

*spark*infrastructure

ANNUAL REPORT
2017

**FUTURE.
ENERGY.**

FUTU

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RE.

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We invest in networks that will serve Australia's energy needs for many generations to come

.....

Spark Infrastructure is the leading Australian-listed owner of energy sector assets, with investments in some of Australia's most efficient and reliable energy transmission and distribution network assets.



ENER



Our investors can play a key role in supporting Australia's future energy and utility networks, and thereby our national economic growth



GY.

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Australia's energy future is being defined by a new world of opportunities in renewables, distributed generation and energy storage.

Our networks will have an important role to play in delivering these technologies efficiently for the benefit of consumers.

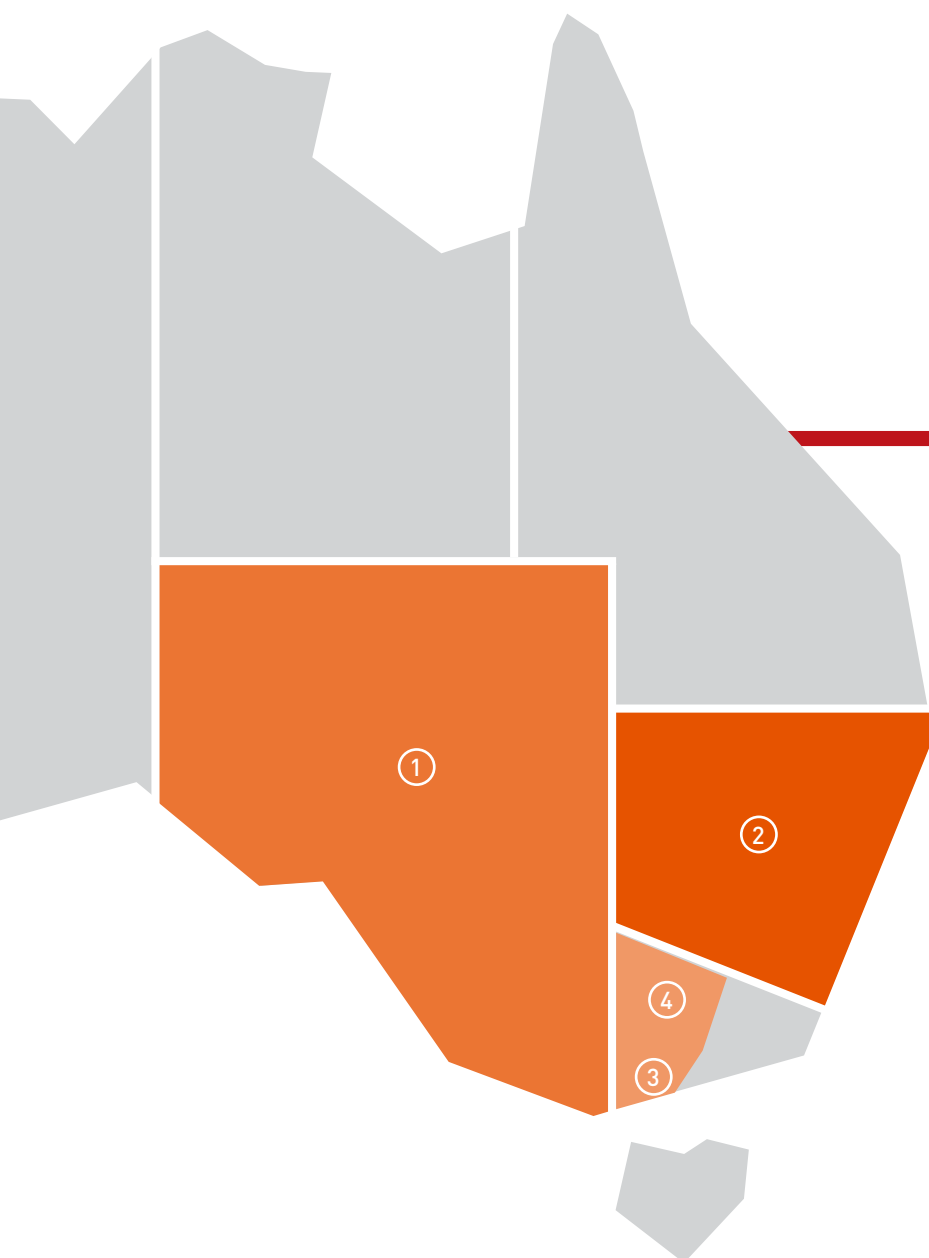
THE POWER OF OUR NETWORKS

Spark Infrastructure is Australia's leading ASX listed network owner. Our assets support economic growth and Australia's future sustainability.

Our vision is to provide long-term value creation through distributions and capital growth for Securityholders from our portfolio of quality utility-style assets. We do this by ensuring the performance of our businesses is optimised, by capitalising on organic growth opportunities and by diligently pursuing external growth opportunities.

We have interests in \$16.6 billion of energy network assets in total, delivering energy to more than 5.5 million customers across three states, in addition to transporting electricity across the National Electricity Market (NEM) between New South Wales and Queensland, Victoria and the Australian Capital Territory.

Each of our businesses has strong and stable debt portfolios, with weighted average maturity of over five years, and investment grade credit ratings.



CASE STUDY

Helping deliver clean and secure energy for the future

The energy sector is rapidly evolving, with traditional coal-fired generation being replaced with other sources including large-scale renewable energy. Forming the backbone of the NEM, TransGrid plays a key role in unlocking new energy supply for consumers and is leading the way in connecting renewable energy precincts which have abundant wind and solar resources to the electricity grid to meet our nation's energy needs. This generation will deliver reliable energy in the long term, securing our energy supply for the future, while lowering emissions in line with Australia's international obligations and delivering the lowest cost electricity to consumers.

①

SA Power Networks

SA Power Networks is the sole operator of South Australia's electricity distribution network, supplying around 865,000 residential and commercial customers in all regions and the major population centres.

49% interest

To read more, see page 22

②

TransGrid

TransGrid is the largest high-voltage electricity transmission network in the NEM by electricity transmitted. Its vast 13,000km network connects generators, distributors and major end users in New South Wales and the Australian Capital Territory, to supply power to more than three million homes and 600,000 businesses and forms the backbone of the NEM connecting Queensland, New South Wales, Victoria and the Australian Capital Territory.

15% interest

To read more, see page 28



With the efforts of over 5,000 employees and highly experienced management teams, our businesses deliver the sector's leading safety culture, high levels of operational reliability and efficiency and strong financial performance

③

CitiPower

CitiPower operates the distribution network that supplies electricity to around 330,000 customers in Melbourne's CBD and inner suburbs.

49% interest

CitiPower and Powercor together are known as Victoria Power Networks.

To read more, see page 24

④

Powercor

Powercor is the largest distributor of electricity in Victoria, operating a network that serves around 795,000 customers in central and western Victoria and the western suburbs of Melbourne.

49% interest

CitiPower and Powercor together are known as Victoria Power Networks.

To read more, see page 26

NUMBERS WE ARE PROUD OF



Standalone
operating
cash flow¹

\$268_M



Efficiency
benchmarking²

No.1



2017
Distributions

15.25_{CPS}



Regulated
Asset Base⁴

\$5.8_B



2017 DPS has increased by 5.2% from 2016. In 2018, DPS is forecast to increase a further 4.9%



Total 5-year Securityholder return³

105%



Contracted Asset Base⁵

\$355M



**Net debt/
Regulated &
Contracted
Asset Base⁴**

74%

1. Includes repayment of shareholder loans.
2. Powercor No.1 distribution network service provider in 2016; SA Power Networks No.1 on a state by state comparison in 2016.
3. As at 31 December 2017.
4. On an aggregated proportional basis to Spark Infrastructure.
5. On 100% TransGrid basis.

OUR VISION & OPPORTUNITY

Spark Infrastructure's leading networks are well placed to benefit as we enter Australia's new energy era.



Dr Doug McTaggart
Chair

Dear Securityholder,

Australia's energy future is being defined by a new world of opportunities in renewables, distributed generation and energy storage. These changes reinforce the importance of the electricity grid in which Spark Infrastructure's businesses play a leading role. In this new era, Spark Infrastructure is extremely well positioned to capitalise on these opportunities where we believe they can deliver strong distributions and long-term value creation for you.

Future. Energy.

Spark Infrastructure is a leading Australian-listed investor in some of Australia's most efficient and reliable network assets. Our businesses offer attractive future potential for growth in unregulated business as well as opportunities in grid innovation.

Our investors can play a key role in supporting Australia's future energy and utility networks, and thereby our national economic growth. Our networks will do this by adapting to meet the growing movement towards customer choice.

"Spark Infrastructure's networks will increasingly enable two-way power flows and power trading"

As with the potential of connecting machines, appliances and devices to the internet, connectedness will be a crucial influence over the future of energy.

It will foster customer choice in residential areas. Rooftop solar, batteries, electric vehicles and smart meters are radically changing the way consumers' source and use electricity. A world where multi-directional energy flows across a wide matrix of generators, storage points and end-users is fast becoming a reality.

Spark Infrastructure's businesses will have an important role to play in delivering these technologies. However, the new environment will also present new technical challenges as Australia's networks transform to meet these requirements and invest to do so.

At Spark Infrastructure, your Board and management are working hard on your behalf to make sure that future developments benefit Securityholders.

We are already seeing important contributions from our businesses to help meet Australia's energy challenges. For example, CitiPower and Powercor are reducing wholesale demand by lowering voltage levels in substations. This approach has been endorsed by the Australian Energy Market Operator (AEMO) for potential use across the National Energy Market (NEM) as a way of increasing system capacity to meet demand fluctuations.

Similarly, SA Power Networks is working on a range of pilot programs and trials that will see us move towards the future electricity network.



**Prudent transmission interconnection within
NEM regions will increase long-term reliability
and save consumers money**

“

During 2017, Spark Infrastructure continued to deliver for investors, providing Securityholders with growth in earnings and total returns

.....

