

Company Registration No. 05857467 (England and Wales)

SPARK ENERGY SUPPLY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

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SPARK ENERGY SUPPLY LIMITED

COMPANY INFORMATION

Directors	Chris Gauld (Chief Executive) Hamish Osborn (Finance Director) (Appointed 13 March 2014)
Secretary	MBM Secretarial Services Limited
Company number	05857467
Registered office	Regent House 316 Beulah Hill London SE19 3HF
Auditors	Johnston Carmichael LLP 7-11 Melville Street Edinburgh EH3 7PE

SPARK ENERGY SUPPLY LIMITED

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SPARK ENERGY SUPPLY LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 30 JUNE 2014

The directors present their report and financial statements for the year ended 30 June 2014.

Review of the business

Company turnover increased by 104% to £83.01 million (2013: £40.74 million) and gross margin increased from £4.17 million to £7.27 million. This significant improvement was driven through a combination of continued customer growth and continued bad debt improvements off the back of our customer experience focus.

The customer base of properties supplied increased by 70% during the year ended 30 June 2014. This was driven through continued growth of our existing relationships with the UK's largest letting agencies, supplemented with new business lines such as the Spark Advance tariff (the UK's lowest variable utility tariff).

To support this high level of growth and to provide the foundation for future forecast customer growth, the directors have continued investment in the company and group's operational and IT infrastructure. This has seen incremental improvement in both the overall customer experience and the bad debt expense. The bad debt provision as a percentage of turnover fell from 11% to 8%.

The rollout of smart meters to every property remains a long term aim for the Spark group. While this has been delayed to date by the lack of an agreed specification for the meter and consequential lack of available financing, the recent agreement within the industry on meter specification means that mainstream financing is now becoming available. The directors are therefore hopeful that the company will be in a position to commence roll out over the course of the next year.

The lack of any significant movement in smart meter installation to date is another reason for the directors' decision to invest in the group infrastructure and operating methods, to ensure the group can operate as effectively as possible in the absence, for the time being, of any smart solution.

Future developments

The group's financial performance in the current year is expected, at this stage, to show continued growth in both customer numbers and profit.

The completion of major systems upgrades in the next 12 months will allow the directors to continue this customer growth with low additional indirect cost, and continuing efforts with retail customers are expected to reduce the impact of growth on working capital requirements in the year ended 30 June 2016. Meanwhile the improved systems and operating methods will enable the directors to continue aiming to bring down the bad debt levels proportionately.

The company is currently working with Ofgem to confirm the status of its historical compliance with various licence obligations. New compliance resource has in the meantime been added to the team both in view of the company's growth and to ensure a high level of compliance with the industry's substantial body of regulations.

SPARK ENERGY SUPPLY LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

Principal risks and uncertainties

The principal risks and uncertainties affecting the group are:

- Volatility in the wholesale price of gas and electricity;
- bad debt risk;
- rates of growth of the customer base;
- financial and operational strains caused by rapid growth.

The group manages the supply price volatility risk by securing gas and electricity under forward contracts. Bad debt risk is principally managed through a sales acquisition strategy designed to encourage rental customers to take up direct debit plans. The group manages risks to growth by offering a high quality tailored service to customers and partner organisations at suitable prices and of a quality which aims to be superior to that of competitors. Operational risks are managed through improving systems and controls and monitoring operations against key performance indicators including those set out below. Financial risks are managed in large part through concluding a relationship with Morgan Stanley, which provides supplies of energy and working capital facilities in relation to such a purchase.

For the reasons detailed in note 1.1, the directors are satisfied that it remains appropriate to prepare the accounts on a going concern basis.

Key performance indicators

The directors have a number of key performance indicators that are produced and monitored on a regular basis. The key metrics include details of customer acquisition numbers, the percentage of customers paying by direct debit or prepayment, the level of bad debt expense as a percentage of turnover, the percentage of meter reads obtained, and the number and percentage of customer complaints.

All of these indicators have seen improvement since the financial year end.

On behalf of the board



Chris Gauld (Chief Executive)

Director

25/3/15

SPARK ENERGY SUPPLY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

The directors present their report and financial statements for the year ended 30 June 2014.

