the year ended 31 December 2018 is a loss of £6.3m (2017: profit of £1.5m).

The Board has implemented various initiatives to improve Adjusted EBITDA for FY 2019 and beyond, including:

- enhancing gross margin via a more focused sales acquisition and customer lifecycle strategy. The Board is working on initiatives to enhance the 7.3 per cent. gross margin achieved in FY 2018 to a higher, single digit percentage over the short to medium term;
- reducing overheads (before bad debt and broker commissions) as a percentage of revenue by leveraging existing systems and teams as the business scales up. Such overheads represented 7.3 per cent. of revenue in FY 2018. The Board is working on initiatives so that the absolute value of such overheads does not increase from FY 2018 levels, despite revenue growth; and
- a significant focus on improvements to reduce the level of bad debt charge included in overheads, which totalled £3.6m in Adjusted EBITDA for FY 2018, representing 4.5 per cent. of revenue.

These initiatives will take time to deliver results to increase the Adjusted EBITDA reported by the Group. However, the Board has every confidence that, after the work performed to date, we can turn around the fortunes of the Group.

## Dividends

The Group paid an interim dividend of 1.2p per share (2017 interim: 1p per share). No final dividend is being declared (2017: 2p per share).

**Paul Rawson**
**Chief Financial Officer**
15 May 2019

2. In reporting Adjusted EBITDA, the Group excludes certain gains and losses, including: interest; tax; depreciation; amortisation; charges from equity-settled share based payments; and unrealised gains or losses on derivative contracts. Adjusted EBITDA also excludes any one-off restructuring costs and, for FY 2018, the charges related to first-time adoption of IFRS 9 "Financial Instruments".

### Accrued income in layman's terms

We recognise revenue in our accounts based on the consumption of energy that we supply, and then bill our customers as soon as we are able and in accordance with the agreed terms. The value of accrued income is the level of revenue recognised in excess of the amount that has been invoiced at the balance sheet date.

As energy is typically invoiced to customers shortly after the end of the month in which customers have taken supply, to allow the collection or estimation of utility meter readings, a level of accrued income is always expected.

Older (known as aged) accrued income can also arise, for example when customers join mid-month, or if a meter reading or technical industry issue is experienced which prevents an invoice being raised in a timely manner.

# Q&A with the CFO

My team and I have undertaken significant and detailed internal reviews of financial and commercial data.

## Q Why has the business posted a loss in FY 2018?

A The Group has grown rapidly, with revenues nearly quadrupling between FY 2016, when the Group was admitted to trading on AIM, and FY 2018.

As with many growing and innovative businesses there has been a drive to bring fresh new ideas to the market and to focus on customer service. The Group has, in places, not been able to keep up with the scale of growth and has acquired some low margin contracts.

The Group has booked a bad debt charge of £5.4m (of which £3.6m is charged in Adjusted EBTIDA) in FY 2018, considerably adverse to initial expectations.

The level of accrued income has also been reset, based on revised data and accounting processes, leading to an accounting loss in the year and a prior year restatement. The accounting review also identified that gross margins being achieved across the contract portfolio is at lower rates than initially envisaged.

In addition, the Group has continued to invest in costs, particularly for staff in sales, marketing and product development, to drive growth. This investment obviously creates a level of drag on the profitability of the Group, but should provide future long-term value.

## Q What improvements have been made to the financial controls of the Group?

A My team and I have undertaken significant and detailed internal reviews of financial and commercial data over the last few months. New reconciliation controls over data transferring between systems have been implemented, together with a revised methodology around revenue recognition.

We have also strengthened some key roles, including experienced managers supporting our finance and credit control teams. Other appointments are planned, and budgeted, to further strengthen the team to ensure the improvements already made are continued.

I am pleased with the work performed internally and feel confident that we have fixed the material system and process issues.

In addition, the Board has been supported from additional advisory services, including a detailed forensic review, by PwC, of our historical financial data and of our internal control environment. This review has been welcomed and gives all of the Board a greater degree of confidence in the progress made and the work still to do.

## Q What work has been done to increase profitability?

A As part of the reset of our business, various initiatives have already been implemented to improve profitability. These span the following areas:

- **Reducing bad debt**: A new credit and income protection policy has enhanced the credit checks performed on new customers, before agreeing a sale. System and process improvements have also been implemented, including the recent implementation of a new customer contact platform, to improve efficiency in our debt collection activities.
- **Improved customer value**: We are being more selective in the sales channels and markets we serve. In addition, we have an increased focus on retention of customers, and the development of our service offering beyond gas and electricity supply.
- **Leveraging our fixed cost base**: By ensuring processes and systems can support growth, and adopting additional automation, the Group can serve a growing customer base with a relatively minor incremental increase in the costs incurred to serve the customer.

Whilst some low margin contracts will continue to dilute margins in FY 2019, we are committed to finding the right balance between sales acquisition and lifecycle customer value.

The Board is focused on ensuring the Group returns to profitability as soon as possible, albeit at more modest gross margin percentages.

## Q What is the cash position of the Group?

A The Group held £14.6m of cash at 31 December 2018, of which £3.5m was placed on deposit to support collateral requirements for trading counterparties.

The Board believes it is appropriate to maintain a cash balance to cover volatility caused by the Group's trading agreements, and forecasts this exposure on a regular basis. Significant reductions in commodity markets in early 2019, for example, have led to the requirement for additional cash to be posted with trading counterparties, reducing the balance of cash effectively available. In view of the potential for such market movements to impact the cash position of the Group, the Board continues to review options in relation to trading arrangements to reduce this element of volatility.

The Group's working capital requirement is also closely monitored, with a renewed focus to minimise overdue debt and the level of billing outside of normal patterns. We are pleased that this indicator has reduced to nine days of sales at 31 December 2018.

# Our strategy

# A CLEAR STRATEGY

Establishing a solid foundation to scale the business in a significant UK market.

| | Progress in 2018 |
|---|---|
| **1. GROW THE BUSINESS** | • Achieved 77 per cent. growth in revenue in FY 2018<br>• Launched a new water supply offer<br>• Continued investment in developing new products and services<br>• Exited 2018 with £88m of revenue contracted for FY 2019<br>• Refocused sales and renewals teams towards customer lifecycle objectives |
| **2. MANAGE THE COST BASE** | • Enhanced management information relating to profit and cash optimisation levers<br>• Reset the business to focus on profitable growth |
| **3. GENERATE CASH** | • Net cash of £14.6m as at 31 December 2018<br>• Renewed focus on customer related working capital balances, with overdue customer receivables down 36 per cent. to nine days<br>• No debt outstanding |
| **4. MANAGE RISK** | • Implemented new governance policies<br>• Developed new financial, accounting and data management processes and controls<br>• Continued hedging forward energy requirements to meet customer requirements, in line with an agreed risk mandate<br>• Received an independent third party review of our controls, systems and processes from PwC |

Priorities in 2019

- Expansion of direct sales team with new Leicester sales office
- Focus on profitable growth and customer lifecycle value
- Development of product range across energy solutions and smart technologies
- Maintain high levels of customer service with calls answered within nine seconds (three rings)

- Identify and implement profit improvement initiatives, realising cost savings through operational efficiencies
- Investment in CRM system and online sales, and improvements to increase productivity of sales activity
- Continued development of back office systems and processes as a base for scalable, cost efficient growth

- Ensure sufficient cash resources for hedging collateral requirements
- Further strengthen credit control and commercial functions and processes to reduce the bad debt charge

- Further embedding of internal control processes
- Continue to operate hedging policy
- Increased *bench strength* within key teams, including the recruitment of a new Finance Manager and a Business Improvement Manager to support our growth and business change agenda, and enhancing our commercial and debt recovery capabilities


## TRENT BRIDGE CRICKET GROUND – POWERED BY YÜ ENERGY

In October 2018 we announced our partnership with Nottinghamshire County Cricket Club ("Notts CCC") to power Trent Bridge cricket ground. Recognised as an iconic international sporting venue, Trent Bridge is not only the best attended UK cricket venue outside of London, it also holds a global top 10 ranking for spectator experience at sporting venues.

Notts CCC was shortly due to renew its supply contract and was looking for a long-term partner to deliver a cost-effective solution for its future energy and water needs. The energy requirements spanned multiple meters and locations, powering the cricket ground, training facilities and conferencing and media centre.

It was our unique multi-utility offer and focus on customer care alongside an open, transparent approach to partnerships that was appealing to Trent Bridge and acted as a key driver behind its decision to have all its energy and water needs provided by a single supplier.

A wide-ranging, long-term partnership was agreed with Notts CCC which will see us powering both the club's Trent Bridge cricket ground and training ground with the supply of gas, electricity and water. The partnership provides an excellent platform to build awareness of Yü Energy and to showcase the Group's multi-utility offering.

Our partnership with Yü Energy is a natural fit given its commitment to the East Midlands, its national outlook and its commitment to working with like-minded businesses to make a meaningful difference through energy supply. We are especially pleased to have found an energy partner with a whole-hearted commitment to customer service and innovation."

**Michael Temple**
**Notts CCC Commercial Director**

# Our key performance indicators

## Contracted revenue

**£88m** +76%

| | |
|---|---|
| **2018** | 88 |
| 2017 | 50 |
| 2016 | 28 |

**Link to strategy**

Contracted revenue comprises the estimated value of revenue for the subsequent 12 months that is under contract with customers. The actual amount recognised might vary by up to 10 per cent. due to the inherent estimation involved in this calculation.

The Group has continued to expand its revenue during FY 2018.

## Average monthly new bookings

**£8.4m** +65%

| | |
|---|---|
| **2018** | 8.4 |
| 2017 | 5.1 |
| 2016 | 3.7 |

**Link to strategy**

Bookings represents the annualised revenue of new business signed in the year. Such bookings will result in additional contracted revenue, dependent on contract start dates. The significant growth experienced in FY 2018 has been reduced at the start of FY 2019 as a result of a review of the customer acquisition strategy.

**The average contract term for new bookings is 22 months.**

## Total meter points

**9,723** 0.3% of GB market

| | |
|---|---|
| **2018** | 9,723 |
| 2017 | 7,361 |
| 2016 | 4,321 |

**Link to strategy**

The total meter points demonstrate the gas and electricity supply points served by the Group.

**The total UK business gas and electricity market is more than 3.3 million meters, highlighting that there is significant market opportunity available.**

## Cost management

(overheads charged to Adjusted EBITDA as a % of revenue)

**15.1%** +3.5%

| | |
|---|---|
| **2018** | 15.1 |
| 2017 | 11.6 |
| 2016 | 21.9 |

**Link to strategy**

The Group monitors its efficiency and cost management by comparing operational expenditure as a percentage of revenue. Overheads as a percentage of revenues have increased by 3.5 per cent. between FY 2017 and FY 2018. This increase is largely as a consequence of an increased charge for bad debt (4.5 per cent. of revenues in FY 2018). The Board has also continued to invest in sales and product development to expand the Group's business offering towards more profitable growth areas, and in systems and people to provide a strong business foundation.

## Overdue customer receivables

(average number of days overdue)

**9 days** -36%

| | |
|---|---|
| **2018** | 9 |
| 2017 | 14 |
| 2016 | 31 |

**Link to strategy**

The Group seeks to minimise the amount outstanding in relation to key customer receivable balances, compared with the revenue recognised. Such balances are, net of provisions, the amounts held in relation to accrued income which is beyond the normal one month billing cycle, plus trade receivables (net of VAT and CCL) that are overdue.