4.9% ↑

We are pleased to reaffirm distribution guidance for 2018 of 16.0 cps for 2018, an increase of 4.9% above 2017

This innovation provides vital information that can help optimise the need to make network upgrades and help quantify energy bill reductions, and it won the ENA Innovation Award in November 2017.

TransGrid, the largest and most strategically located transmission grid within the NEM, has significant advantages, as well as opportunities to participate in the development of new interconnectors.

We anticipate TransGrid will play a key role in shaping Australia's future energy markets in the high voltage transmission sector. By 2030, some 45 terawatt hours (TWh) of NSW coal-fired generation will be retired due to age and replaced by gas and renewable energy sources. The large scale of the next generation of renewable energy power stations will make the electricity they supply cheaper than the small-scale renewable plants that exist today.

TransGrid is uniquely positioned to connect new projects such as Snowy 2.0 which aims to deliver 2,000 MW of renewable electricity that can be delivered at immediate notice. This output will require additional transmission capacity to deliver the power to load centres in New South Wales and Victoria. The project features in the Australian Government's national energy policy as a solution to a national energy security problem and is included in the modelling for the National Energy Guarantee (NEG).

"TransGrid, is the largest transmission network within the NEM which has significant advantages as well as future opportunities"

The Finkel Report and Energy Security Board have both confirmed that prudent transmission interconnection within NEM regions will increase long-term reliability and save consumers money.

However, the current regulatory investment test, which is pivotal for interconnection investment, has been ineffective, and has, by implication, favoured solutions led by gen-tailers (the term "gen-tailer" refers to a business that both generates and retails electricity). The test is currently being reviewed by the Australian Energy Regulator (AER). Spark Infrastructure strongly supports this review.

Strong operating and financial performance

During 2017, Spark Infrastructure continued to deliver for investors, providing Securityholders with growth in earnings and total returns.

A top priority

Safety remains a prime focus. As a result, Victoria Power Networks and SA Power Networks are industry leaders. Their businesses' key safety indicators continued

to improve in 2017 from already high levels. New initiatives at Victoria Power Networks include the rollout of the Hand Safety Awareness and ProstMate programs. The ProstMate program involved testing of 700 employees across all depots and offices for possible signs of prostate cancer. At SA Power Networks, the Safety Leadership Academy will see all senior managers undertake a multi-day safety program, helping to embed consistent safety leadership behaviours across the organisation.

TransGrid is also committed to safety as the number one priority. During the year, TransGrid launched a new safety strategy with a focus on injury prevention, risk culture and people capability.

The quest for efficiency

In 2017, the AER ranked Victoria Power Networks and SA Power Networks in the top quartile for efficiency among their peers. Both businesses cut costs and improved performance during the reporting year and over the two previous years.

In 2017, Victoria Power Networks delivered efficiency benefits of \$17 million and SA Power Networks \$8 million (with a projected target of \$40 million per annum). This enables the business to pass onto consumers better pricing and greater reliability, a result delivered under private ownership.

The AER accepted TransGrid's current operating costs as an efficient basis for the cost of providing services. The business will continue its cultural and structural changes, called the ACE program, targeting further efficiencies to offset the cost of future demand. The program will reduce costs to customers as the business rapidly evolves.

Achieving important strategic objectives

During 2017, Spark Infrastructure considered new strategic options to increase the value of the group and improve distributions. Early in the year, we participated as a consortium member in the NSW Government's privatisation of Endeavour Energy. Our bid, founded on a prudent valuation of the business, did not succeed.

Going forward, we will continue to evaluate assets that are aligned to our strategy, that complement the existing business and offer growth potential and value to our business.

Security price and distributions performed strongly in 2017

Investors enjoyed solid price performance in 2017. Spark Infrastructure's security price increased by 5.0% during the year, producing a total securityholder return of 11.6%.

In line with guidance, the Directors have declared a final distribution for

2017 of 7.625 cents per security (cps), a total distribution of 15.25 cps for 2017. This is an increase in cps of 5.2% on the total 2016 cps. The final distribution was paid to Securityholders on 15 March 2018. The distributions are fully covered by operational cash flows on both a standalone and look-through basis.

We are pleased to reaffirm the distribution guidance of 16.0 cps for 2018, which represents growth of 4.9% on 2017. This forward guidance is based on the distributions we expect to receive from our investment portfolio and is subject to business conditions.

We expect each of our investment businesses to continue performing strongly, but low inflation affects the CPI-X adjusted revenue allowances that these businesses are permitted to earn by the regulator. Should low inflation continue, we would expect distributions to grow more slowly in the years after 2018.

Board composition

Greg Martin joined the Spark Infrastructure Board on 1 January 2017, and was formally elected at the Annual General Meeting on 23 May 2017. We welcome Greg's wealth of commercial experience, specifically in the energy sector and regulated networks. He spent 25 years with AGL, including five years as CEO and Managing Director.

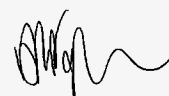
I would also like to thank Christine McLoughlin and Keith Turner for their contributions as Independent Non-Executive Directors. Christine joined the Board in October 2014 and retired from the Board on 15 October 2017. Keith joined the Board in March 2009 and retired on 23 May 2017.

Your Board believes that its current composition provides the right blend of skills and experience to effectively govern Spark Infrastructure on behalf of Securityholders.

As we anticipate another year of achievement at Spark Infrastructure in 2018, I would like to thank my fellow Directors, the staff of Spark Infrastructure, and our portfolio businesses, for their efforts and commitment over the past year.

I look forward to keeping you updated on our progress in the future.

Yours faithfully,



Dr Doug McTaggart
Chair

STRONG PERFORMANCE AND GROWTH

Our businesses have demonstrated strong performance despite the current low inflationary environment.



Rick Francis
Managing Director and
Chief Executive Officer

Our investment businesses are delivering strong results

In 2017, Spark Infrastructure continued to invest in networks that will serve Australia's energy needs for many generations to come.

Technological change in the energy sector is driving a quantum shift in how we generate, transport and store energy and how we monitor and manage electricity networks. Looking ahead, this provides significant opportunities for Spark Infrastructure.

In this context, our businesses have demonstrated strong performance despite the current low inflationary environment and the resulting constraints in regulated revenue growth.

Victoria Power Networks

Victoria Power Networks performed well in 2017. The number of customers connected to its networks grew by 17,000 (or 1.5%) compared with 2016. Energy consumption in the networks increased by 0.9% during the reporting year.

Regulated revenues increased by 0.4% to \$903.3 million, in line with the regulatory determination and were positively impacted by outperformance of service level targets. Network availability for the year was 100% for CitiPower and 99.97% for Powercor.

Semi-regulated revenues were up \$6.7 million to \$51.1 million or 15.1% on 2016 as a result of increased provision of design and specification services before connecting customers to its networks.

Victoria Power Network's unregulated subsidiary Beon Energy Solutions (Beon) continued to perform well. When viewed on the basis of an EBITDA margin, Beon's performance was down \$1.1 million when compared with the 2016 result of \$8.3 million. Beon continues to pursue large-scale renewable energy procurement and construction contracts throughout the NEM. This year, it successfully completed the construction of Karadoc collector station, Moorabool wind farm and Hughenden solar farm.

Other unregulated revenue increased 3.2% to \$54.9 million due to income from insurance recoveries and from sales of surplus properties.

Following completion of the Victoria Power Network's World CLASS efficiency program in 2016, which produced annual savings of \$151 million, in 2017 the business embarked on a Continuous Improvement program. This identified and delivered further savings of \$17 million in the year.

Standard & Poor's has assessed Victoria Power Networks' credit rating at A-. Its net debt to RAB gearing ratio at 31 December 2017 was 71.0%.



We are well placed to take advantage of opportunities as they arise to serve our customers, help build a growing economy and benefit our Securityholders



Significant growth opportunities will emerge as we invest in networks that will help meet Australia's future energy needs



We expect TransGrid's unregulated revenues to continue to grow in excess of and quicker than initial estimates

SA Power Networks

SA Power Networks performed strongly in 2017. The number of customers connected to its networks grew by 9,000 (or 1.0%) compared with 2016. Energy consumption in the network increased by 0.2% during the year.

Regulated revenues increased by 7.8% to \$797.6 million during the year, in line with the regulatory determination and were positively impacted by outperformance of service level targets. Network availability for the year was 99.97%.

Semi-regulated revenues were down in 2017 by 6.9% to \$86.1 million following a peak in 2016 of network asset relocations to accommodate road infrastructure works. This was partially offset by higher generation connection activity.

In contrast, unregulated revenues increased by 11.6% to \$172.6 million. The NBN rollout and increased major project activity, mainly for ElectraNet, were significant contributors to unregulated revenue in the year.

SA Power Networks maintained its focus on reducing costs and increasing efficiency with the launch of its Powering Ahead program, expected to generate benefits of \$40 million a year. At the end of 2017, this program had produced benefits of \$8 million predominantly from the effective delivery of capital expenditure.

The AER's November 2017 Benchmarking Report recognised SA Power Networks as the most efficient distribution network on a state-wide basis within the NEM for multilateral total factor productivity¹.

Standard & Poor's has assessed SA Power Network's credit rating at A-. Its net debt to RAB gearing ratio at 31 December 2017 was 73.1%.

TransGrid

TransGrid continued to perform well in 2017. Underlying² regulated revenues decreased by 2.5% to \$711.6 million during the year, in line with the regulatory determination and were positively impacted by outperformance of service level targets. Network reliability for the year was 99.9998%.

Unregulated revenues were up in 2017 by 30.5% to \$66.8 million. This includes \$53.4 million of infrastructure services revenue which was mainly derived from line modifications as part of asset relocations, specifically in relation to Western Sydney Airport and the Peabody and Mandalong coal mines.

Unregulated revenue also included \$8.5 million from telecommunications (up 32.8%) and \$5.0 million (up 6.4%) from property services.

As part of its corporate evolution, TransGrid's ACE program achieved 9% gross savings in the 12 months to 30 June 2017 and has a continuing focus on delivering a further 3% reduction in the 12 months through to 30 June 2018.

Moody's has assessed TransGrid's credit rating at Baa2. Its net debt to RCAB³ gearing ratio at 31 December 2017 was 81.5%.