Principal activities and review of the business

The principal activity of the company is the purchase of electricity and gas and onward sale to customers.

Results and dividends

The results for the year are set out on page 7.

Directors

The following directors have held office since 1 July 2013:

Chris Gauld (Chief Executive)

Peter Darling

(Resigned 13 March 2014)

Hamish Osborn (Finance Director)

(Appointed 13 March 2014)

Auditors

In accordance with the company's articles, a resolution proposing that Johnston Carmichael LLP be reappointed as auditors of the company will be put at a General Meeting.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

SPARK ENERGY SUPPLY LIMITED

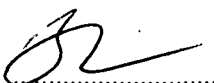
DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

Statement of disclosure to auditors

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



Chris Gauld (Chief Executive)

Director

.....25/3/15

SPARK ENERGY SUPPLY LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF SPARK ENERGY SUPPLY LIMITED

We have audited the financial statements of Spark Energy Supply Limited for the year ended 30 June 2014 set out on pages 7 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditors' 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.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out within the Directors' Report on pages 3 - 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the impact for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

SPARK ENERGY SUPPLY LIMITED

INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF SPARK ENERGY SUPPLY LIMITED

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Johnston Carmichael LLP

David Holmes (Senior Statutory Auditor)
for and on behalf of Johnston Carmichael LLP

30 March 2015
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Chartered Accountants
Statutory Auditor

7-11 Melville Street
Edinburgh
EH3 7PE

SPARK ENERGY SUPPLY LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 JUNE 2014

		2014	2013
	Notes	£	£
Turnover	2	83,006,597	40,739,201
Raw materials and other consumables		(19,615,245)	(9,058,226)
Other external charges		(56,117,896)	(27,508,355)
		<u>(75,733,141)</u>	<u>(36,566,581)</u>
		7,273,456	4,172,620
		<u>(142,654)</u>	<u>(25,500)</u>
Depreciation and amortisation		(142,654)	(25,500)
Other operating charges		(761,059)	(395,003)
Bad debt charge		(6,378,023)	(4,450,014)
		<u>(7,281,736)</u>	<u>(4,870,517)</u>
Operating loss	3	(8,280)	(697,897)
Interest payable and similar charges	4	(25,761)	(32,130)
		<u>(34,041)</u>	<u>(730,027)</u>
Loss on ordinary activities before taxation		(34,041)	(730,027)
Tax on loss on ordinary activities	5	-	-
		<u>(34,041)</u>	<u>(730,027)</u>
Loss for the year	10	<u>(34,041)</u>	<u>(730,027)</u>

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

SPARK ENERGY SUPPLY LIMITED

BALANCE SHEET

AS AT 30 JUNE 2014

	Notes	2014 £	2013 £
Assets			
Fixed assets			
Tangible assets	6	1,002,308	463,336
Current assets			
Debtors	7	71,091,320	29,670,308
Cash at bank and in hand		34	-
Total assets		<u>72,093,662</u>	<u>30,133,644</u>
Capital and reserves			
Called up share capital	9	1	1
Profit and loss account	10	(501,969)	(467,928)
Shareholders' funds	11	<u>(501,968)</u>	<u>(467,927)</u>
Liabilities			
Creditors: amounts falling due within one year	8	<u>72,595,630</u>	<u>30,601,571</u>
Total Equity & Liabilities		<u>72,093,662</u>	<u>30,133,644</u>

Approved by the Board and authorised for issue on 25/3/15



Chris Gauld (Chief Executive)
Director

Company Registration No. 05857467

SPARK ENERGY SUPPLY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

Going concern

The group to which the company belongs earned a profit of £1.3m for the year ended 30 June 2014 and had net assets of £0.4m at the balance sheet date. This is a significant improvement on the prior year and continued growth is expected over the next 12 months. This increasing profit generation together with the ongoing arrangements with Morgan Stanley which provide access to working capital as the group continues to grow and through the critical winter period, provide the directors with sufficient confidence that the group will have the resources to meet its debts as they fall due over the course of the next 12 months.