**Link to strategy key:**

Grow the business

Manage the cost base

Generate cash

Manage risk

# RISK MANAGEMENT

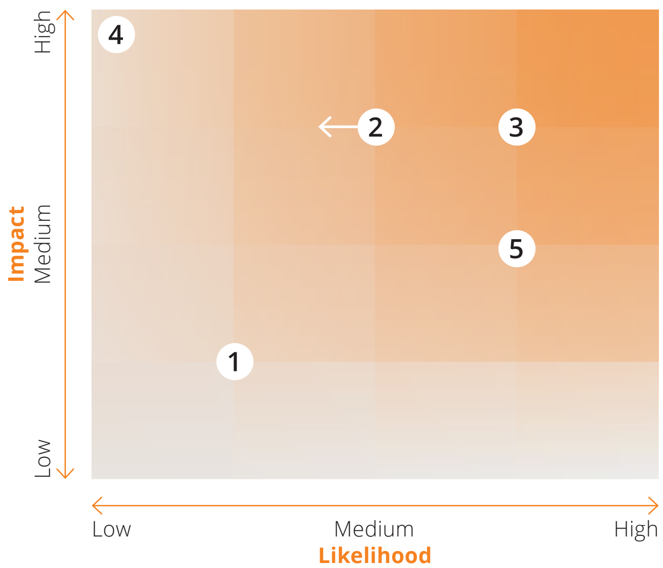
We have assessed our principal risks and uncertainties based on the likelihood of their occurrence and potential impact.

## Approach to risk

The Board is responsible for maintaining the Group's risk management and internal control systems and for monitoring risk and mitigation of risk in line with the Group's objectives.

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

- a risk and internal control improvement register is maintained and reviewed regularly by the Board. The risks are identified and discussed by the department heads and senior management before being reported to the Board;
- an organisational structure with clear segregation of duties, control and levels of authority;
- strong policies and procedures have been put in place around what constitutes good governance and a solid internal control framework;
- internal audit is provided by independent ad-hoc third party reviews and via an internal compliance and quality function;
- the appointment of our Group Financial Controller, Simon Martin, as internal control and risk manager, to give clear authority and accountability for monitoring and reporting on the internal control environment of the Group; and
- formal hedging policies and a risk mandate that govern the Group's approach to forward purchase of commodity contracts.




**BOARD**
The Board of Directors is ultimately responsible for risk management

**AUDIT COMMITTEE**
Liaises with external auditor and advisers to ensure control environment is managed

**SENIOR MANAGEMENT TEAM**
Assesses key risks in all areas of the business and the necessary action to help mitigate those risks

**INTERNAL CONTROL MANAGER**
Monitoring and reporting on control environment of the Group

**COMPLIANCE AND QUALITY TEAM**
Testing of key areas of internal control and compliance

**THIRD PARTY REVIEWS**
Ad-hoc review

**POLICIES, PROCEDURES, REPORTING AND REVIEW**
Documented controls, delegated levels of authority and management review processes

# Risks and uncertainties continued

| Description | Mitigation | Change |
|---|---|---|
| **1. Revenue recognition** | | |
| Due to the inherent nature of the industry and its reliance upon estimated meter readings, revenue includes the Directors' best estimate of differences between estimated sales and billed sales. When customers are unable to be billed for technical reasons, such as a failure in communicating to an automatic meter, a best estimate of the level of accrued income that is to be recognised also needs to be made by management. Given the process for estimating involves a number of variables, there is a risk that the level of accrued income reported is inaccurate and not ultimately recoverable. | New internal policies, processes and guidelines have been introduced in the year to help ensure that the Group's revenue recognition policy is appropriate, and that accrued income is at a manageable level.<br><br>The level of accrued income held at 31 December 2018, which has not been billed in January 2019, is £0.4m (2017, as restated: £1.1m). This level of accrued income is net of a provision based on an assessment, under IFRS 9, of the level of expected credit loss of the balance. This area of the Group's revenue is continuously assessed in order to ensure the amounts are recoverable or are not recognised in revenue. | ↓ |
| **2. Credit risk – customers do not pay their bills** | | |
| With the high growth in the business, the wider economic environment and the inherent risk that customers may not be able to pay, there is a risk of the Group incurring losses due to the non-payment of invoices. | New more stringent credit checking policies have been introduced to be more prudent in the contracts secured by the Group.<br><br>In addition, the Group has invested significantly in new systems and processes to enable efficiencies in the collection process and has increased the level of resources.<br><br>The Group is taking steps to utilise pay as you go functionality, to allow an alternative solution to customers who would have traditionally struggled to obtain regular credit trading terms. | → |
| **3. Trading risk – volatility in commodity prices** | | |
| The energy commodity market has been extremely volatile in recent times. Both increases and decreases in the market price pose a risk to the Group. When the commodity market price rises there is a risk to future profitability if the Group's forward position is not fully hedged. When the commodity market falls it opens the Group up to a cash liquidity risk, as the mark-to-market position the business holds with its commodity trading counterparties leads to an increased likelihood of a "cash call" for additional trading security. | The trading team at Yü Group is highly experienced. It operates a robust and timely commodity purchasing strategy to ensure the Group maintains an efficient and effective hedge in accordance with an agreed risk mandate. Whilst such mandate does not eliminate all risks, it reduces the amounts of profit at risk based on assumptions surrounding market volatility.<br><br>The Group also holds a significant cash balance, allowing the business to provide cash collateral to its trading counterparties, either directly or through standby letters of credit, ensuring the Group can continue to hedge, despite the volatile market conditions. The Board will continue to identify further mitigation available, for example via alternative trading arrangements. | ↑ |

**Change key:**
Increase | No change | Decrease

| Description | Mitigation | Change |
|---|---|---|

## 4. Data integrity

**Description**

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

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

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

**Mitigation**

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

Reconciliation of energy consumption and financial data, particularly in relation to the Group's bill to cash cycle, has been improved, with more robust processes now being adopted and having been tested as part of an independent forensic review.

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

## 5. Relationship with regulatory bodies

**Description**

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

As an AIM company, the Group is also subject to certain financial regulations and regulatory bodies, such as the AIM Rules for Companies and the Financial Conduct Authority ("FCA"). During 2018 the Group announced that after an internal review the trading performance for the year would be materially below previous market expectations due to both historical accounting errors and reduced trading performance. Following these announcements, the risk of loss due to regulatory investigations is heightened.

**Mitigation**

The Group has a management team and senior staff with extensive industry experience and broad experience in dealing effectively with the various regulatory bodies. During 2018 the Group introduced an internal compliance team that focuses, amongst other things, on energy industry regulatory compliance and any ongoing regulatory communication that the Group is involved in. The Group monitors and takes appropriate actions in relation to complying with regulation.

The market announcements in Quarter 4 of 2018 around the reduced profitability of the Group were extremely disappointing for the Board. Following the internal identification of the issues, the Group engaged external legal and accounting specialists to conduct a forensic review of the business, its accounting records and underlying data. Steps have been taken to address those issues and ensure they do not reoccur going forward.

The Board is committed to ensuring that the requirements of any regulatory review is complied with. The Board is therefore co-operating fully with the requirements of the FCA, and other regulators, to ensure the matters identified in Q4 2018 are resolved appropriately.

### Brexit

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

**Paul Rawson**
**Chief Financial Officer**
15 May 2019

# INVESTING IN PEOPLE

## We have the knowledge, resources and passion throughout the business and it is those values that will drive our future success.

As our organisation grows, it is vital that our team grows with us. We have continued our focused investment in people to ensure the Group is well placed to take advantage of market opportunities whilst maintaining high standards of service delivery. During the year, total headcount increased from 110 to 154.

The Group has invested in systems and processes to ensure a rigorous approach to performance leadership, training and development to ensure consistent standards and strong people capability in a growing business. We have implemented new HR and learning management systems to boost people capability and compliance. This includes our new online eLearning platform which provides an effective, scalable and consistent approach to learning across the Group. Our rigorous approach to performance leadership continues to raise internal standards and support the drive for increased productivity.

Our agile culture ensures we can quickly react to have the appropriate skills and resources in place to support our evolving business priorities. Our career pipeline planning has led to an increased number of internal moves, bringing enhanced career opportunities and a more flexible, cross-skilled team.

We continue to review our employee benefits ensuring a competitive package to attract and retain the right people with the right skillset. For example, we plan to launch a Save As You Earn scheme to more closely align employee and shareholder objectives and enhance employee engagement in the Group.

During 2018, we further strengthened our senior management team with key appointments to enhance our capability in sales and product development to help drive our future growth ambitions.

Our apprenticeship and placement programmes provide a constant stream of fresh thinking, new talent and diversity into the organisation as well as creating rewarding career opportunities for talented young people. We have fostered close links to universities and educational institutions across the East Midlands to develop this pipeline.


Waqar Ahmed, IT Apprentice

**Read about our Board**
Pages 20 and 21

**Read about our governance**
Pages 22 to 24

## BUILDING FUTURE CAREERS WITH APPRENTICESHIPS

We are on a mission to build lifelong careers across the Group and apprenticeships are a key part of this strategy. Apprenticeships provide a great pipeline of new talent and fresh thinking into the business and we will be continuing to invest in this element of our people strategy.

Our IT Apprentice Waqar Ahmed embodies this. Waqar has been an IT Apprentice since November 2017. The work experience he has gained at Yü Energy complements his studies for his IT Technician Level 3 qualification. Waqar has flourished during his time as an apprentice and he has become an integral part of our IT team, so much so that he won Colleague of the Year.

"

I have found my IT apprenticeship to be really rewarding. It is great getting the combination of hands-on practical experience whilst working towards a recognised qualification. Every day is different; it really tests you and I am always learning something new."

Waqar Ahmed
IT Apprentice

# Board of Directors

**Ralph Cohen**
Independent Non-executive Chairman

A R

### Skills and experience
Ralph has held various senior executive positions within the energy and water divisions of the Paris based Vivendi Group between 1981 and 2001. This included 10 years as managing director of Associated Electricity Supplies Limited and 10 years as finance director and subsequently managing director of Associated Heat Services Plc, a listed subsidiary for part of this period. In total he has spent more than 25 years working in the energy sector in roles covering energy services, importation of electricity and electricity supply. He previously spent nine years at Ernst & Young. Latterly, he was the founding partner of MC Consultancy Services, where he was closely associated with major projects, including electricity supply opportunities in Europe and M&A projects.

### External appointments
Ralph was for 10 years, until April 2015, the CFO and is now a non-executive director of Judges Scientific plc.

**Bobby Kalar**
Chief Executive Officer

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

### External appointments
None.

**Paul Rawson**
Chief Financial Officer

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

### External appointments
None.

**Garry Pickering**
**Chief Operating Officer**

**John Glasgow**
**Independent Non-executive Director**

A R

## Skills and experience

Garry has a degree in economics from Nottingham Trent University. He commenced work with East Midlands Electricity PLC in February 1997, which was ultimately acquired by E.ON. He has 20 years' experience in electricity and gas markets, the vast majority spent managing the financial risks associated with a supply and generation portfolio. He has worked on projects including the deregulation of the UK electricity supply businesses and the implementation of the New Electricity Trading Arrangements that underpin the operation of the current UK electricity industry. His final role at E.ON, based in Düsseldorf, Germany, was as head of UK power portfolio optimisation. He left E.ON and returned to the UK in January 2015 in order to join the Group and oversee its operational requirements including energy purchasing and risk management.