New opportunities will emerge as policy certainty returns

After a period of significant policy uncertainty, the way forward for the energy market is becoming clearer. This is a positive for the sector and for consumers. However, there are still critical policy initiatives that are yet to be finalised and the new reality of the Australian energy landscape indicates that central governments remain willing to intervene in market structures. The abolition of the Limited Merits Review is a recent example.

We expect our businesses to continue to perform well in the new environment where smarter, more responsive distribution networks will form the foundations for the future of energy. For example, homeowners who install domestic solar and battery storage facilities may want to share or sell electricity locally.

Furthermore, as the uptake of electric cars increases, owners will want cheap, reliable and convenient electricity for recharging.

Flexible networks will increasingly foster efficient trading of energy from multiple providers; they will move energy seamlessly as they match demand to supply.

Our distribution businesses, Victoria Power Networks and SA Power Networks, will be integral to meeting customer needs. They have shown that they can implement innovative solutions that provide safe, reliable and economical services. As well as poles and wires, they will operate networks that exchange electricity across the whole system.

They are testing innovative ways to connect customer-distributed energy resources such as solar and batteries to the network, and to manage complex energy flows. We anticipate further investments to meet challenges within the network, such as distributed generation and use of electric cars needing fast battery charging and other technological demands of the future.

1. AER, Annual Benchmarking Reports, Electricity distribution network service providers, November 2017.

2. Excluding 2016 recovery of preacquisition regulated revenue of approximately \$51 million.

3. Regulated and contracted asset base.



Changes arising from the Finkel Review and the Energy Security Board's integrated plan should clarify the industry's future and stimulate investment

Central to capturing future opportunity, we support the implementation of the Australian Government's overarching energy strategy including the implementation of the Finkel Review recommendations and the detailed design of the National Energy Guarantee.

“New renewable energy sources will be efficiently developed and integrated into the networks; and unregulated opportunities will enhance returns”

As well, the development of an integrated plan by the Energy Security Board will in the long term, help achieve the lowest delivered energy cost to customers through more co-ordinated development of new generation and improving the network, particularly inter-state connections. Better connectivity within the NEM will more directly link excess supply in some regions to demand in other areas, thereby reducing energy price volatility.

In this environment, the role of transmission will expand. New generators will be able to connect to the market, increasing wholesale competition across the NEM. New services support the reliability and security of electricity supply as renewable generators increasingly contribute.

The opportunity for new connections for TransGrid, Australia's largest transmission network located in New South Wales, continues to outperform expectations, with further opportunities for Spark Infrastructure in the new energy market.

Finally, Spark Infrastructure's businesses are actively pursuing unregulated opportunities in existing and new contestable markets. Examples of recent successes include Victoria Power Network's construction of the 60,000 panel solar farm in Hughenden in North Queensland.

Positive outlook for Spark Infrastructure in 2018

We expect each of Spark Infrastructure's businesses to perform strongly in 2018. TransGrid's revenue determination and accompanying financial incentives for the 2018–23 period should produce results above the regulated return.

We expect that Victoria Power Networks and SA Power Networks will continue to outperform with benefits carried forward into the next regulatory period.

We also expect the unregulated services to grow in volume, market share and margins.

The three main factors likely to affect performance are outlined below:

Operating efficiencies

Our businesses will continue to improve their business models and internal culture to combine leading efficiency with a lower expenditure profile. These improvements will help us to fulfil each business' capital program.

Unregulated opportunities

Each of Spark Infrastructure's businesses will maximise the unregulated opportunities that are available in each market. TransGrid, for example, is establishing a structure to provide the most efficient funding for these opportunities. This is expected to be completed by mid-2018.

Inflation prospects

We expect the CPI to remain relatively low in the short to medium term. This could constrain forecast RAB growth and tariff increases.

Spark Infrastructure's 2017 distributions, outlined in the Chair's message, are fully covered by standalone and look-through cash flows. As the Directors have previously advised, we expect distributions to grow by 4.9% in 2018. This guidance is subject to business conditions and underlying company performance meeting expectations.

The growth and composition of distributions beyond 2018 will be affected by a range of factors. Over the medium term, and subject to regulatory outcomes, we expect that growth in distributions per security will be at least CPI.

Furthermore, Spark Infrastructure expects to become a taxpayer in the short term. The timing and amount of tax payable will be dependent on a number of factors including the underlying financial performance of our businesses, tax timing differences and, in the longer term, the outcome of existing disputes with the Australian Taxation Office (as previously disclosed in our financial statements).

As the recent Endeavour Energy bidding process highlighted, Spark Infrastructure applies discipline in pursuing acquisition opportunities that are aligned with our strategic vision and are financially compatible with our existing risk profile. We will consider these selectively and prudently to maximise long-term value for Securityholders.

During the dynamic years ahead, as the energy industry undergoes significant change, we will continue to strengthen Spark Infrastructure to serve Australian customers, to help build a growing economy and to benefit Securityholders.



Rick Francis
Managing Director and
Chief Executive Officer

SUPPORTING INVESTMENT & GROWTH

Spark Infrastructure brings deep energy industry knowledge, regulatory and operational know-how and best in class governance practices to our businesses. We do this by working with the management teams of our businesses and our fellow shareholders.

We work with regulators

During 2017, Spark Infrastructure worked with regulators, our portfolio businesses and other industry participants on important energy issues.

Spark Infrastructure was deeply engaged in reviews by the Australian Energy Regulator (AER) of the rules governing the treatment of inflation and the rate of return. These factors are prime determinants of value for network service providers under the economic regulation framework.

In addition, Spark Infrastructure contributed to the review by the Australian Competition and Consumer Commission (ACCC) of electricity retail markets through submissions and subsequent meetings. We have worked directly with policymakers through our contributions to the Finkel Review and to the Council of Australian Governments (COAG) Energy Council's examination of the framework for Limited Merits Review of AER determinations.

"The goal is to create energy sources and means of distribution that are fit for purpose, dynamic and pragmatic"

We will continue to advocate strongly and will seek to bring together like-minded parties to achieve regulatory and policy outcomes that support an efficient and effective energy supply system consistent with our business objectives.

Our view on energy market direction

Spark Infrastructure supports delivery of energy to Australian businesses and households safely, reliably and at the lowest efficient cost. We are focused on three key enablers to achieve these outcomes:

Better regulation

Regulators should provide opportunities for companies to achieve sufficient returns to support efficient investment.

In this way, industry participants can remain viable and pursue innovation without incurring additional risks or distorting markets. The central objective is to support an environment that delivers energy sources and means of distribution that are fit for purpose, dynamic and pragmatic.

Encouraging innovation

The energy industry should be motivated to innovate and build on existing systems, technology, know-how and markets to deliver future energy. Innovation drives efficiency and helps meet business objectives at lowest cost. One key to fostering innovation is efficient pricing of energy supply and transportation to business and domestic customers. This will ensure that new solutions, from generation to consumption, are objectively assessed and efficiently adopted. Clear pricing for consumers requires energy retailers to be more transparent about cost structures and billing practices.

Strong governance

Delivering Australia's energy policy objectives requires an integrated system of governance to support informed decision-making and fair competition. This must incorporate effective monitoring, reporting and compliance with objectives, regulations and management of risk and conflict.

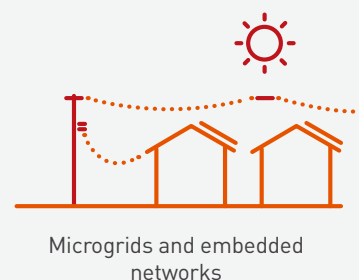
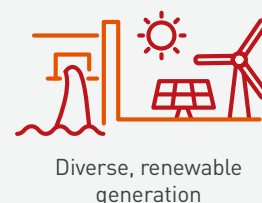
Further, additional investment is crucial to providing an orderly transition to efficient renewable energy generation that meets consumer needs.

Networks of the future

These measures will also help deliver the networks of the future as distribution networks adapt to meet the changing needs and expectations of the customer, and transmission networks expand to connect new renewable generators.

CUSTOMER CHOICE

Connectedness and customer choice will influence the future of energy



TRANSGRID'S 2018-23 REGULATORY DETERMINATION

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TransGrid is awaiting the Final Decision of the AER in order to calculate revenues to be recovered for the 2018-23 regulatory period. A Draft Decision was received in September 2017. The decision reduced TransGrid's proposed revenue by 8.7% and did not provide for investment in the important reliability and security project, Powering Sydney's Future.

TransGrid developed a response that addresses the concerns of the AER and ensures the security and reliability of Sydney's energy supply. The response, submitted in December 2017, proposed an additional 4.8% in revenue compared with the AER's Draft Decision. We expect the proposal to be received positively by the AER. The Final Decision is due in April 2018 and will take effect from 1 July 2018.



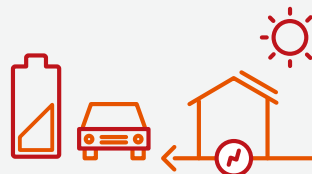
Multi-directional
network



Network technologies
and services



**Customer choice
& control**



Distributed energy
resources



Network connected
customers



Improved energy
productivity



**The network
of the future
needs to adapt
to meet the
changing needs
and expectations
of the customer**

OUR ASSETS

SECURE CASH FLOWS FROM RELIABLE & EFFICIENT BUSINESSES

Our investment businesses provide high cash flow visibility through to the end of their regulatory determinations and are leaders in energy network efficiency.

Stable cash flows from regulated networks

Regulated distribution and transmission networks must apply to the AER to assess their revenue requirements every five years. In accordance with the National Electricity Law and Rules, the AER determines the revenues that our businesses can earn during a regulatory period, taking into account how much revenue a business needs to cover its efficient costs (including operating and maintenance expenditure, capital expenditure, asset depreciation costs and taxation liabilities) and provides an assessed return on capital.

The revenues and capital bases of the businesses are indexed for actual inflation incurred across the regulatory period.