The directors are of the view that it is appropriate to prepare the financial statements on a going concern basis.

The company has taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from the requirement to produce a cash flow statement on the grounds that it is a subsidiary undertaking where 90 percent or more of the voting rights are controlled within the group.

1.2 Critical estimates and judgements

In the process of applying the group's accounting policies, management has to make judgements and estimates that have a significant effect on the amounts recognised in these financial statements. These estimates and judgements are re-evaluated periodically and are based on historical experience and information available up to the date of signing the accounts. The key estimates and judgements made by the directors are in respect of revenue recognition and trade debtor provisioning.

Revenue Recognition

Revenue recognised for the supply of electricity and gas represents the value of actual units billed to customers from the company's billing system, together with an estimate of the value of units unbilled. These units were reconciled to those charged by the industry.

Trade debtor provisioning

Provisions against trade receivables are recognised where a loss is probable. This is assessed on the basis of the ageing of the receivables and the historic payment profile by tariff.

1.3 Turnover

Turnover comprises the sale value of energy supplied to customers during the year exclusive of VAT and includes an estimate of the value of units supplied to properties between the date of the last meter reading and the year end.

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Assets under construction

Computer equipment and related software - over 2 to 5 years

Assets under construction are depreciated once the asset is fully implemented in to use in the business.

SPARK ENERGY SUPPLY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

1 Accounting policies **(continued)**

1.5 Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not they will be recovered. Deferred tax assets and liabilities are not discounted.

1.6 Group accounts

The company has taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from the requirement to produce a cash flow statement on the grounds that it is a subsidiary undertaking where 90 percent or more of the voting rights are controlled within the group.

1.7 Financial instruments

The company uses derivative financial instruments to hedge its exposure to changes in market prices arising from energy purchases.

Forward contracts to purchase energy are accounted for on an accruals basis at cost, with gains and losses recorded in the profit and loss account in the period in which the supply of power occurs.

1.8 Renewables Obligation

The company recognises liabilities in respect of Renewable Obligations payable to OFGEM in respect of energy supplied to customers at the value at which they are expected to be extinguished.

1.9 Deferred commissions

Amounts paid to switching engine websites in respect of new customers are deferred over the minimum expected period the customer will remain with Spark. Deferred commissions are included within prepayments.

2 Turnover

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

3 Operating loss	2014	2013
	£	£
Operating loss is stated after charging:		
Depreciation of tangible assets	142,654	25,500
	<u> </u>	<u> </u>

The company has increased its provision against bad debt (including adjustments to revenue estimates), estimated supplies to property and unbilled energy by £6,378,023 (2013 - £4,450,014) at 30 June 2014 in respect of outstanding customer debtor balances at the year end.

Auditors' remuneration was borne by Spark Energy Limited.

SPARK ENERGY SUPPLY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

4	Interest payable	2014	2013
		£	£
	On bank loans and overdrafts	25,761	32,130
		<u> </u>	<u> </u>
5	Taxation	2014	2013
		£	£
	Total current tax	-	-
		<u> </u>	<u> </u>
	Factors affecting the tax charge for the year		
	Loss on ordinary activities before taxation	(34,041)	(730,027)
		<u> </u>	<u> </u>
	Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 22.50% (2013 - 23.75%)	(7,659)	(173,381)
		<u> </u>	<u> </u>
	Effects of:		
	Capital allowances in excess of depreciation	(122,123)	(40,536)
	Unrelieved tax losses and other deductions	129,782	213,917
		<u> </u>	<u> </u>
		7,659	173,381
		<u> </u>	<u> </u>
	Current tax charge for the year	-	-
		<u> </u>	<u> </u>

The company has not recognised a potential deferred tax asset of £1,785,227 (2013 - £1,982,951) arising on surplus losses within the group, in accordance with the accounting policy set out in note 1.5.