## External appointments

None.

## Skills and experience

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

## External appointments

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

## Committee key

- A Audit committee
- R Remuneration committee
- Chairman

# Corporate governance report

# EFFECTIVE GOVERNANCE

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

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

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

## The Board

The Group is controlled through a Board of Directors, which at 31 December 2018 comprised a Non-executive Chairman, three Executive Directors and one other Non-executive Director, for the proper management of the Company and the Group. The Chairman is Ralph Cohen and the Chief Executive Officer is Bobby Kalar. Both of the Non-executive Board members, Ralph Cohen and John Glasgow, are considered to be independent.

During 2018, the Board appointed Paul Rawson as Chief Financial Officer, following a formal recruitment process. Nick Parker, the previous Chief Financial Officer, left the Board on 31 July 2018.

The Board operates both formally, through Board and committee meetings, and informally, through regular contact among Directors and senior leadership team members. There is a schedule of matters that are specifically referred to the Board for its decision, including approving interim and annual financial results, setting and monitoring of strategy and examining business expansion possibilities. It is a requirement that the Board be supplied with information in a timely manner, in a form and quality appropriate to enable it to discharge its duties.

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

## Board committees

The Board committees comprise the audit committee and the remuneration committee.

### Audit committee

The audit committee comprises two members, who are both Non-executive Directors: Ralph Cohen (Chairman) and John Glasgow. The Group's external auditor, along with the wider Board, is invited (as appropriate) to attend the audit committee meetings.

### Remuneration committee

The Chairman of the remuneration committee is John Glasgow; Ralph Cohen is the other Non-executive member. The committee meets periodically as required and is responsible for overseeing the policy regarding Executive remuneration and for approving the remuneration packages for the Group's Executive Directors. It is also responsible for reviewing incentive schemes for the Group as a whole.

### Nominations committee

As the Board is small, there is currently no separate nominations committee. This will be reviewed as the Group and Board develop over time. The appointment of new Directors is considered by the Board as a whole.

## Risk management and internal controls

The Directors are responsible for the Group's system of internal control and for reviewing its effectiveness, while the role of management is to implement Board policies on risk management and control. The Board has implemented various improvements to the internal control environment operating within the Group over recent months, including formalising delegated levels of authority, and documenting overarching governance and internal control processes and related roles and responsibilities.

It should be recognised that the Group's system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve the Group's business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

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



## ENHANCING OUR FINANCE AND OPERATIONAL CAPABILITY

Introduction to our CFO

Paul Rawson joined the Group in September 2018 as Chief Financial Officer. Paul is an experienced energy sector finance director and a qualified chartered accountant. He also has significant experience in commercial and operations management, largely gained at Engie, where Paul had roles including managing director of energy services and divisional CEO of a £1.3bn revenue energy solutions and supply business.

Since joining the Group, Paul, with the assistance of his team, has implemented various control and governance process improvements – and taken steps to improve the management information available to the Board to improve profitability and cash flow.

The recruitment process involved the appointment of headhunters who were charged with identifying an appropriate candidate to meet the Board's objectives. The process was managed, on behalf of the Board, by Ralph Cohen, as Chairman, Bobby Kalar, as CEO, and by Garry Pickering, as COO. Remuneration was set by the remuneration committee.

"

I have spent my first few months at Yü Group focused on getting under the skin of the Group's financial and operational processes. Whilst the issues identified were material, I am immensely grateful to the finance, operations and wider teams for their commitment in delivering the necessary improvements. I have also received full backing from the Board to invest in some key areas, such as in finance and credit control teams, and in some key system areas. I am convinced that our experienced team, agile and customer centric organisation, and improved commercial and internal control management processes will pay dividends in the years to come."

# Corporate governance report continued

## Risk management and internal controls continued

The Group has experienced rapid expansion and certain controls have not kept up with this growth. Controls around the integrity and reconciliation of data, the analysis of credit risk of customers, the forecasting of gross margin and the recognition of revenue have all been reviewed and upgraded in recent months. The work performed by the Board and the wider management team has been further supplemented by an independent and thorough forensic review into key areas of concern for the Group. Whilst in any Group there continues to be a risk that the systems, processes and procedures that are in place are not fit for purpose, the level of work performed to date, and the clear management focus given to this topic, provides the Board with improved confidence in the control environment of the Group.

The audit committee receives reports from management and the external auditor concerning the system of internal control and any material control weaknesses. Any significant risk issues are referred to the Board for consideration. The audit committee has, in 2018 and in the first months of 2019, received reports from third parties appointed to thoroughly investigate the matters leading to the losses in FY 2018, and the prior period adjustment, to ensure all learnings and corrective actions are taken. The Board has also enhanced its compliance and quality processes by the creation of a new team which is responsible for monitoring compliance with relevant policies.

## Shareholder communications

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

The Directors encourage the participation of all shareholders, including private investors, at the annual general meeting and as a matter of policy the level of proxy votes (for, against and vote withheld) lodged on each resolution is declared shortly after the meeting by means of an announcement on the London Stock Exchange and via the Company's website. The annual report and accounts are published on the Company's website, www.yugroupplc.com, and can be accessed by shareholders.

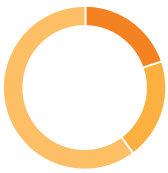
## Our people

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

During 2018 our team grew from 110 to 154 people. We will continue to invest in growing our team, where appropriate, to take advantage of the market opportunity and expand the skills available to the Group to meet its strategic objectives.

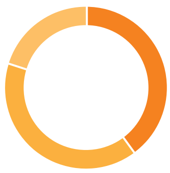
### BOARD COMPOSITION

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



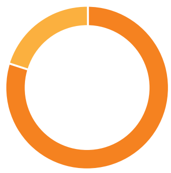
### TENURE

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



### SECTOR EXPERIENCE

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



# STRENGTHENED OVERSIGHT OF OUR ACTIVITIES

Ralph Cohen
Committee Chairman

**MEMBERS**

**Ralph Cohen** Committee Chairman

**John Glasgow**

## Membership and scope of the audit committee

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

The audit committee has responsibility for, among other things, the monitoring of the financial integrity of the financial statements of the Group and the involvement of the Group's auditor in that process. It focuses, in particular, on compliance with accounting policies and ensuring that an effective system of audit and financial control is maintained.

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

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

The terms of reference of the audit committee cover such issues as membership and the frequency of meetings, together with requirements of any quorum for, and the right to attend, meetings. The responsibilities of the audit committee covered in its terms of reference include the following: external audit, financial reporting, internal controls and risk management. The terms of reference also set out the authority of the committee to carry out its responsibilities.

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

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

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

## Review

The audit committee met four times during 2018.

The audit committee was responsible for instructing, and reviewing the outcome from, an independent forensic review by PwC LLP and DLA Piper LLP. This review was requested following the identification of accounting and reporting concerns that were raised to the audit committee in October 2018.

In January 2019, the audit committee, following a selection process, appointed RSM UK Audit LLP as external auditor for the Group.

The audit committee continues to take a lead role in reviewing the internal control processes applied within the Group, and in appropriately following up the findings from the independent internal investigation to ensure all actions are taken following the issues announced in October 2018.

Ralph Cohen
**Chairman of the audit committee**
15 May 2019

# REVIEWING PERFORMANCE

**John Glasgow**
Committee Chairman

> The remuneration committee makes recommendations to the Board on matters relating to remuneration, terms of service, granting of share options and other equity incentives."

**MEMBERS**

**John Glasgow** Committee Chairman

**Ralph Cohen**

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

## Membership of the remuneration committee

During the year, the remuneration committee comprised the two Non-executive Directors, John Glasgow (Chairman of the remuneration committee) and Ralph Cohen. The remuneration committee reviews the performance of the Executive Directors and makes recommendations to the Board on matters relating to remuneration, terms of service, granting of share options and other equity incentives.

## Remuneration policy

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

## Non-executive Directors

Remuneration of the Non-executive Directors is determined by the Executive Directors. Non-executive Directors are not entitled to pensions, annual bonuses or employee benefits. They are entitled to participate in share option arrangements relating to the Company's shares but neither of them does at this time.

The annual fee for each Non-executive Director is set at £35,000 per annum. Their appointment may be terminated with three months' written notice at any time.

## Directors' remuneration

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

No Executive Director bonuses are payable in the year ended 31 December 2018.

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

The remuneration committee set, after considering an appropriate market level, the basic salary and package of the CFO prior to appointment.

## Directors' interests

Details of the Directors' shareholdings are included in the Directors' Report on page 28.

## Directors' share options

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

| | Number of options at 31 Dec 2018 | Weighted average exercise price |
|---|---|---|
| **Executive** | | |
| Bobby Kalar | 172,504 | £2.90 |
| Nick Parker (resigned 31 July 2018) | 106,205 | £2.07 |
| Garry Pickering | 138,042 | £2.90 |
| Paul Rawson (appointed 3 September 2018) | 6,539 | £8.67 |
| **Non-executive** | | |
| Ralph Cohen | — | — |
| John Glasgow | — | — |

Following the year end, on 25 February 2019, Paul Rawson was awarded 250,000 share options with an exercise price of £0.005. The options are scheduled to vest on 25 February 2022 and can be exercised from that time until they lapse on 25 February 2029.

In addition, following the end of the year, certain share options awarded to Bobby Kalar and Garry Pickering are deemed to have lapsed. These options, which had an exercise price of £0.005, were for 16,570 shares for Bobby Kalar and for 13,295 shares for Garry Pickering. The share options of Nick Parker are further referred to below.

As a result of the above, on 15 May 2019, Nick Parker had no outstanding share options, Bobby Kalar and Garry Pickering held 155,934 and 124,747 share options respectively (at weighted average exercise prices of £3.21 and £3.21), and Paul Rawson held 256,539 share options (at a weighted average exercise price of £0.23 per share).

## Directors' remuneration

| | Salary/fees £'000 | Bonus £'000 | Benefits £'000 | Employer's pension contributions £'000 | Pay in lieu of notice £'000 | **Total 2018 £'000** | Total 2017 £'000 |
|---|---|---|---|---|---|---|---|
| **Executive** | | | | | | | |
| Bobby Kalar | 250 | — | — | 10 | — | **260** | 250 |
| Nick Parker (resigned 31 July 2018) | 117 | — | — | — | 167 | **284** | 200 |
| Garry Pickering | 200 | — | — | 3 | — | **203** | 200 |
| Paul Rawson (appointed 3 September 2018) | 57 | — | — | 1 | — | **58** | — |
| **Non-executive** | | | | | | | |
| Ralph Cohen | 35 | — | — | — | — | **35** | 35 |
| John Glasgow | 35 | — | — | — | — | **35** | 35 |
| | 694 | — | — | 14 | 167 | **875** | 720 |

Effective 1 April 2019, the base salary of the Chief Executive Officer, Bobby Kalar, and the Chief Operating Officer, Garry Pickering, along with the annual fees for both of the Non-executive Directors (Ralph Cohen and John Glasgow), have been reduced by 10 per cent.