The AER's five-year regulatory determinations for our businesses provide certainty of cash flows from their regulated assets while the incentive-based regime also provides upside potential for outperformance. Determinations for SA Power Networks and Victoria Power Networks have been in place since 1 July 2015 and 1 January 2016 respectively while TransGrid's current determination will end on 30 June 2018. TransGrid's new five-year determination for the period from 1 July 2018 to 30 June 2023 is expected in April 2018.

Strong cost discipline

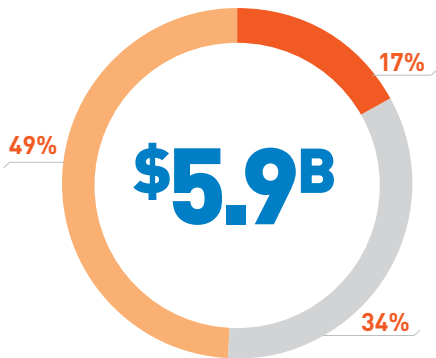
We continue to work with our businesses to drive costs down and improve efficiency. Last year, Victoria Power Networks completed its World CLASS program, delivering over \$150 million in annual savings across both operational and capital expenditure. In 2017, continuous improvement programs have delivered a further \$17 million in annual savings through additional productivity gains throughout its operations and corporate/IT functions.

At SA Power Networks, annual cost benefits of \$40 million have been identified, of which \$8 million have been delivered to date under their Powering Ahead program.

The management team at TransGrid is focused on delivering further cost reductions representing 3% of the cost base across the 12 months to 30 June 2018, having delivered a 9% reduction in its preceding 12 months.

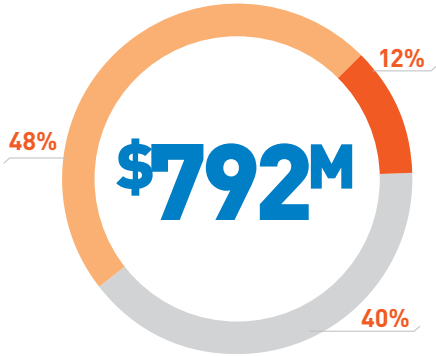
ASSET BASE

Our share of regulated and contracted assets



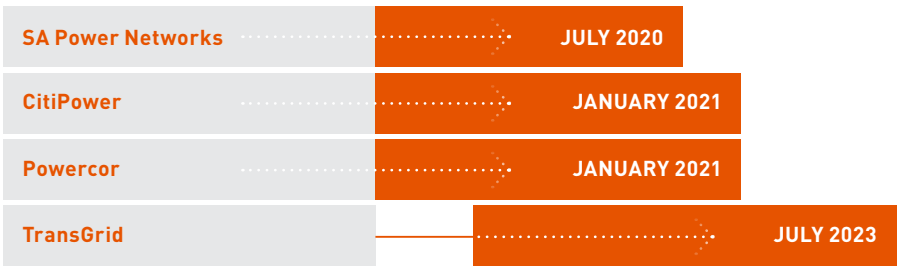
EARNINGS

Our share of earnings before interest, tax, depreciation and amortisation



REGULATORY RESETS

High level of cashflow certainty to 2020



TransGrid
Victoria Power Networks
SA Power Networks



In 2017, the AER rated our three distribution networks as providing industry-leading efficiency and productivity

Leaders in efficiency, reliability, utilisation and safety

Spark Infrastructure's businesses are industry leaders in productivity and efficiency.

Victoria Power Networks and SA Power Networks are among the best-performing electricity distribution networks in Australia. They excel in productivity and efficiency, in good labour relations including investment in employees and apprentices, and in maintaining the highest industry levels of safety and reliability.

In the AER's 2017 Benchmarking Report, our distribution businesses ranked first, second and third in opex multilateral partial factor productivity. The AER's assessment of efficiency and productivity plays a key role in forecasting expenditure in revenue determinations. When the AER rates a business as efficient, it is more likely to base its assessment on actual expenditure rather than substitute an alternative amount producing a better

outcome for the business. We expect that this will be the case for our businesses for the next regulatory period.

Emerging from government ownership, TransGrid is ranked second best for opex multilateral partial factor productivity and fourth among the five transmission businesses for multilateral total factor productivity. The initiatives implemented during 2017 are expected to facilitate continued improvements in ranking in 2018, as TransGrid management continues to make the business more efficient.

Meanwhile, the AER during its current review process has assessed TransGrid's recent expenditure and accepted that the costs form an efficient base for forecasting expenditure.

A greater focus on network utilisation

Regulators are looking more closely at network use as a measure of efficient investment in the businesses. In 2017 the ACCC considered levels of use, comparing privately-owned with government-owned or recently privatised network operators. As shown below, Spark Infrastructure's distribution networks have high levels of use compared with other Australian electricity networks.

Efficiency is essential in limiting price increases

Achieving ongoing operating efficiencies has been essential in limiting price increases. In South Australia, distribution charges represent about 24% of a typical household bill and have risen by less than the CPI since privatisation of SA Power Networks in 1999. In Victoria, the average residential Victoria Power Networks network bill increased by 2% from 2007 to 2017. As well, during that decade, hundreds of thousands of new customers were connected, demand grew and service levels remained high.

Spark Infrastructure has stated publicly, and submitted to the ACCC, that private networks perform better and provide superior customer service compared with networks that are government-owned or were recently privatised. We believe that governments which wish to minimise costs to customers should pursue partnerships with the private sector.

Spark Infrastructure is well placed to take advantage of these opportunities as they arise.



SA Power Networks

**MOST EFFICIENT
STATE-WIDE NETWORK**
Distribution¹



Powercor

**BEST PERFORMING
NETWORK**
Distribution²



CitiPower

**SECOND BEST PERFORMING
NETWORK**
Distribution²

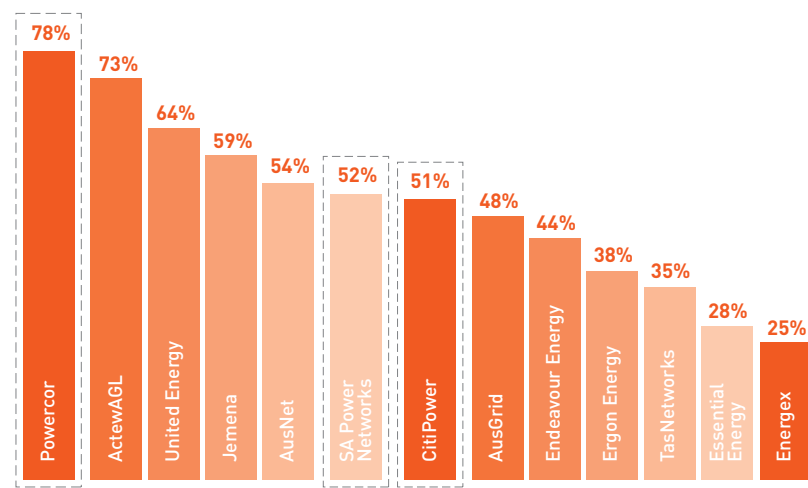


TransGrid

**SECOND BEST PERFORMING
NETWORK²**
Transmission

DISTRIBUTION NETWORK UTILISATION

Regional and CBD networks



Source: 2017 AER Benchmarking RIN's

1. Based on multilateral total factor productivity. Source AER Benchmarking Report, November 2017.

2. Based on opex multilateral partial factor productivity. Source AER Benchmarking Report, November 2017.

SA POWER NETWORKS

SA Power Networks owns and operates the South Australian electricity distribution network covering 178,200 square kilometres.

It builds and maintains the poles, wires and substations that deliver power reliably and safely to around 865,000 customers including 767,000 residential customers and 98,000 small and large businesses.

The network consists of 89,161 km of lines, of which 20% is underground. Assets include 745,000 poles, 75,700 distribution transformers and 422 zone substations. Approximately 24% of its customers have solar PV on their homes or businesses.

CHANGING INDUSTRY

With approximately 24% of customers generating electricity from Solar PV and this rate expected to continue to rise, the electricity industry is changing with a move from large centralised generation to more distributed generation within the distribution network.

SA Power Networks' Future Operating Model positions it well to respond to these changes in the industry. As part of our work, we recognise that there will be wider use of technologies for generating renewable energy and for storing electricity, both at the network level and at local homes, businesses and communities in the future. This will create new challenges for maintaining a safe, secure and reliable distribution platform, but will also present new opportunities for reducing long-term costs and improving network utilisation and performance.

QUICK FACTS

865,000

Customers

89,161^{KM}

Network lines

2,736^{MW}

Peak demand



\$4.05^B

Regulated Asset Base



99.97%

Network availability



2,199

Number of employees

SUPPORTING OUR COMMUNITIES

In addition to creating local employment opportunities, SA Power Networks contributes to its communities through the support of organisations and events in sport, education and the arts. It has long-term partnerships with the South Australian state baseball team, the Contax Netball Club in the State/Premier Women's Netball League, and the Adelaide United women's soccer team. They are the Learning Program Partner of the Adelaide Symphony Orchestra, and sponsor to the Adelaide Fringe arts event, Country Arts SA tours, the Helpmann Academy, Asthma South Australia, and wilderness adventurers Operation Flinders and Trees for Life.