SPARK ENERGY SUPPLY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

6 Tangible fixed assets

	Assets under construction	Computer equipment and related software	Total
	£	£	£
Cost			
At 1 July 2013	437,836	127,500	565,336
Additions	681,626	-	681,626
Transfers	(733,705)	733,705	-
	<u>385,757</u>	<u>861,205</u>	<u>1,246,962</u>
At 30 June 2014			
Depreciation			
At 1 July 2013	-	102,000	102,000
Charge for the year	-	142,654	142,654
	<u>-</u>	<u>244,654</u>	<u>244,654</u>
At 30 June 2014			
Net book value			
At 30 June 2014	<u>385,757</u>	<u>616,551</u>	<u>1,002,308</u>
At 30 June 2013	<u>-</u>	<u>463,336</u>	<u>463,336</u>

Included within the cost of assets under construction and computer equipment and related software above, is £1,246,962 of costs in relation to the development of IT systems. Assets under construction represents software development costs that have not been depreciated due to the IT systems being under development at the year end.

7 Debtors

	2014	2013
	£	£
Trade debtors	14,800,672	9,379,303
Amounts owed by parent and fellow subsidiary undertakings	52,236,456	19,281,670
Other debtors	2,332,667	266,396
Prepayments and accrued income	1,721,525	742,939
	<u>71,091,320</u>	<u>29,670,308</u>

Trade debtors are shown net of the provisions (see note 3).

SPARK ENERGY SUPPLY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

8 Creditors: amounts falling due within one year	2014	2013
	£	£
Trade creditors	999,721	2,763,927
Amounts owed to parent and fellow subsidiary undertakings	54,706,996	20,703,570
Taxes and social security costs	404,058	150,332
Customer advances	10,559,899	4,613,978
Accruals and deferred income	5,924,956	2,369,764
	<u>72,595,630</u>	<u>30,601,571</u>

9 Share capital	2014	2013
	£	£
Allotted, called up and fully paid		
1 Ordinary share of £1 each	<u>1</u>	<u>1</u>

10 Statement of movements on profit and loss account	Profit and loss account £
Balance at 1 July 2013	(467,928)
Loss for the year	(34,041)
Balance at 30 June 2014	<u>(501,969)</u>

11 Reconciliation of movements in shareholders' funds	2014	2013
	£	£
Loss for the financial year	(34,041)	(730,027)
Opening shareholders' funds	<u>(467,927)</u>	<u>262,100</u>
Closing shareholders' funds	<u>(501,968)</u>	<u>(467,927)</u>

12 Contingent liabilities

The group is currently working with Ofgem to confirm the status of its compliance with various licence obligations in relation to prior years. The outcome is uncertain, but a contingent liability may exist.

SPARK ENERGY SUPPLY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

13 Other commitments	2014	2013
	£	£

At 30 June 2014 the company had capital commitments as follows:

Energy contracts	17,980,584	-
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The commitments at 30 June 2014 will be realised during the period from 1 July 2014 until the contracts expire on 31 December 2015.

Energy Contracts reflect commitments entered into as part of a wholesale trading agreement with Morgan Stanley Capital Group Inc. In return for a commitment to buy all energy supplies from this company at competitive prices, granting security over the group's assets in favour of Morgan Stanley Capital Group Inc. and warrants for a 4.99% shareholding in the company in certain circumstances, Spark Energy has obtained access to collateral free long term hedging and supply arrangements for its core commodities on extended payment terms.

14 Employees

Number of employees

There were no employees during the year apart from the directors.

15 Control

The ultimate parent company is Spark Energy Limited, a company registered in Scotland. Spark Energy Limited prepares group financial statements and copies can be obtained from its registered office.

There is no ultimate controlling party.

16 Derivatives not included at fair value

The company uses derivatives to hedge its exposure to changes in market prices arising from energy purchases. The company's derivatives are not included at fair value in the financial statements. The 30 June 2014 difference between fair value and cost is a derivative liability of £1,602,795 (2013 - £Nil). The liability represents the extent to which forward energy prices have fallen during the early summer, and there is no certainty that those lower prices will continue to prevail throughout the periods to which the purchases relate.

17 Related party relationships and transactions

Other transactions

The company has taken advantage of the exemption available in accordance with FRS 8 'Related party disclosures' not to disclose transactions entered into between two or more members of a group, as the company is a wholly owned subsidiary undertaking of the group to which it is party to the transactions.