During the year ended 31 December 2018, Garry Pickering exercised 500,000 share options generating a gain at the prevailing market price on exercise of £5,580,000. Nick Parker also exercised 500,000 share options generating a gain at the prevailing market price on exercise of £5,130,000. No shares were sold by Garry Pickering or Nick Parker during the year.

## Save As You Earn ("SAYE") scheme

The Group intends to launch a SAYE scheme during 2019. The SAYE scheme will be open to all employees, including Executive and Non-executive Directors, and provide a savings plan for up to £500 per month, over a three year period. These savings can then be utilised to acquire shares in the ordinary share capital of the Group at a 20 per cent. discount of the share price fixed on launch of the scheme. The remuneration committee believes such a scheme will increase alignment between the interests of employees and shareholders.

## Remuneration of former CFO

Nick Parker, former CFO of the Group, maintained share options when leaving the Group over a total of 106,205 shares (48,455 shares at an exercise price of £0.005 per share; 50,412 share options at an exercise price of £2.84; and 7,338 share options at an exercise price of £10.38). Subsequently, the Board considers, and has resolved that, Nick Parker's 106,205 outstanding share options have lapsed under the rules of the Group's employee share option plan.

**John Glasgow**
**Chairman of the remuneration committee**
15 May 2019

# Directors' report

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2018 ("FY 2018").

## Strategic Report

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

## Registered office

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

## Dividends

The Board does not propose the payment of a final dividend in respect of FY 2018 (FY 2017: 2.0p per share).

The Board proposed and paid an interim dividend in relation to 2018 of 1.2p per share (2017: 1.0p per share). The total interim dividend of £195,211 was paid to shareholders on 8 January 2019.

## Directors

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

- Ralph Cohen
- John Glasgow
- Bobby Kalar
- Nick Parker (resigned 31 July 2018)
- Paul Rawson (appointed 3 September 2018)
- Garry Pickering

## Significant shareholders

The Company is informed that, at 1 May 2019, individual registered shareholdings of more than 3 per cent. of the Company's issued share capital were as follows:

| | Number of ordinary shares held | % of issued ordinary share capital |
|---|---|---|
| Bobby Kalar | 8,648,649 | 53.12% |
| Miton Asset Management | 1,322,027 | 8.12% |
| Barclays Wealth | 820,300 | 5.04% |
| Jamieson Principal Pension Fund | 785,000 | 4.82% |
| Canaccord Genuity Group | 644,525 | 3.96% |
| Nick Parker | 521,605 | 3.20% |
| Hargreaves Lansdown | 511,693 | 3.14% |
| Garry Pickering | 500,000 | 3.07% |

## Directors' shareholdings

The beneficial interests of the Directors in the share capital of the Company at 1 May 2019 were as follows:

| | Number of ordinary shares held | % of issued ordinary share capital |
|---|---|---|
| **Executive Directors** | | |
| Bobby Kalar | 8,648,649 | 53.12% |
| Paul Rawson | — | — |
| Garry Pickering | 500,000 | 3.07% |
| **Non-executive Directors** | | |
| Ralph Cohen | 54,054 | 0.33% |
| John Glasgow | 10,000 | 0.06% |

## Employees

The Group's Executive management regularly delivers Company-wide briefings on the Group's strategy and performance. These briefings contain details of the Group's financial performance where appropriate.

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

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

## Annual general meeting

The annual general meeting of the Group is to be held on 27 June 2019. The notice of meeting appears on pages 53 to 55 of these financial statements.

## Political and charitable donations

During the year ended 31 December 2018 the Group made political donations of £nil (2017: £nil) and charitable donations of £nil (2017: £250).

## Supplier payment policy and practice

The Group does not operate a standard code in respect of payments to suppliers. The Group agrees terms of payment with suppliers at the start of business and then makes payments in accordance with contractual and other legal obligations. The number of creditor days outstanding at 31 December 2018 was six days (2017: 12 days).

## Statement of disclosure of information to auditor

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

## Auditor

Following the year end, on 30 January 2019, the Board of Directors appointed RSM UK Audit LLP as the new external auditor to the Group. In accordance with section 489 of the Companies Act, a resolution for the reappointment of RSM UK Audit LLP as auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Paul Rawson**
**Director**
15 May 2019

# Statement of Directors' responsibilities

In respect of the annual report and the financial statements

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

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

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

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

b. make judgements and accounting estimates that are reasonable and prudent;

c. for the Group financial statements, state whether they have been prepared in accordance with IFRSs adopted by the EU and for the Company financial statements state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and

d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

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

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

# Independent auditor's report

To the members of Yü Group PLC

## Opinion

We have audited the financial statements of Yü Group PLC (the "parent company") and its subsidiaries (the "Group") for the year ended 31 December 2018 which comprise the consolidated statement of profit and loss and other comprehensive income, the consolidated and Company balance sheets, the consolidated and Company statements of changes in equity, the consolidated statement of cashflows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

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

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Key audit matters

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

| The risk | Our response |
|---|---|
| **Revenue recognition and accrued income** (Refer to accounting policy on page 38 regarding revenue and accrued income, note 3 on the prior period adjustments and note 16 regarding trade and other receivables) | |
| During the year and following an accounting review initiated by the Group, it was concluded that there were issues with application of the Group's revenue recognition and associated policies. This led to a number of corrections which had a significant impact on the Group's results. Appropriate and accurate income recognition is required to be applied by the Directors to ensure that revenue is accrued and recognised appropriately in the financial statements. Revenues are based on the volumes supplied to customers using estimates and meter readings. Where recent meter information is limited, assumptions are made to estimate the volumes of energy consumed by customers. Actual and expected usage information, together with the contractual rates are used to accrue revenue which is then billed to customers. There is a risk that revenue is recognised inappropriately. | For revenue and accrued income we verified the appropriateness of the recognition policy applied. We selected a sample of contracts and transactions and considered whether revenue had been recognised in accordance with the contract and was subsequently billed. For income accrued at the year end, additional procedures were undertaken to check that this was subsequently billed. We considered the integrity of the revenue information used for the basis of our procedures through agreement through to the financial systems and amounts recognised in the financial statements. Analytical procedures have been performed on revenue and accrued income. We considered the Group's disclosures in relation to revenue recognition. |

## Key audit matters continued

| The risk | Our response |
|---|---|
| **Trade receivable and accrued income recoverability**<br>(Refer to accounting policy on page 38 regarding revenue and accrued income, note 3 on the prior period adjustments, note 16 regarding trade and other receivables and note 19 (c) which considers credit risk) | |
| The Group has a significant number of customers with a varied credit risk profile which could impact the recoverability of trade receivables and income accrued on customer contracts. The majority of trade receivables are past due and a proportion of accrued income is not billed immediately following the month end which means it can become old and more difficult to recover. Management's assessment of the recoverability and expected credit loss for trade receivables and accrued income with their customers is inherently judgemental. There is a risk that the net trade receivables and accrued income will be recovered at amounts materiality different to the value recognised. | The methodology utilised by management to calculate the provision including expected credit loss was reviewed. We independently profiled the Group's customers using external data to verify their identity, to identify those accounts with a potentially elevated credit risk and quantify the potential exposure within both trade receivables and accrued income. We selected a sample of accounts and performed detailed testing to invoices and cash receipts. The impairment and expected credit loss provision was considered through a combination of analytical procedures, the results of tests of detail and recent collection history. |
| **Prior period adjustments**<br>(Refer to accounting policy on page 38 regarding revenue and accrued income, note 3 on the prior period adjustments, note 16 regarding trade and other receivables and note 19 (c) which considers credit risk) | |
| Following an accounting review carried out by the Group, it was concluded that adjustments were required for errors in the previously reported financial statements, impacting both 2016 and 2017. The Group concluded that the errors arose as a result of incorrect measurement of accrued income, reconciliation issues and the inappropriate valuation of trade receivables which should have been impaired. There is a risk that the errors recorded do not meet the requirements of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. | We discussed and reviewed the approach taken by the Group and how the principles applied met the requirements of IAS 8. We assessed management's analysis and the information used to quantify the adjustments at 2016 and 2017 for accounts receivable, accrued income and the associated ledger reconciliation corrections. Procedures included performing sample testing to check the adjustments by reference to subsequent billing and receipts information. For trade and other receivables provisioning, we selected certain accounts to verify that a correction for impairment was recognised appropriately, that is when the impairment conditions existed at the applicable balance sheet date. We reviewed the resulting entries and disclosures in the financial statements. |
| **Financial Conduct Authority investigation**<br>(Refer to note 22) | |
| The FCA commenced an investigation following the internal accounting review and associated market announcements. There is a risk that the accounting and disclosure implications of this process are not fully considered and reflected in the financial statements. | Having gained an initial understanding from the Board, we reviewed correspondence and held direct discussions with the Group's advisers to obtain an understanding of the current situation and expected implications. Based on this understanding, we reviewed the disclosure included in the financial statements. |

### Our application of materiality
When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. During planning materiality for the Group financial statements as a whole was calculated as £400,000, which was not significantly changed during the course of our audit. Materiality for the parent company financial statements as a whole was calculated as £150,000. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £25,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

### An overview of the scope of our audit
Our Group audit approach focused on the Company, the two main UK trading subsidiaries and the consolidation which have been subject to a full scope audit to Group materiality.

# Independent auditor's report continued

To the members of Yü Group PLC

## Other information

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

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

## Opinions on other matters prescribed by the Companies Act 2006

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

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

## Matters on which we are required to report by exception

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

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

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

## Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on page 29, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the financial statements

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

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

## Use of our report

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

Ian Wall (Senior Statutory Auditor)
**For and on behalf of RSM UK Audit LLP, Statutory Auditor**
**Chartered Accountants**
**Suite A, 7th Floor**
**City Gate East**
**Tollhouse Hill**
**Nottingham**
**NG1 5FS**
15 May 2019

# Consolidated statement of profit and loss and other comprehensive income

For the year ended 31 December 2018

| | Notes | 31 December 2018 £'000 | 31 December 2017 (restated) £'000 |
|---|---|---|---|
| Revenue | | **80,635** | 45,631 |
| Cost of sales | | **(74,762)** | (38,813) |
| **Gross profit** | | **5,873** | 6,818 |
| Operating costs before non-recurring items, unrealised gains on derivative contracts and IFRS 2 charges | | **(14,588)** | (5,194) |
| Operating costs – non-recurring items | 8 | **(441)** | — |
| Operating costs – unrealised (losses)/gains on derivative contracts | 8 | **(125)** | 259 |
| Operating costs – IFRS 2 charges | 21 | **(314)** | (1,099) |
| Total operating costs | 5 | **(15,468)** | (6,034) |
| **(Loss)/profit from operations** | | **(9,595)** | 784 |
| Finance income | 6 | **21** | 14 |
| Finance costs | 6 | **(63)** | (68) |
| **(Loss)/profit before tax** | | **(9,637)** | 730 |
| Taxation | 10 | **3,370** | (19) |
| **(Loss)/profit for the year** | | **(6,267)** | 711 |
| Other comprehensive income | | **—** | — |
| **Total comprehensive (expense)/income for the year** | | **(6,267)** | 711 |
| **Earnings per share** | | | |
| Basic | 9 | **£(0.42)** | £0.05 |
| Diluted | 9 | **—** | £0.05 |