2017 ACHIEVEMENTS

Maintained industry-leading safety performance in 2017

Recognised as the most efficient electricity distributor on a State-wide basis by the AER

Employee engagement score of 83%, 11% above industrial sector average

Employee Foundation reached \$2 million in donations to charity in 2017

Launched unregulated business brand, Enerven

2018 PRIORITIES

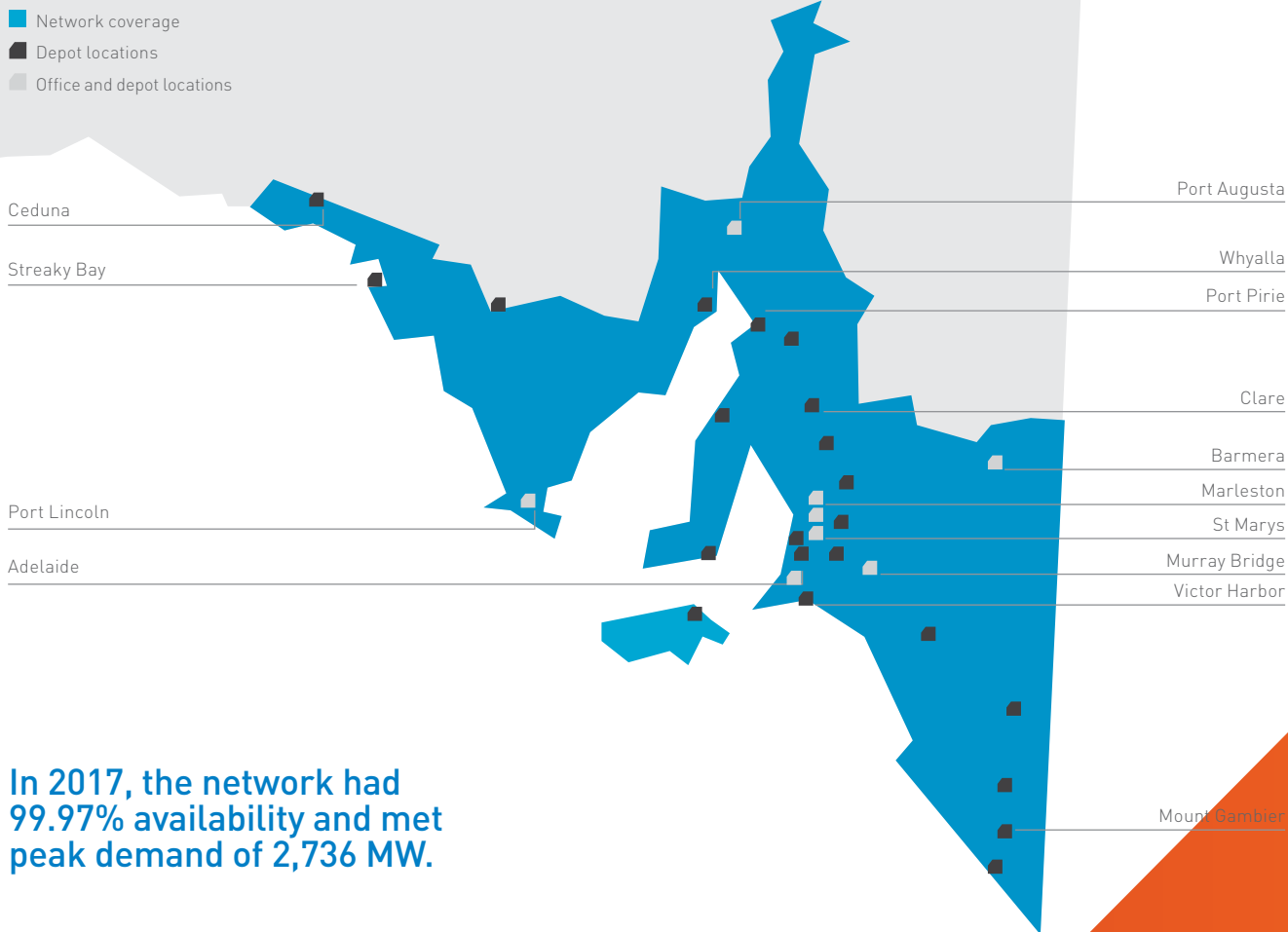
Delivering benefits and efficiencies under the Powering Ahead program

Continued focus on safety with its Safety 2020 strategy to work safe and go home safe, every day

Maintaining security of supply in a period of major change for electricity generation

Progressing its work on the future of the network

Installation of the submarine cable to Kangaroo Island



In 2017, the network had 99.97% availability and met peak demand of 2,736 MW.



SA Power Networks was assessed by the AER as the most efficient electricity distribution network on a state-wide basis in its 2017 Benchmarking Report



CASE STUDY

Temporary generation initiative

In March 2017, the South Australian Government asked SA Power Networks to increase available generation over the next two summers to avoid the risk of rotational load shedding.

Accordingly, during 2017 nine dual fuel generators were installed at two sites in the Adelaide metropolitan area which are connected to SA Power Networks' 66kV system. Notwithstanding the challenging timeframe set by the government, the generators were commissioned in November 2017 ahead of target and within budget. The project demonstrated strong collaboration with South Australian Government departments, state and national regulators and the Australian Energy Market Operator. The SA Government has announced that it will purchase the generators in December 2018, relocating them to a single permanent site where they will operate using gas as their primary fuel source.

OUR ASSETS

CITIPOWER

CitiPower owns and operates a 157 square kilometre electricity distribution network. It provides electricity for approximately 330,000 customers in Melbourne's CBD and inner suburbs.

The network consists of 7,526 km of lines, of which 43% is underground. Assets include 58,200 poles, 4,800 distribution transformers and 38 zone substations.

In 2017, the network had 100% availability and met peak demand of 1,339 MW.



QUICK FACTS

330,000

Customers

7,526^{KM}

Network lines

1,339^{MW}

Peak demand



\$1.93^B

Regulated Asset Base



100%

Network availability



1,832

Number of employees

Includes Powercor employees

The AER ranked CitiPower as the best performing of 13 distribution businesses, based on a multilateral total factor productivity assessment, in its 2016 and 2017 Benchmarking Reports.

2017 ACHIEVEMENTS

Customer satisfaction is at 85%, highest satisfaction scores ever recorded

Developed, together with Powercor, Smart Meter Voltage Management system delivering up to 110 MW of capacity under AEMO's Reliability and Emergency Reserve Trader scheme

New HSE reporting and management system enabling employees to quickly and easily raise incidents and hazards, conduct audits, inspections and close out agreed HSE actions

Together with Powercor, welcomed 13 new apprentices into the business, including five female apprentices

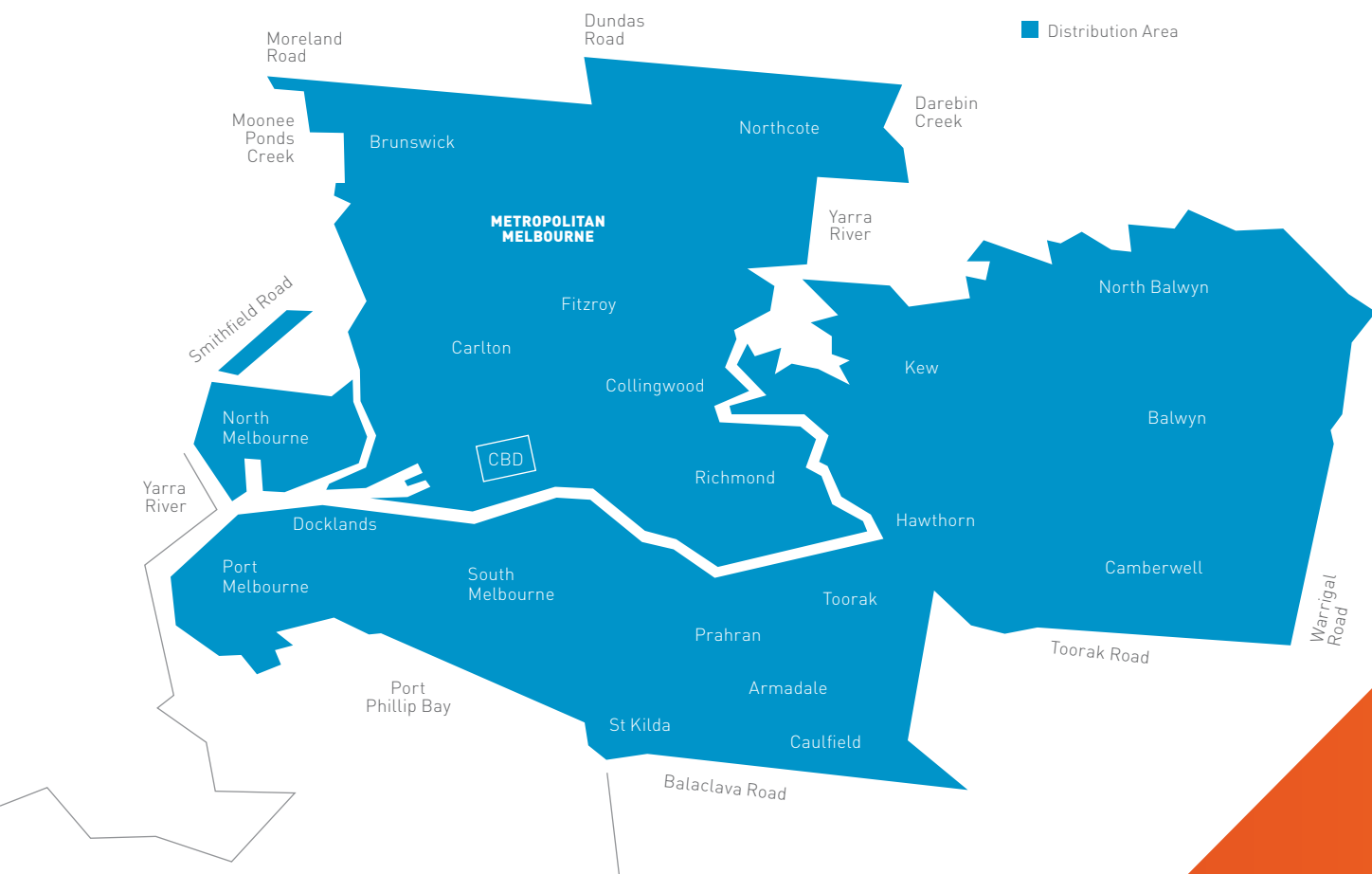
2018 PRIORITIES

Safety – further improve operational capabilities and reduce the frequency and severity of switching incidents

Customers – improving on customer connections processes and enhancing digital self-service options

Cost effective operational improvements – optimising assets, systems and processes such as the use of automation and robotics

Regulatory outcomes and stakeholders – progress draft regulatory reset submissions including consultation with stakeholders, customers and communities



In 2017, CitiPower recorded its highest ever customer satisfaction survey result of 85% of respondents questioned



CASE STUDY

CitiPower and Powercor lead the way in demand reduction

CitiPower and Powercor have become among the first networks in Australia to have the capability to respond to market constraints in the peak summer period.