FINANCIAL STATEMENTS

# Consolidated and Company balance sheet

At 31 December 2018

| | | Group | | | Company | |
|---|---|---|---|---|---|---|
| | Notes | 31 December 2018 £'000 | 31 December 2017 (restated) £'000 | 1 January 2017 (restated) £'000 | 31 December 2018 £'000 | 31 December 2017 £'000 |
| **ASSETS** | | | | | | |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 13 | **395** | 539 | 209 | **—** | — |
| Intangible assets | 12 | **54** | 56 | 57 | **—** | — |
| Deferred tax | 15 | **3,325** | 1,568 | 467 | **—** | 1,599 |
| | | **3,774** | 2,163 | 733 | **—** | 1,599 |
| **Current assets** | | | | | | |
| Trade and other receivables | 16 | **13,569** | 10,165 | 3,557 | **4,642** | 1,355 |
| Cash and cash equivalents | 17 | **14,612** | 4,887 | 5,197 | **12,365** | 4,404 |
| | | **28,181** | 15,052 | 8,754 | **17,007** | 5,759 |
| **Total assets** | | **31,955** | 17,215 | 9,487 | **17,007** | 7,358 |
| **LIABILITIES** | | | | | | |
| **Current liabilities** | | | | | | |
| Trade and other payables | 18 | **(21,517)** | (10,458) | (5,340) | **—** | — |
| **Non-current liabilities** | 18 | **—** | (371) | (72) | **—** | (371) |
| **Total liabilities** | | **(21,517)** | (10,829) | (5,412) | **—** | (371) |
| **Net assets** | | **10,438** | 6,386 | 4,075 | **17,007** | 6,987 |
| **EQUITY** | | | | | | |
| Share capital | 20 | **81** | 70 | 70 | **81** | 70 |
| Share premium | 20 | **11,689** | — | — | **11,689** | — |
| Merger reserve | 20 | **(50)** | (50) | (50) | **(50)** | (50) |
| Retained earnings | 20 | **(1,282)** | 6,366 | 4,055 | **5,287** | 6,967 |
| | | **10,438** | 6,386 | 4,075 | **17,007** | 6,987 |

The Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes. The Company incurred a loss of £300,000 for the year (2017: £908,000).

The financial statements on pages 33 to 52 were approved by the Board of Directors on 15 May 2019 and signed on its behalf by:

Bobby Kalar
**Chief Executive Officer**

Paul Rawson
**Chief Financial Officer**

# Consolidated statement of changes in equity

For the year ended 31 December 2018

| | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Balance at 1 January 2018 (as previously reported)** | 70 | — | (50) | 8,793 | 8,813 |
| Impact of prior period adjustment (note 3) | — | — | — | (2,427) | (2,427) |
| **Balance at 1 January 2018 (restated)** | 70 | — | (50) | 6,366 | 6,386 |
| **Total comprehensive income for the year** | | | | | |
| Loss for the year | — | — | — | (6,267) | (6,267) |
| Other comprehensive income | — | — | — | — | — |
| | — | — | — | (6,267) | (6,267) |
| **Transactions with owners of the Company** | | | | | |
| **Contributions and distributions** | | | | | |
| Equity-settled share based payments | — | — | — | 685 | 685 |
| Deferred tax on share based payments | — | — | — | (1,600) | (1,600) |
| Proceeds from share issues | 11 | 12,079 | — | — | 12,090 |
| Share issue costs | — | (390) | — | — | (390) |
| Equity dividend paid in the year | — | — | — | (466) | (466) |
| **Total transactions with owners of the Company** | 11 | 11,689 | — | (1,381) | 10,319 |
| **Balance at 31 December 2018** | **81** | **11,689** | **(50)** | **(1,282)** | **10,438** |
| **Balance at 1 January 2017 (as previously reported)** | 70 | — | (50) | 5,389 | 5,409 |
| Impact of prior period adjustment (note 3) | — | — | — | (1,334) | (1,334) |
| **Balance at 1 January 2017 (restated)** | 70 | — | (50) | 4,055 | 4,075 |
| **Total comprehensive income for the year** | | | | | |
| Profit for the year | — | — | — | 711 | 711 |
| Other comprehensive income | — | — | — | — | — |
| | — | — | — | 711 | 711 |
| **Transactions with owners of the Company** | | | | | |
| **Contributions and distributions** | | | | | |
| Equity-settled share based payments | — | — | — | 800 | 800 |
| Deferred tax on share based payments | — | — | — | 1,116 | 1,116 |
| Equity dividend paid in the year | — | — | — | (316) | (316) |
| **Total transactions with owners of the Company** | — | — | — | 1,600 | 1,600 |
| **Balance at 31 December 2017 (restated)** | 70 | — | (50) | 6,366 | 6,386 |

# Company statement of changes in equity

For the year ended 31 December 2018

| | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Balance at 1 January 2018** | 70 | — | (50) | 6,967 | 6,987 |
| **Total comprehensive income for the year** | | | | | |
| Loss for the year | — | — | — | (300) | (300) |
| Other comprehensive income | — | — | — | — | — |
| | — | — | — | (300) | (300) |
| **Transactions with owners of the Company** | | | | | |
| **Contributions and distributions** | | | | | |
| Share based payments | — | — | — | 685 | 685 |
| Deferred tax on share based payments | — | — | — | (1,599) | (1,599) |
| Proceeds from share issues | 11 | 12,079 | — | — | 12,090 |
| Share issue costs | — | (390) | — | — | (390) |
| Equity dividend paid in the year | — | — | — | (466) | (466) |
| **Total transactions with owners of the Company** | 11 | 11,689 | — | (1,380) | 10,320 |
| **Balance at 31 December 2018** | **81** | **11,689** | **(50)** | **5,287** | **17,007** |
| **Balance at 1 January 2017** | 70 | — | (50) | 6,275 | 6,295 |
| **Total comprehensive income for the year** | | | | | |
| Loss for the year | — | — | — | (908) | (908) |
| Other comprehensive income | — | — | — | — | — |
| | — | — | — | (908) | (908) |
| **Transactions with owners of the Company** | | | | | |
| **Contributions and distributions** | | | | | |
| Share based payments | — | — | — | 800 | 800 |
| Deferred tax on share based payments | — | — | — | 1,116 | 1,116 |
| Equity dividend paid in the year | — | — | — | (316) | (316) |
| **Total transactions with owners of the Company** | — | — | — | 1,600 | 1,600 |
| **Balance at 31 December 2017** | 70 | — | (50) | 6,967 | 6,987 |

# Consolidated statement of cash flows

For the year ended 31 December 2018

| | 31 December 2018 £'000 | 31 December 2017 (restated) £'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| (Loss)/profit for the financial year | (6,267) | 711 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 291 | 211 |
| Amortisation of intangible assets | 2 | 1 |
| Finance income | (21) | (14) |
| Finance costs | 63 | 68 |
| Taxation | (3,370) | 19 |
| Share based payment charge | 685 | 800 |
| Increase in trade and other receivables | (3,404) | (6,608) |
| Increase in trade and other creditors | 11,072 | 5,046 |
| (Decrease)/increase in provisions for employee benefits | (371) | 299 |
| **Net cash (used in)/from operating activities** | (1,320) | 533 |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | (147) | (541) |
| Net interest | (42) | 14 |
| **Net cash used in investing activities** | (189) | (527) |
| **Cash flows from financing activities** | | |
| Net proceeds from share placing and option exercises | 11,700 | — |
| Dividend paid during the year | (466) | (316) |
| Repayment of borrowings | — | — |
| **Net cash from/(used in) financing activities** | 11,234 | (316) |
| **Net increase/(decrease) in cash and cash equivalents** | 9,725 | (310) |
| Cash and cash equivalents at the start of the year | 4,887 | 5,197 |
| **Cash and cash equivalents at the end of the year** | 14,612 | 4,887 |

# Notes to the consolidated financial statements

## 1. Significant accounting policies

The consolidated financial statements of the Group for the year ended 31 December 2018 were approved and authorised for issue in accordance with a resolution of the Directors on 15 May 2019. Yü Group PLC is a public limited company incorporated in the United Kingdom, with company number 10004236. The Company is limited by shares and the Company's ordinary shares are traded on AIM.

### Basis of preparation

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

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

### Going concern

At 31 December 2018 the Group had net assets of £10.4m (2017: restated net assets of £6.4m). Management prepares detailed budgets and forecasts of financial performance and cash flow over the coming 12 to 36 months. Based on the current projections the Directors consider it appropriate to continue to prepare the financial statements on a going concern basis.

The Group's hedging strategy and cash collateral requirements of the required trading arrangements are principal considerations of the Board when assessing the Group's ability to continue as a going concern. Management has also considered the material losses incurred in FY 2018 and any subsequent impact on the potential to control the level of bad debt incurred by the Group, the ability to enhance gross margin on customer contracts, and the control of key financial data in the business. The regulatory context of the Group, following the accounting issues notified to the market in 2018, is a further principal consideration. For details on this, and the other principal risks facing the Group, please see pages 15 to 17.

### Basis of consolidation

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

### Use of estimates and judgements

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

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

### Revenue 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.

Revenue is recognised when the associated risks and rewards of ownership have been transferred, to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group, and where the revenue can be measured reliably.

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

The Directors have considered the new revenue standard, IFRS 15 "Revenue from Contracts with Customers". Having reviewed the framework of the new standard in detail, and given the Group's current revenue recognition policy and the nature of the industry in which the Group operates, it is not believed that IFRS 15 has any material impact on the Group's revenue recognition methodology.

### 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.

## 1. Significant accounting policies continued

### Financial instruments continued

#### 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). Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents.

#### Derivative financial instruments

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

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

### Intangible assets

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

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

- Licence – 35 years

### Property, plant and equipment

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

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

- Computer equipment – 3 years
- Fixtures and fittings – 3 years

### Leased assets and lease obligations

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets acquired under finance leases are capitalised in the balance sheet at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is recorded in the balance sheet as a finance lease obligation. The lease payments are apportioned between finance charges to the income statement and a reduction of the lease obligations.

Rental payments under operating leases are charged to the income statement on a straight-line basis over the applicable lease periods.

### 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.

# Notes to the consolidated financial statements continued

## 1. Significant accounting policies continued

### Share based payments continued

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

### 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 electricity, gas and water to SMEs and larger corporates in the UK. As a consequence the Group has one reportable segment, which is the supply of electricity, gas and water to SMEs and larger corporates. Segmental profit is measured at operating profit level, as shown on the face of the statement of profit and loss.

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

### Standards and interpretations

The following adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) (effective date 31 December 2016);
- IFRS 14 “Regulatory Deferral Accounts” (effective date 31 December 2016); and
- Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealised Losses” (EU endorsed 6 November 2017).

### IFRS 16 “Leases”

IFRS 16 “Leases” is applicable for annual reporting periods commencing 1 January 2019, and as such has not yet been applied by the Group. The Group expects to apply IFRS 16 from 1 January 2019. The standard replaces IAS 17 “Leases” and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a “right-of-use” asset will be capitalised in the balance sheet, measured at the present value of the unavoidable future lease payments to be made over the lease term. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of a lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17. However EBITDA (earnings before interest, tax, depreciation and amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under IFRS 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component.

#### Transition accounting approach

The Group expects to apply the modified retrospective approach to transition accounting.

#### Impact

The Group currently enters into a small number of operating leases, primarily for the rent of the office buildings and a number of vehicles for use by employees (see note 22). Based on the leases entered into by the Group at 31 December 2018, the Group would anticipate an approximate £0.5m “right-of-use” asset and a corresponding £0.5m lease liability being recognised at 31 December 2019. The profit and loss impact of the new standard is not expected to be material to the Group accounts.

## 2. Segmental analysis

### Operating segments

The Directors consider there to be one operating segment, being the supply of electricity, gas and water to SMEs and larger corporates.

### Geographical segments

100 per cent. of the Group revenue is generated from sales to customers in the United Kingdom (2017: 100 per cent.).

The Group has no individual customers representing over 10 per cent. of revenue (2017: nil).

## 3. Prior period adjustment – correction of an error

Following a detailed accounting review carried out by the Board and the audit committee in Quarter 4 of 2018, a prior period adjustment has arisen. These adjustments relate to errors that impact the financial statements previously reported for the years ended 31 December 2016 and 31 December 2017.

The errors arose as a result of the incorrect measurement of accrued income (based on an inaccurate data set being utilised) and due to the impairment of trade receivables.

The impairment of trade receivables is a result of ledger reconciliation issues between the Group's accounting and billing systems, and the non-recoverability of amounts due from customers who had entered administration or liquidation at the relevant balance sheet date. The Group has therefore not restated the prior year in relation to any provision against trade receivables on customer balances due at 31 December 2017 which have, in many cases, not been paid during FY 2018. Such balances have resulted in a bad debt charge for FY 2018 and are therefore included the FY 2018 reported loss for the year.

The Board has also reviewed whether a further adjustment for IFRS 9 is appropriate at 1 January 2018, on first-time adoption of the accounting standard. No further adjustment has been made to trade receivables as any additional expected credit loss anticipated at that point is not considered to be significant.

The Board and audit committee have implemented various control and improvement measures as a result of the identification of the prior period errors.

The net impact in relation to the errors identified is to reduce the level of trade and other receivables reported in the previously reported financial statements and a resulting impact on tax. This reduction is £1,334,000 in relation to the 31 December 2016 balance sheet. The cumulative impact at 31 December 2017 is to reduce trade and other receivables by £2,846,000 (of which £1,512,000 reduces the profit before tax for the year ending 31 December 2017) and to reduce the corporation tax liability by £419,000.

The total impact on equity is to reduce the 31 December 2016 balance by £1,334,000 and to reduce the 31 December 2017 balance by £2,427,000. The net impact for the year ended 31 December 2017 is a decrease in profit of £1,093,000.

### Impact on equity (increase/(decrease) in equity)

| | 31 December 2017<br>£'000 | 1 January 2017<br>£'000 |
|---|---|---|
| Trade and other receivables | (2,846) | (1,334) |
| **Total assets** | (2,846) | (1,334) |
| Corporation tax payable | 419 | — |
| **Total liabilities** | 419 | — |
| **Net impact on equity** | (2,427) | (1,334) |

### Impact on statement of profit or loss (increase/(decrease) in profit)

| | 31 December 2017<br>£'000 |
|---|---|
| Revenue | (1,330) |
| Operating costs | (182) |
| Corporation tax expense | 419 |
| **Net impact on profit for the year** | (1,093) |

### Impact on basic, diluted and adjusted earnings per share ("EPS") (increase/(decrease) in EPS)

| | 31 December 2017<br>Pence |
|---|---|
| Basic EPS attributable to ordinary shareholders | (0.8) |
| Diluted EPS attributable to ordinary shareholders | (0.7) |
| Adjusted EPS attributable to ordinary shareholders | (0.7) |

# Notes to the consolidated financial statements continued

## 4. Auditor's remuneration

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Audit of these financial statements | 80 | 35 |
| Amounts receivable by auditor in respect of: | | |
| Audit of financial statements of subsidiaries pursuant to legislation | 40 | 10 |
| Other services pursuant to legislation: | | |
| – Corporate tax services | 23 | — |
| – Payroll services | 6 | — |
| | 149 | 45 |

The 2018 auditor's remuneration represents amounts payable to RSM UK Audit LLP and its associates. The 2017 comparative figures were amounts payable to KPMG LLP.

## 5. Operating expenses

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Profit for the year has been arrived at after charging: | | |
| Staff costs (see note 7) | 5,067 | 4,244 |
| Depreciation of property, plant and equipment | 291 | 211 |
| Amortisation of intangibles | 2 | 1 |
| Operating lease rentals | 145 | 149 |

## 6. Net finance costs

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Bank charges | 63 | 68 |
| Bank interest receivable | (21) | (14) |
| | 42 | 54 |

## 7. Staff numbers and costs

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

| | 2018 Number | 2017 Number |
|---|---|---|
| Sales | 49 | 40 |
| Administration | 87 | 46 |
| | 136 | 86 |

The aggregate payroll costs of these persons were as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Wages and salaries | 4,287 | 2,844 |
| Social security costs | 422 | 301 |
| Pension costs | 44 | — |
| Share based payments | 314 | 1,099 |
| | 5,067 | 4,244 |

There are two persons employed directly by the Company during the year ended 31 December 2018 (2017: two), being the Non-executive Directors. The Company's three (2017: three) Executive Directors have service contracts with a wholly owned subsidiary of the Company.

## 7. Staff numbers and costs continued

### Key management personnel

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

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Short-term employee benefits | 1,377 | 972 |
| Pension costs | 18 | — |
| Share based payments | 654 | 695 |
| | 2,049 | 1,667 |

## 8. Reconciliation to Adjusted EBITDA

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

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Adjusted EBITDA reconciliation** | | |
| (Loss)/profit from operations | (9,595) | 784 |
| Add back: | | |
| Non-recurring items | 441 | — |
| Impact of first-time adoption of IFRS 9 | 1,768 | — |
| Unrealised loss/(gain) on derivative contracts | 125 | (259) |
| Depreciation of property, plant and equipment | 291 | 211 |
| Amortisation of intangibles | 2 | 1 |
| Equity-settled share based payment charge | 685 | 800 |
| **Adjusted EBITDA** | (6,283) | 1,537 |

The Group previously reported adjusted profit before tax, which is Adjusted EBITDA less interest, depreciation and amortisation. Adjusted profit before tax is a loss of £6,618,000 (2017: restated profit of £1,271,000).

The 2018 non-recurring items of £441,000 consist of £210,000 of restructuring payroll costs and £231,000 of legal and professional fees in relation to the Q4 2018 accounting review and ongoing regulatory investigation.

## 9. Earnings per share

### Basic (loss)/earnings per share

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

| | 2018 £'000 | 2017 (restated) £'000 |
|---|---|---|
| (Loss)/profit for the year attributable to ordinary shareholders | (6,267) | 711 |

| | 2018 | 2017 |
|---|---|---|
| **Weighted average number of ordinary shares** | | |
| At the start of the year | 14,054,055 | 14,054,055 |
| Effect of shares issued in the year | 787,370 | — |
| Number of ordinary shares for basic earnings per share calculation | 14,841,425 | 14,054,055 |
| Dilutive effect of outstanding share options | 768,025 | 1,133,070 |
| Number of ordinary shares for diluted earnings per share calculation | 15,609,450 | 15,187,125 |

| | 2018 £ | 2017 (restated) £ |
|---|---|---|
| Basic earnings per share | (0.42) | 0.05 |
| Diluted earnings per share | — | 0.05 |

FINANCIAL STATEMENTS

# Notes to the consolidated financial statements continued

## 9. Earnings per share continued

### Adjusted earnings per share

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

| | 2018 £'000 | 2017 (restated) £'000 |
|---|---|---|
| **Adjusted earnings per share** | | |
| (Loss)/profit for the year attributable to ordinary shareholders | (6,267) | 711 |
| Add back: | | |
| Non-recurring items after tax (see note 8) | 357 | — |
| Unrealised loss/(gain) on derivative contracts after tax | 101 | (210) |
| Share based payments after tax | 254 | 912 |
| Adjusted basic earnings for the year | (5,555) | 1,413 |

| | 2018 £ | 2017 (restated) £ |
|---|---|---|
| Adjusted earnings per share | (0.37) | 0.10 |

## 10. Taxation

| | 2018 £'000 | 2017 (restated) £'000 |
|---|---|---|
| **Current tax charge** | | |
| Current year | — | 31 |
| Adjustment in respect of prior years | (13) | (25) |
| | (13) | 6 |
| **Deferred tax credit** | | |
| Current year | (3,357) | (11) |
| Adjustment in respect of prior years | — | 24 |
| | (3,357) | 13 |
| **Total tax (credit)/charge** | (3,370) | 19 |
| **Tax recognised directly in equity** | | |
| Current tax recognised directly in equity | — | — |
| Deferred tax recognised directly in equity | (1,600) | 1,116 |
| **Total tax recognised directly in equity** | (1,600) | 1,116 |
| **Reconciliation of effective tax rate** | | |
| (Loss)/profit before tax | (9,637) | 730 |
| Tax at UK corporate tax rate of 19% (2017: 19.25%) | (1,831) | 141 |
| Expenses not deductible for tax purposes | 6 | 6 |
| Tax relief on exercise of share options | (1,927) | — |
| Adjustment in respect of prior periods – current tax | 13 | (25) |
| Adjustments in respect of prior periods – deferred tax | — | 24 |
| Utilisation of tax losses not recognised for deferred tax | — | (128) |
| Reduction in tax rate on deferred tax balances | 369 | 1 |
| **Taxation (credit)/charge for the year** | (3,370) | 19 |

Reductions in the UK corporation tax rate from 20 per cent. to 19 per cent. (effective from 1 April 2017) and a further reduction to 17 per cent. (effective from 1 April 2020) were substantively enacted on 6 September 2016. This will reduce the Group's future corporation tax charge accordingly. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

## 11. Dividends

The Group proposed and paid an interim dividend in relation to 2018 of 1.2p per share (2017: 1.0p per share). The total interim dividend of £195,211 was paid to shareholders on 8 January 2019.

The Directors do not propose a final dividend in relation to 2018 (2017: 2.0p per share).

## 12. Intangible assets

| | Electricity licence £'000 |
|---|---|
| **Cost** | |
| At 1 January 2018 | 62 |
| Additions | — |
| Disposals | — |
| **At 31 December 2018** | **62** |
| **Amortisation** | |
| At 1 January 2018 | 6 |
| Charge for the year | 2 |
| Disposals | — |
| **At 31 December 2018** | **8** |
| **Net book value at 31 December 2018** | **54** |
| **Cost** | |
| At 1 January 2017 | 62 |
| Additions | — |
| Disposals | — |
| **At 31 December 2017** | 62 |
| **Amortisation** | |
| At 1 January 2017 | 5 |
| Charge for the year | 1 |
| Disposals | — |
| **At 31 December 2017** | 6 |
| **Net book value at 31 December 2017** | 56 |

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.