The company's Smart Network Voltage Management system has the ability to deliver 110 MW of capacity under the AEMO's Reliability and Emergency Reserve Trader (RERT) scheme. That is enough power to the grid to supply about 110,000 homes.

The system works by lowering the volts at zone substations, achieving a corresponding reduction in demand. Its fleet of smart meters means it can ease pressure on the grid, while ensuring the reliability of supply and keeping customers within acceptable voltage levels.

The good news for customers is that they do not need to take any action. In fact, customers are unlikely to be aware the initiative has been deployed.

For sensitive load and critical needs customers, such as life support customers, the business' fleet of smart meters allow them to individually monitor their voltage levels to ensure they remain in an acceptable and safe limit.

OUR ASSETS

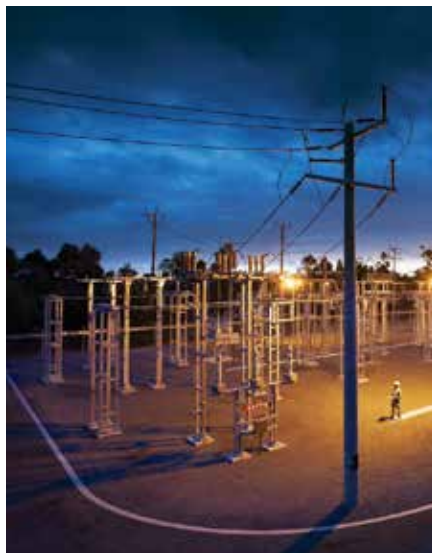
POWERCOR

Powercor owns and operates Victoria's largest electricity distribution network, covering 145,700 square kilometres.

It provides electricity for approximately 795,000 customers in central and western Victoria, as well as Melbourne's western suburbs.

The network consists of 87,800 km of lines, of which 13.9% is underground. Assets include 571,800 poles, 84,900 distribution transformers and 62 zone substations.

In 2017, the network had 99.97% availability and met peak demand of 2,120 MW.



QUICK FACTS

795,000

Customers

87,800KM

Network lines

2,120MW

Peak demand



\$3.97B

Regulated Asset Base



99.97%

Network availability



1,832

Number of employees

Includes CitiPower employees

Powercor contributes to its local communities in many ways. It raised \$177,000 in 2017 for Shepparton Foodshare, Inspired Carers and the Leila Rose Foundation through its annual Powercor Tour de Depot community cycling event and festival.

2017 ACHIEVEMENTS

2017 customer satisfaction is at 87% which equals its previous best ever performance

Powercor opened its new depots in Mildura, Cobram and Maryborough

Developed, together with CitiPower, Smart Meter Voltage Management system delivering up to 110MW of capacity under the AEMO's Reliability and Emergency Reserve Trader scheme

Supporting communities via sponsorship of the Powercor Country Festival and Game, partnership with the Western Bulldogs' Community Foundation and Next Generation Academy

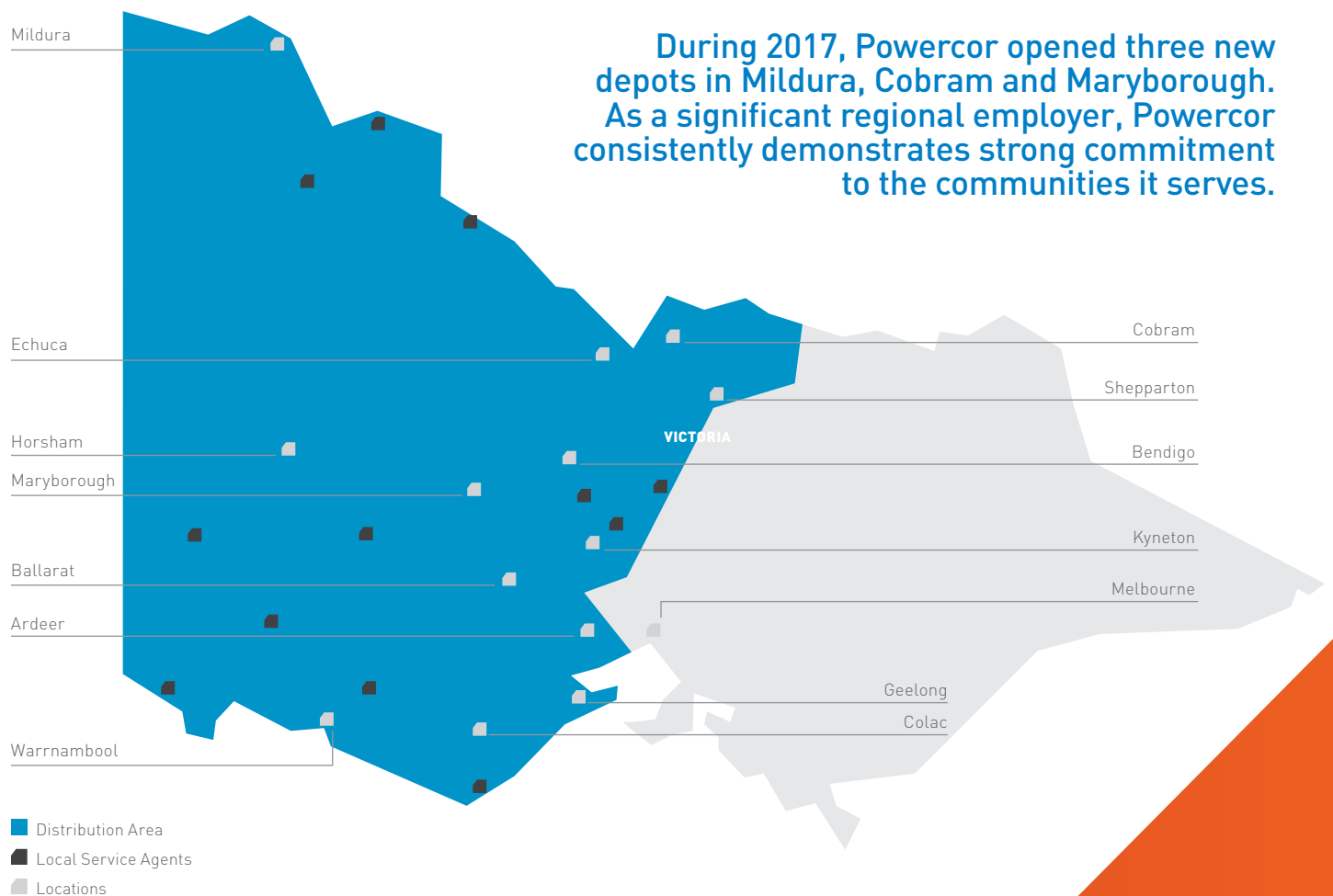
2018 PRIORITIES

Safety – further improve operational capabilities and reduce the frequency and severity of switching incidents

Customers – improving on customer connections processes and enhancing digital self-service options

Cost effective operational improvements – optimising assets, systems and processes such as the use of automation and robotics

Regulatory outcomes and stakeholders – progress draft regulatory reset submissions including consultation with stakeholders, customers and communities



CASE STUDY

New technology helps reduce bushfire risk

Powercor is installing leading-edge technology to help reduce the risk of bushfires from power lines in high bushfire risk areas across its network.

The installation of Rapid Earth Fault Current Limiters (REFCLs) are designed to stop an electrical current within milliseconds of a power line coming into contact with the ground or vegetation – stopping a fault before it can start a fire.

In 2017, Powercor successfully installed REFCLs in Gisborne and Woodend, and will install 22 across the Powercor network over the next seven years. The REFCL technology will complement CitiPower and Powercor's comprehensive approach to network and community safety.

REFCL technology was originally developed for its reliability benefits in Europe; however, the technology is being used for the first time in Victoria to help reduce the risk of fires in high bushfire risk areas. The technology was developed in response to the recommendations of the 2009 Victorian Bushfires Royal Commission.

TRANSGRID

Transmission remains core to an energy future with more renewables coming on stream. We are working with stakeholders to create better connections that will allow excess energy to be shared between regions and delivering safe, secure, and reliable electricity for consumers at the lowest possible cost.

TransGrid is the operator and manager of the electricity transmission network in New South Wales and Australian Capital Territory and is positioned centrally within the National Electricity Market connecting Queensland and Victoria.

With more than 13,000 km of transmission lines and cables, 37,500 transmission structures and 100 substations, the network delivers 32% of the electricity consumed within the NEM to over 3.6 million homes and businesses in NSW and the ACT supplying almost one third of Australia's population.

TransGrid transmits 70 million megawatts of electricity to consumers in NSW at a cost of less than \$17 per electricity bill per quarter to consumers, and delivers a peak demand of 13,795 MW.