# Notes to the consolidated financial statements continued

## 13. Property, plant and equipment

| | Computer equipment £'000 | Fixtures and fittings £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2018 | 788 | 189 | 977 |
| Additions | 139 | 8 | 147 |
| **At 31 December 2018** | **927** | **197** | **1,124** |
| **Depreciation** | | | |
| At 1 January 2018 | 358 | 80 | 438 |
| Charge for the year | 230 | 61 | 291 |
| **At 31 December 2018** | **588** | **141** | **729** |
| **Net book value at 31 December 2018** | **339** | **56** | **395** |
| **Cost** | | | |
| At 1 January 2017 | 382 | 54 | 436 |
| Additions | 406 | 135 | 541 |
| **At 31 December 2017** | 788 | 189 | 977 |
| **Depreciation** | | | |
| At 1 January 2017 | 206 | 21 | 227 |
| Charge for the year | 152 | 59 | 211 |
| **At 31 December 2017** | 358 | 80 | 438 |
| **Net book value at 31 December 2017** | 430 | 109 | 539 |

## 14. Investments in subsidiaries

The Company has the following investments in subsidiaries:

| Company name | Country of incorporation | Holding | Proportion of shares held | Nature of business |
|---|---|---|---|---|
| KAL-Energy Limited | United Kingdom | Ordinary shares | 100% | Gas shipping services |
| Yü Energy Limited | United Kingdom | Ordinary shares | 100% | Dormant |
| Warrant Collections Limited | United Kingdom | Ordinary shares | 100% | Dormant |
| Kensington Power Limited | United Kingdom | Ordinary shares | 100% | Supply of energy to businesses |
| Yü Water Limited | United Kingdom | Ordinary shares | 100% | Dormant |

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

All of the above entities have the same registered address as Yü Group PLC. The address is listed as part of the Company information on page 56.

## 15. Deferred tax assets

Deferred tax assets are attributable to the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Property, plant and equipment | **(32)** | (32) | **—** | — |
| Tax value of loss carry-forwards | **3,357** | — | **—** | — |
| Share based payments | **—** | 1,600 | **—** | 1,599 |
| | **3,325** | 1,568 | **—** | 1,599 |

## 15. Deferred tax assets continued

Movement in deferred tax in the period:

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

| | At 1 January 2017 £'000 | Recognised in income £'000 | Recognised directly in equity £'000 | At 31 December 2017 £'000 |
|---|---|---|---|---|
| Property, plant and equipment | (33) | 1 | — | (32) |
| Tax value of loss carry-forwards | 203 | (203) | — | — |
| Share based payments | 297 | 187 | 1,116 | 1,600 |
| | 467 | (15) | 1,116 | 1,568 |

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

## 16. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 (restated) £'000 | **2018 £'000** | 2017 £'000 |
| Gross trade receivables | **7,898** | 2,681 | **—** | — |
| Provision for doubtful debts and expected credit loss | **(4,803)** | (272) | **—** | — |
| | **3,095** | 2,409 | **—** | — |
| Accrued income – net of provision | **9,688** | 6,876 | **—** | — |
| Prepayments | **245** | 235 | **—** | — |
| Other receivables | **406** | 386 | **—** | — |
| Financial derivative asset | **135** | 259 | **—** | — |
| Amount due from subsidiary undertaking | **—** | — | **4,642** | 1,355 |
| | **10,474** | 7,756 | **4,642** | 1,355 |
| | **13,569** | 10,165 | **4,462** | 1,355 |

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

| | **2018 £'000** | 2017 (restated) £'000 |
|---|---|---|
| Opening balance | **272** | 50 |
| Additional provisions recognised | **4,531** | 222 |
| Provision utilised in the year | **—** | — |
| Unused amounts reversed | **—** | — |
| | **4,803** | 272 |

In addition to the £4,531,000 (2017: £222,000 restated) provision recognised in relation to trade receivables, there was an additional provision of £875,000 (2017: £nil) made against accrued income.

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

The amount due from subsidiary undertakings in the books of Yü Group PLC is non-interest bearing and is repayable on demand. The Board of Yü Group PLC has considered the provisions around impairment of intercompany indebtedness contained within IFRS 9 "Financial Instruments" and has concluded that in light of future growth and profitability projections and the control exerted over its subsidiary operations, it is satisfied that there is no case for impairment of its intercompany receivables.

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

Trade receivables and accrued income at 31 December 2017 have been restated by £266,000 and £2,580,000 respectively to correct the error as explained in note 3. In addition, an amount of £5,294,000 has been reclassified at 31 December 2017, which reduces trade receivables and increases accrued income by £5,294,000 respectively.

# Notes to the consolidated financial statements continued

## 17. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Cash at bank and in hand | **11,112** | 1,387 | **8,865** | 904 |
| Short-term deposits | **3,500** | 3,500 | **3,500** | 3,500 |
| | **14,612** | 4,887 | **12,365** | 4,404 |

The short-term deposit relates to cash held at bank which is utilised to support collateral, in the form of letters of credits, with trading counterparties.

## 18. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 (restated) £'000 | **2018 £'000** | 2017 £'000 |
| **Current** | | | | |
| Trade payables | **1,231** | 2,044 | **—** | — |
| Accrued expenses | **15,603** | 7,081 | **—** | — |
| Corporation tax | **16** | 29 | **—** | — |
| Other payables | **4,667** | 1,304 | **—** | — |
| | **21,517** | 10,458 | **—** | — |
| **Non-current** | | | | |
| Group share bonus liabilities | **—** | 371 | **—** | 371 |

The 2017 corporation tax liability balance has been restated (previously stated as a liability of £448,000) as a result of the prior period adjustment and reduction in Group profit as described in note 3.

Details of the Group share bonus scheme are included in note 21.

## 19. Financial instruments and risk management

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

### (a) Fair values of financial instruments

**Fair values**

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

### (b) Market risk

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

**Commodity and energy prices**

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

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

## 19. Financial instruments and risk management continued

### (b) Market risk continued

**Commodity and energy prices** continued

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

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

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

The fair value mark-to-market adjustment at 31 December 2018 is a loss of £125,000 (2017: gain of £259,000). See note 16 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 had occurred, and been applied to the risk exposures in place at that date. The reasonably possible changes in commodity price used in the sensitivity analysis were determined based on calculated or implied volatilities where available, or historical data.

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

| Open market price of forward contracts | Reasonably possible increase/ decrease in variable | Impact on profit and net assets £'000 |
|---|---|---|
| UK gas (p/therm) | +/-10% | 74 |
| UK power (£/MWh) | +/-10% | 226 |
| | | 300 |

**Liquidity risk from commodity trading**

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

### (c) Credit risk

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

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

Credit risk is also managed through the Group's standard business terms, which require all customers to make a monthly payment predominantly by direct debit. At the year end there were no significant concentrations of credit risk. The carrying amount of the financial assets represents the maximum credit exposure at any point in time.

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

| | 2018 £'000 | 2017 (restated) £'000 |
|---|---|---|
| Not past due | **104** | 52 |
| Past due (0–30 days) | **1,949** | 1,419 |
| Past due (31–120 days) | **1,006** | 629 |
| More than 120 days | **36** | 309 |
| | **3,095** | 2,409 |

At 31 December 2018 the Group held a provision against doubtful debts of £5,678,000 (2017: restated £272,000). The 2018 provision is a combined provision against both trade receivables (£4,803,000) and accrued income (£875,000).

# Notes to the consolidated financial statements continued

## 19. Financial instruments and risk management continued

### (d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Board is responsible for ensuring that the Group has sufficient liquidity to meet its financial liabilities as they fall due and does so by monitoring cash flow forecasts and budgets. In order to enter into the necessary commodity purchase contracts, the Group is required to lodge funds on deposit with its bank. These funds (£3.5m at 31 December 2018) are used as collateral, allowing the bank to issue letters of credit ("LOCs") to the relevant trading counterparties in the wholesale energy market. The Board has considered the cash flow forecasts, along with the collateral and LOC requirements, for the next 12 months, which show that the Group expects to operate within its working capital facilities throughout the year.

Any excess cash balances are held in short-term, interest bearing deposit accounts. At 31 December 2018 the Group had £14.6m of cash and bank balances, as per note 17.

### (e) Foreign currency risk

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

## 20. Share capital and reserves

| Share capital | 2018 Number | 2018 £'000 | 2017 Number | 2017 £'000 |
|---|---|---|---|---|
| Allotted and fully paid ordinary shares of £0.005 each | **16,267,555** | **81** | 14,054,055 | 70 |

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.

| | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Retained earnings £'000 |
|---|---|---|---|---|
| **At 1 January 2018 (restated)** | 70 | — | (50) | 6,366 |
| Loss for the year | — | — | — | (6,267) |
| Share based payment charge | — | — | — | 685 |
| Proceeds from share issues | 11 | 12,079 | — | — |
| Share issue costs | — | (390) | — | — |
| Deferred tax on share based payment charge | — | — | — | (1,600) |
| Equity dividend paid | — | — | — | (466) |
| **At 31 December 2018** | **81** | **11,689** | **(50)** | **(1,282)** |
| **At 1 January 2017 (restated)** | 70 | — | (50) | 4,055 |
| Profit for the year | — | — | — | 711 |
| Share based payment charge | — | — | — | 800 |
| Deferred tax on share based payment charge | — | — | — | 1,116 |
| Equity dividend paid | — | — | — | (316) |
| **At 31 December 2017 (restated)** | 70 | — | (50) | 6,366 |

On 14 March 2018 the Company completed the placing of 1,200,000 new ordinary shares of £0.005 each. The placing price of the new shares was £10.00 per placing share. £390,000 of legal and professional fees were incurred in relation to the share placing and have been deducted directly from the Company's share premium account. The placing on 14 March 2018 raised £11,610,000, net of costs.

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

On 14 March 2018 Nick Parker exercised 500,000 share options. The exercise price was £0.09 per share.

On 16 March 2018 Garry Pickering exercised 500,000 share options. The exercise price was £0.09 per share.

On 8 August 2018 an employee exercised 13,500 share options. The exercise price was £0.09 per share.