QUICK FACTS

3.6M+

Homes and businesses supplied

13,000KM

Transmission lines

13,795MW

Peak demand



\$6.7B

Regulated Asset Base and Contracted Asset Base



99.9998%

Network reliability



1,105

Number of employees

2017 ACHIEVEMENTS

Achieving 99.9998% network reliability and protecting households and businesses from blackouts during heatwave and bushfire events in February 2017

Awarded the Jacobs Recognition Medal for Asset Management, a standard of achievement shared by NASA and the US military

Delivering the first Australian digital substation at Avon, NSW

Further diversifying its capital structure with a second US Private Placement debt capital market issuance in July 2017 raising \$941 million (A\$ equivalent)

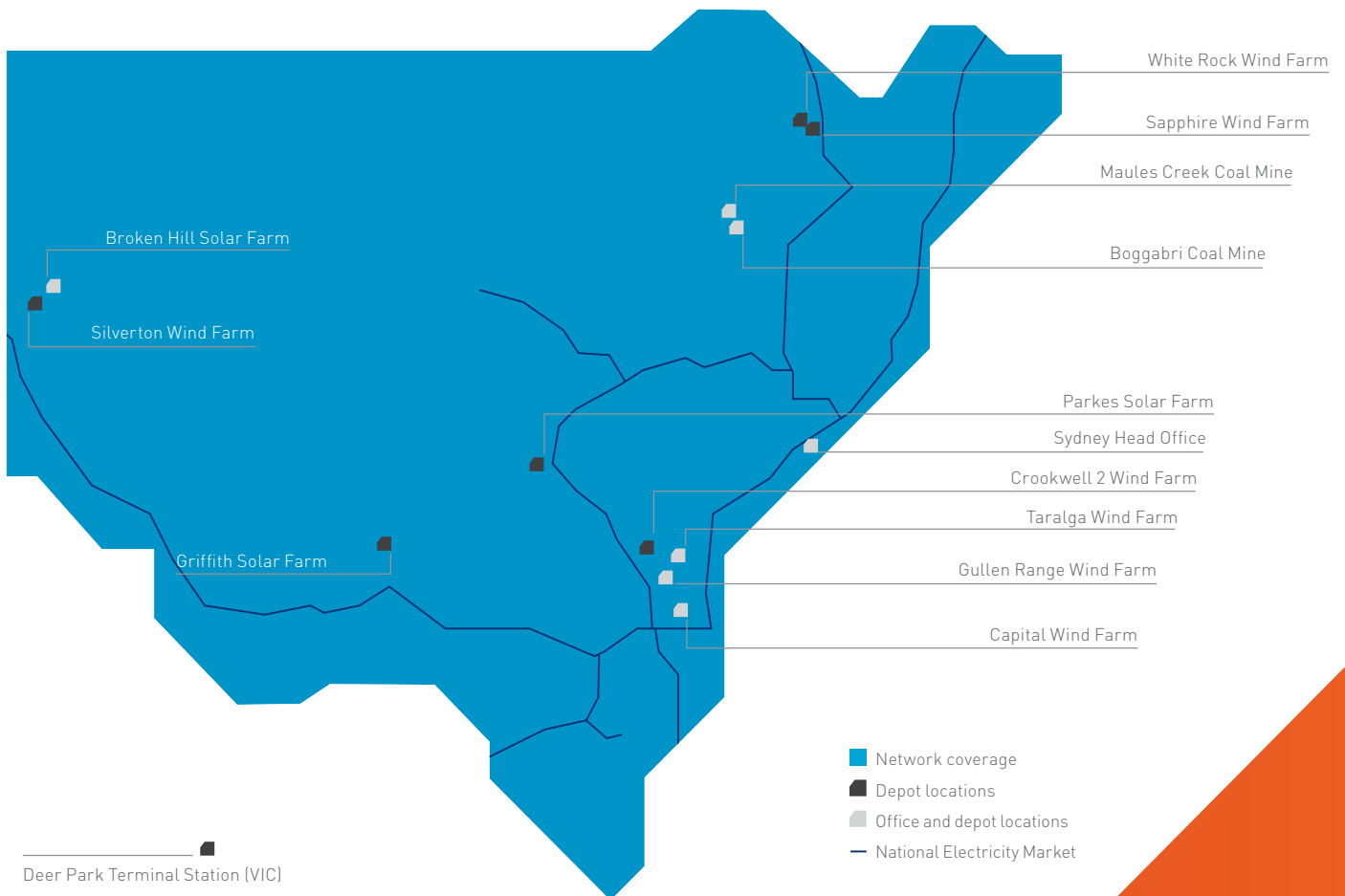
2018 PRIORITIES

Maintaining a strong safety culture following the launch of a new program in July 2017

Working with key industry bodies on the Integrated System Plan for the NEM as recommended by the Finkel Review

Identifying renewable energy zones to help deliver large-scale renewable energy generation

Working with stakeholders to finalise its Revenue Proposal for the next regulatory period to 2023



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We support Australia's energy system of the future with almost 1,500 MW of solar and wind generation connections signed or under construction since privatisation



CASE STUDY

White Rock Wind Farm

On 7 July 2017, in the hills of the New England Tablelands west of Glen Innes, White Rock Wind Farm commenced generating electricity.

The wind farm, owned by CECEP and Goldwind, provides a clean, renewable energy source. Stage one of the project consists of 70 turbines that will produce 175 MW of electricity, enough to power 75,000 homes annually. The blades at the top of each turbine tower are the largest in Australia to date – an impressive 59.5 metres in length.

The new wind farm is linked to the NSW transmission network and the National Electricity Market via a new 132/33kV substation and dual circuit eight kilometre transmission line designed, constructed and commissioned by TransGrid and subcontractor Zinfra.

OUR APPROACH

Our role in owning critical electricity infrastructure businesses provides the opportunity to ensure sustainable policies are adopted in line with community expectations.

Summary

Spark Infrastructure owns significant investments in Australian electricity distribution and transmission businesses. Our businesses transport electricity and provide related services to many millions of Australian households and businesses across the National Electricity Market.

Accordingly, at Spark Infrastructure risk management is at the heart of everything we do. Our core tenets include affordability, reliability and security of energy supply, protecting the environment in which we operate and facilitating the transition to a renewable future, financial stability through prudent financial management, employee development and ensuring a safe working environment. The efficiency of our investment businesses is critical to our success. Providing efficiently priced services and efficient investment enables us to serve our customers, employees, partners and Securityholders.

Spark Infrastructure practises rigorous governance across its portfolio of investments and meets high ethical standards. At Spark Infrastructure and in our investment businesses, we innovate and adapt, seeking new technologies and acquisitions that will strengthen our business and extend our contribution to a strong and sustainable Australian economy.

Spark Infrastructure and its investment businesses play a vital role in the economy and we work diligently to remain strong and viable. We contribute to environmental sustainability and strongly support Australia's transition to greater reliance on renewable energy.

Our primary focus on health and safety is creating a safer workplace and contributing to improved current and future well-being of employees. We invest in our workforce by providing them with skills, knowledge and resources to protect and improve the environments in which we operate. We take a responsible approach to our people, our customers and the community and are dedicated to providing a safe environment in which to work and live. We promote a culture of innovation and, through our business operations, aim to be a leader in environmental responsibility.

Our commitment to sustainability is driven by our Board and the Boards of our investment businesses. Through Risk Management and Environmental, Health and Safety Committees, we provide leadership and support the work of our management teams. The Committees review and monitor performance and effectiveness of our businesses' policies, plans, systems and governance structures in relation to health, safety and the environment including their response to climate change. Our codes of conduct set out the legal and ethical standards that apply to all our people. Spark Infrastructure's detailed governance structure is set out in our Sustainability Report found on our website.

What sustainability means to Spark Infrastructure

Spark Infrastructure invests efficiently to provide safe, reliable and affordable electricity through our portfolio businesses: Victoria Power Networks, SA Power Networks and TransGrid. Between them, the businesses serve millions of Australian households and businesses. We also encourage and support our portfolio businesses to work with customers to facilitate the transition to a more renewable future with lower carbon emissions.



“

We invest in some of the best infrastructure businesses in Australia. We believe that they are central to a low carbon energy future and the long-term sustainability of the Australian economy

.....

Together with our businesses, we will play an important and valuable role in the transformation of the energy sector from being reliant on coal-fired generation to renewable distributed generation over time. This transformation is being driven by new technology, innovation and the move to consumer choice, and our investment businesses are at the forefront of these developments.

Rick Francis, Managing Director and
Chief Executive Officer



I am particularly proud of the role that Spark Infrastructure and our investment businesses are playing in the transition to a low carbon emissions economy. Their innovation is growing revenues and reducing costs today as well as building stronger businesses for tomorrow

Dr Doug McTaggart
Chair

Spark Infrastructure's aim is to:

- achieve an injury free work environment and promote the health of our people and the communities in which we operate
- apply high ethical standards and best business practices
- mitigate risks and employ practices to minimise the impact we have on the environment
- provide customers with reliable and secure electricity supply and reduce costs through efficient operations
- ensure efficient use of energy and resources
- respect the rights of the communities in which we operate
- achieve emissions reduction targets
- provide clear, timely and transparent reporting on operational performance, and
- engage openly with stakeholders.

For Spark Infrastructure, sustainability also means establishing work conditions and employee incentives that enable our investment businesses to provide safe reliable and efficient network services to consumers.

Sustainability governance

Our operations and sustainability efforts and strategies are the primary responsibility of the businesses in our investment portfolio. Working with our partners, Spark Infrastructure supports the sustainability goals and detailed planning and work of our investment businesses and through our governance structures, directly influences, monitors and reviews their sustainability strategy and outcomes.

Spark Infrastructure is directly represented and actively participates on the Boards of each of our investment businesses where we oversee business operations, and review and monitor performance including the management of environmental, social and governance risks.

With the Boards of our investment businesses, we work to maximise the performance of the businesses. We contribute to success by applying our industry, financial and regulatory expertise to the investment businesses' strategy and operations.

Spark Infrastructure insists on strong governance, integrity and high ethical standards. For us, sound governance encompasses contingency planning, effective risk management and the application of a code of conduct that applies to all employees, contractors and directors. The policies established across our business address issues such as anti-bribery and corruption, whistle blowing and fair competition.

Spark Infrastructure applies rigorous financial and operational oversight to the investment businesses, including future growth opportunities.

Environmental sustainability

Our investment businesses actively and diligently manage their material exposure to environmental risks, contributing to environmental sustainability. Our environmental focus includes emissions reduction, water management and security and continuing engagement with the communities in which our businesses operate. We invest in ways to use renewable energy and other technologies like battery storage, to help our businesses and our customers reduce greenhouse gas emissions. Our investment businesses have implemented energy, waste and water efficiency initiatives and increased recycling efforts to reduce landfill. We make environmentally and socially responsible procurement decisions and recognise our responsibility to plan, construct and operate our investment businesses to minimise the impacts on natural or cultural heritage sites.

They seek to avoid exposure to electric and magnetic fields and have a number of programs to promote the safety of customers, employees, contractors and the wider community such as "Drive home safely", "Look up and live", "Dial before you dig" and "Safety at home".

Our communities

At a grassroots level, our investment businesses contribute to a variety of local initiatives of the communities in which they operate. Through sponsorships and local partnerships, we demonstrate responsibility to our communities.