## 21. Share based payments

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

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

| | | Exercisable between | | | | |
|---|---|---|---|---|---|---|
| Date of grant | Expected term | Commencement | Lapse | Exercise price | Vesting schedule | Amount outstanding at 31 December 2018 |
| 17 February 2016 | 2 | 17 February 2018 | 17 February 2026 | £0.09 | 1 | — |
| 17 February 2016 | 3 | 17 February 2019 | 17 February 2026 | £0.09 | 2 | **40,500** |
| 22 December 2016 | 3 | 22 December 2019 | 22 December 2026 | £3.25 | 2 | **13,500** |
| 6 April 2017 | 3 | 6 April 2020 | 6 April 2027 | £0.005 | 2 | **114,270** |
| 6 April 2017 | 6.5 | 6 April 2020 | 6 April 2027 | £2.844 | 2 | **208,632** |
| 28 September 2017 | 6.5 | 28 September 2020 | 28 September 2027 | £5.825 | 2 | **54,000** |
| 9 April 2018 | 3 | 9 April 2021 | 9 April 2028 | £0.005 | 2 | **43,160** |
| 9 April 2018 | 6.5 | 9 April 2021 | 9 April 2028 | £10.38 | 2 | **92,689** |
| 26 September 2018 | 6.5 | 26 September 2021 | 26 September 2028 | £8.665 | 2 | **6,539** |
| | | | | | | **573,290** |

The following vesting schedules apply:

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

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

| | 2018 | 2017 |
|---|---|---|
| Balance at the start of the period | **1,464,310** | 1,094,500 |
| Granted | **154,317** | 396,810 |
| Forfeited | **(31,837)** | (27,000) |
| Lapsed | — | — |
| Exercised | **(1,013,500)** | — |
| Balance at the end of the period | **573,290** | 1,464,310 |
| Vested at the end of the period | — | 500,000 |
| Exercisable at the end of the period | — | — |
| Weighted average exercise price for: | | |
| Options granted in the period | **£7.41** | £2.43 |
| Options forfeited in the period | **£5.67** | £0.09 |
| Options exercised in the period | **£0.09** | — |
| Exercise price in the range: | | |
| From | **£0.005** | £0.005 |
| To | **£10.380** | £5.825 |

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

| | 2018 | 2017 |
|---|---|---|
| Dividend yield | **0.29–0.35%** | 0.3% |
| Risk-free rate | **1.5%** | 1.5% |
| Share price volatility | **36.0–36.7%** | 30.4–33.4% |
| Expected life (years) | **3–6.5 years** | 3–6.5 years |
| Weighted average fair value of options granted during the period | **£5.67** | £3.27 |

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

# Notes to the consolidated financial statements continued

## 21. Share based payments continued

The Group had previously operated a share bonus plan for all qualifying employees of the Group. The plan was intended to be settled in cash if certain financial targets were met. The value of the bonus pool was to be determined by the number of notional shares contributed to the pool (50,000 per year based on achievement of certain financial targets) and the share price growth of each tranche of shares. However, given the financial performance of the Group in 2018, the restatement of prior year financial figures and the subsequent decline in the Group share price, the scheme has been closed.

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

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Equity-settled share based payment expense | 685 | 800 |
| Cash-settled share based payment (gain)/expense | (371) | 299 |
| | 314 | 1,099 |

## 22. Commitments

### Operating lease commitments

The total amount payable under non-cancellable operating leases is as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Payable within one year | 130 | 145 |
| Payable within two to five years | 489 | 486 |
| Payable after five years | 50 | 170 |
| | 669 | 801 |

### Capital commitments

The Group had no capital commitments at 31 December 2018 (2017: £nil).

### Contingent liabilities

Following the findings of the internal accounting review in October 2018, the Financial Conduct Authority ("FCA") commenced an investigation as to whether the market announcements made by the Group between 6 March 2018 and 24 October 2018 accurately reflected the Group's financial status. The Board is also providing information via its nominated adviser in relation to adherence to AIM rules.

The Board is not able to confirm with any certainty the likelihood and, if appropriate, the quantum of any losses to be incurred as a result of such investigations.

The Board has reviewed the matter with its legal advisers and considered regulator guidelines on fines and precedent cases. This review has led the Board to consider that any loss, if incurred, is not likely to be significant in the context of the Group's ability to trade as a going concern. The Board will continue to co-operate fully with regulators to ensure the matters are resolved as soon as possible, and that all lessons are learnt.

The Group had no contingent liabilities at 31 December 2017.

## 23. Related parties and related party transactions

The Group has transacted with the following related parties during the current and prior financial periods:

- CPK Investments Limited (an entity owned by Bobby Kalar); and
- Better Business Energy Limited (an entity owned by Bobby Kalar).

CPK Investments Limited owns the property from which the Group operates and rents it to Kensington Power Limited under an operating lease. During 2018 the Group paid £120,000 in lease rentals and service charges to CPK Investments Limited (2017: £120,000). The amount owing to CPK Investments at 31 December 2018 was £nil.

During the prior year £51,207 owed by Better Business Energy Limited was written off. The amount owing to/from Better Business Energy Limited at 31 December 2018 was £nil (2017: £nil).

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

## 24. Post-balance sheet events

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

# Notice of annual general meeting

Notice is given that the third annual general meeting of Yü Group PLC ("the Company") will be held at DLA Piper UK LLP, 160 Aldersgate Street, London EC1A 4HT on 27 June 2019 at 11.30am for the following purposes:

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

1. To receive the Company's annual accounts and the Strategic, Directors' and Auditor's Reports for the year ended 31 December 2018.
2. To re-elect John Glasgow, who retires by rotation as a Director of the Company pursuant to Article 94 of the Company's Articles of Association.
3. To re-elect Paul Rawson, who retires as a Director of the Company pursuant to Article 90.2 of the Company's Articles of Association.
4. To reappoint RSM UK Audit LLP as the auditor of the Company.
5. To authorise the audit committee to determine the remuneration of the auditor.
6. That, pursuant to section 551 of the Companies Act 2006 ("the Act"), the Directors be generally and unconditionally authorised to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £27,135.09, provided that this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on 20 September 2020 (whichever is the earlier), save that the Company may make an offer or agreement before this authority expires which would or might require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after this authority expires and the Directors may allot shares or grant such rights pursuant to any such offer or agreement as if this authority had not expired.

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

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

7. That, subject to the passing of resolution 6 and pursuant to section 570 of the Act, the Directors be and are generally empowered to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority granted by resolution 6 as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

   7.1 in connection with an offer of equity securities (whether by way of a rights issue, open offer or otherwise):

      7.1.1 to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them; and

      7.1.2 to holders of other equity securities in the capital of the Company, as required by the rights to those securities or, subject to such rights, as the Directors otherwise consider necessary,

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

   7.2 otherwise than pursuant to paragraph 7.1 of this resolution, up to an aggregate nominal amount of £8,140.52,

   and this power shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on 20 September 2020 (whichever is the earlier), save that the Company may make an offer or agreement before this power expires which would or might require equity securities to be allotted for cash after this power expires and the Directors may allot equity securities for cash pursuant to any such offer or agreement as if this power had not expired.

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

# Notice of annual general meeting continued

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

   8.1 the maximum aggregate number of ordinary shares which may be purchased is 1,628,105;

   8.2 the minimum price (excluding expenses) which may be paid for an ordinary share is £0.005; and

   8.3 the maximum price (excluding expenses) which may be paid for an ordinary share is an amount equal to 105 per cent. of the average of the middle market quotations for an ordinary share as derived from the Daily Official List of the London Stock Exchange plc for the five business days immediately preceding the day on which the purchase is made,

   and (unless previously revoked, varied or renewed) this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on 20 September 2020 (whichever is the earlier), save that the Company may enter into a contract to purchase ordinary shares in the capital of the Company before this authority expires under which such purchase will or may be completed or executed wholly or partly after this authority expires, and may make a purchase of ordinary shares in the capital of the Company pursuant to any such contract as if this authority had not expired.

By order of the Board

**Paul Rawson**
**Secretary**
15 May 2019

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

Registered in England and Wales no. 10004236

## Notes

### Entitlement to attend and vote

1. The right to vote at the meeting is determined by reference to the register of members of the Company. Only those persons whose names are entered on the register of members of the Company at 6.00pm on 25 June 2019 (or, if the meeting is adjourned, 6.00pm on the date which is two working days before the date of the adjourned meeting) shall be entitled to attend and vote in respect of the number of shares registered in their names at that time. Changes to entries on the register of members after that time shall be disregarded in determining the rights of any person to attend and/or vote (and the number of votes they may cast) at the meeting.

### Proxies

2. A shareholder is entitled to appoint another person as his or her proxy to exercise all or any of his or her rights to attend and to speak and vote at the meeting and, on a poll, vote instead of him or her. A proxy need not be a shareholder of the Company.
3. A shareholder may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. Failure to specify the number of shares each proxy appointment relates to or specifying a number which when taken together with the numbers of shares set out in the other proxy appointments is in excess of the number of shares held by the shareholder may result in the proxy appointment being invalid.
4. A proxy may only be appointed in accordance with the procedures set out in note 7 and the notes to the proxy form.
5. The appointment of a proxy will not preclude a shareholder from attending and voting in person at the meeting.
6. A proxy does not need to be a member of the Company but must attend the annual general meeting to represent you. Details of how to appoint the Chairman of the annual general meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. You may appoint more than one proxy to attend on the same occasion.
7. A form of proxy is enclosed. When appointing more than one proxy, complete a separate proxy form in relation to each appointment. Additional proxy forms may be obtained by the proxy form being photocopied. State clearly on each proxy form the number of shares in relation to which the proxy is appointed.

## Notes continued

### Proxies continued

8. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given in the proxy form, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the AGM.
9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
10. To be valid, a proxy form must be received by post or (during normal business hours only) by hand at the offices of the Company's registrars, Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, West Midlands B62 8HD, no later than 11.30am on 25 June 2019 (or, if the meeting is adjourned, no later than 48 hours (excluding any part of a day that is not a working day) before the time of any adjourned meeting).
11. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Any amended proxy appointment received after the time specified above will be disregarded.
12. Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Neville Registrars Limited.
13. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
14. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard-copy notice clearly stating your intention to revoke your proxy appointment to Neville Registrars Limited. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by a duly authorised officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a notarially certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Neville Registrars Limited prior to the commencement of the annual general meeting or adjourned meeting at which the vote is given or, in the case of a poll taken otherwise than on the same day as the meeting or adjourned meeting, before the time appointed for taking the poll.
15. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then your proxy appointment will remain valid.

### Corporate representatives

16. A shareholder which is a corporation may authorise one or more persons to act as its representative(s) at the meeting. Each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual shareholder, provided that (where there is more than one representative and the vote is otherwise than on a show of hands) they do not do so in relation to the same shares. A Director, the Company Secretary or other person authorised for the purpose by the Company Secretary may require all or any such persons to produce a copy of the resolution of authorisation certified by an officer of the corporation before permitting him to exercise his powers.

### Method of voting

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

### Documents available for inspection

18. The following documents will be available for inspection during normal business hours at the registered office of the Company and at the Company's business address, CPK House, 2 Horizon Place, Nottingham Business Park, Mellors Way, Nottingham NG8 6PY, from the date of this notice until the time of the meeting. They will also be available for inspection at the place of the meeting from at least 15 minutes before the meeting until it ends:

    18.1 copies of the service contracts of the Executive Directors; and

    18.2 copies of the letters of appointment of the Non-executive Directors.

### Biographical details of Directors

19. Biographical details of all those Directors who are offering themselves for reappointment at the meeting are set out on pages 20 and 21 of the enclosed annual report and accounts.

# Company information

## Company Secretary
Paul Rawson

## Company website
www.yugroupplc.com

## Registered office
CPK House
2 Horizon Place
Nottingham Business Park
Mellors Way
Nottingham NG8 6PY

## Nominated adviser
**Shore Capital and Corporate Limited**
Bond Street House
14 Clifford Street
London W1S 4JU

## Broker
**Shore Capital Stockbrokers Limited**
Bond Street House
14 Clifford Street
London W1S 4JU

## Auditor and reporting accountant
**RSM UK AUDIT LLP**
Suite A, 7th Floor
City Gate East
Tollhouse Hill
Nottingham NG1 5FS

## Solicitors to the Company
**DLA Piper UK LLP**
3 Noble Street
London EC2V 7EE

## Registrars
**Neville Registrars Limited**
Neville House
Steelpark Road
Halesowen B62 8HD

0121 585 1131

## Financial PR
**Alma PR**
71–73 Carter Lane
London EC4V 5EQ

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**www.yugroupplc.com**