CASE STUDY

SA Power Networks Powering Ahead in South Australia

SA Power Networks meets the challenge of serving a state with diverse terrain and extreme weather variation.

SA Power Networks is conducting a nation-leading trial of combined solar and batteries to test the benefits of combining solar and battery storage, to avoid the need to build additional network infrastructure to meet growth in local electricity demand in an existing residential area.

Combinations of solar PV, battery storage and new forms of network connections are the future of energy provision. The trial is an example of SA Power Networks' desire to ensure that the network remains flexible and accommodating to customer needs now and into the future.

CASE STUDY

Victoria Power Networks Serving the state of Victoria

At Victoria Power Networks a major part of keeping customers and assets safe, and minimising interruptions to electricity, is the careful management of trees and other vegetation near power lines. Every year millions of dollars are invested into ongoing projects that help to reduce bushfire risks across Victoria.

Powercor is installing leading-edge technology to help reduce the risk of bush fires from power lines in high-risk areas across its network. This technology was developed in response to the recommendations from the 2009 Victorian Bushfires Royal Commission. It is designed to stop faults before they can start a fire.

Gender diversity

We are committed to increasing gender balance and have developed a range of strategies to increase the number of women employees in our investment businesses and support their development, career advancement and success. Our aim is to create a workforce that reflects the diversity of the broader community.

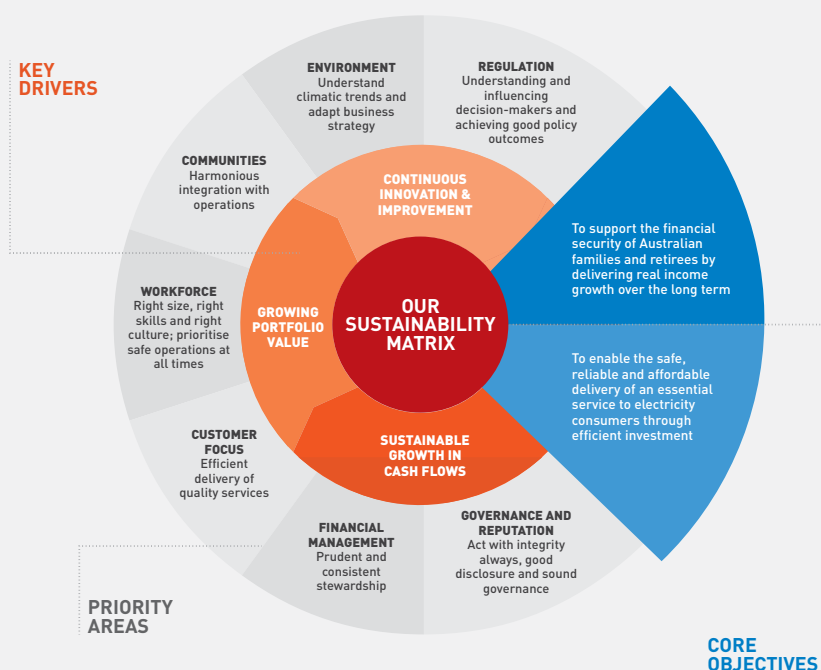
Supporting innovation

Constant innovation is a key component of how our networks are responding to environmental challenges and creating a sustainable future. The future of energy in Australia is being redefined by renewables, distributed generation and energy storage. Our businesses will play an important role in delivering these technologies efficiently for the benefit of consumers, and we support this transition through our business planning, investment decisions and industry advocacy.

Each of the businesses in our investment portfolio has embraced new technologies and is focused on innovative solutions to emerging business challenges. Their central aim is to further enhance a culture of agile and empowered business leadership, to improve our understanding of customer needs and preferences and to embed a flexible and innovative approach to asset planning and investment decisions. SA Power Networks' Innovation Centre, the Beon Energy Solutions business associated with Victoria Power Networks and TransGrid's active facilitation of the growth in renewable generation of electricity through its infrastructure connections business demonstrate our commitment to this area.

Across the electricity supply chain, consumers are now offered greater choice. This creates demand for new products and services and thereby generates fresh business opportunities. Our continual focus is on improving efficiency, reducing cost, delivering customer service and expanding into new service areas. Effectiveness, efficiency and sustainability characterise our management of the electricity network. We are focused on striking the right balance between safety, reliability, growth and affordability so that we meet the expectations of customers today and into the future.

SUSTAINABILITY MATRIX





Stakeholder engagement

Through our program of stakeholder engagement and advocacy with regulators, government, industry bodies and investor groups, we seek to positively influence policy and regulatory outcomes. Our goal is to advance the commercial interests of Spark Infrastructure, its investment businesses and the communities they serve.

Spark Infrastructure with its investment businesses has been a leading voice in navigating through a period of regulatory uncertainty and industry change. Our engagement with key regulators and industry bodies has enabled us to put forward our view of the future of the energy sector and support the implementation of the recommendations from the Finkel Review, helping to build an integrated energy system and strengthen energy security supply, while supporting lower energy costs to consumers. Our investment businesses play a key role in delivering better connectivity within the National Electricity Market.

CASE STUDY

TransGrid Meeting the need in NSW

GreenGrid is a partnership between TransGrid and Greening Australia that has been 'Bringing Life to Landscapes, Bringing Landscapes to Life' since 1997. GreenGrid is an award winning large-scale program encompassing the Southern Tablelands, Southern Highlands, Central West and Sydney Region, recently expanding into Northern NSW in the Hunter Valley, Mid North Coast and Far North Coast. GreenGrid has made tangible improvements to land, biodiversity, river health and sustainable production, achieving the partnership's three main objectives:

- address biodiversity, water quality and sustainability issues through targeted on-ground action
- bring together TransGrid staff and the community to grow and plant native vegetation, and
- improve understanding and practice of natural resource management.

The GreenGrid partnership has engaged more than 500 landholders and more than 3,500 community volunteers in:

- fencing, conserving or revegetating over 2,200 hectares of land
- propagating 332,670 native plants
- erecting 500 kilometres of fencing to exclude stock from vegetation
- undertaking 2,300 kilometres of direct seeding
- engaging over 20 schools in hands-on educational activities, and
- investing in a series of major projects such as Boorowa River Recovery, Molong Grassy Woodland Community Restoration Project, Crookwell Community Connectivity Challenge, Williamsdale Offset site, and Rivers of Carbon.

The future of GreenGrid will continue to build on past achievements while also broadening the focus of the partnership to offset our ecological and carbon footprints across the whole business.

Further details regarding Spark Infrastructure's approach to sustainability and data can be found in the 2017 Sustainability Report available on our website at www.sparkinfrastructure.com

BOARD OF DIRECTORS



1



2



3



4



5



6

1 DR DOUG MCTAGGART

PhD, MA(Econ), BEc(Hons), DUniv, FAICD, SF Fin
Chair and Independent Director
(since Dec 2015)

Dr McTaggart is a director of the Suncorp Group and Chair of its Audit Committee, Chair of the QIMR Berghofer Medical Research Institute Council and also of Suncentral Maroochydore Pty Ltd. He is a member of the Australian National University Council.

Dr McTaggart has extensive experience in financial markets, having been Chief Executive of QIC Limited (1998-2012). Prior to QIC, he was Under Treasurer and Under Secretary of the Queensland Department of Treasury and had a distinguished academic career.

Dr McTaggart is a member of the Remuneration Committee.

2 RICHARD (RICK) FRANCIS

BCom, MBA, CA, GAICD

Managing Director and Chief Executive Officer (since May 2012)

Mr Francis commenced as Managing Director and Chief Executive Officer of Spark Infrastructure in 2012. He originally joined Spark Infrastructure in 2009 as the Chief Financial Officer and served in that role for three and a half years prior to his appointment as Managing Director.

Mr Francis has 20 years' experience in the Australian energy and energy infrastructure industries. Prior to Spark Infrastructure, he was employed by APA Group, and by Origin Energy Limited. Mr Francis is also a Chartered Accountant.

Mr Francis has been a director of SA Power Networks and Victoria Power Networks since 2009. He was appointed Chair of NSW Electricity Networks Operations (TransGrid) in December 2015 and has served as Deputy Chair since June 2016. He also sits on a number of board sub-committees for Spark Infrastructure's investments, including audit, risk management, regulatory, HSE and remuneration committees.

3 MR ANDREW FAY

BAGec (Hons), AFin

Independent Director (since Mar 2010)

Mr Fay is a director of BT Investment Management Limited, J O Hambro Capital Management Holdings Limited, Gateway Lifestyle Group and National Cardiac Pty Limited. He was previously Chair of Tasman Lifestyle Continuum Ltd and Deutsche Managed Investments Limited. Mr Fay was Chair of Deutsche Asset Management (Australia) Limited following a 20-year career in the financial services sector and has served on industry representative bodies.

Mr Fay is a director of SA Power Networks. He is Chair of the SA Power Networks Audit Committee and a member of its Risk and Compliance Committee and Remuneration Committee.

Mr Fay is a member of the Audit, Risk and Compliance Committee.

4 MR GREG MARTIN

BEc, LLB, FAIM, MAICD

Independent Director (since Jan 2017)

Mr Martin is Chair of Iluka Resources Limited and Chair of its nominations committee, Deputy Board Chair of Western Power and Chair of Sydney Desalination Plant. Mr. Martin was a member of the COAG Energy Council Energy Appointments Selection Panel and was previously a director of Santos Limited.

Mr Martin has over 35 years' experience in the energy, utility and infrastructure sectors in Australia, New Zealand and internationally. Previously Mr. Martin was CEO and MD of AGL, then CEO of the infrastructure division of Challenger Financial Services Group and, subsequently, CEO and Managing Director of Murchison Metals Limited.

Mr Martin is a member of the Remuneration Committee.

5 MS ANNE MCDONALD

BEc, FCA, GAICD

Independent Director (since Jan 2009)

Ms McDonald is the Chair of WaterNSW, Chair of Specialty Fashion Group Limited and a director of Link Administration Holdings Ltd and St Vincent's Healthcare Limited. Ms. McDonald's previous directorships include GPT Group, Sydney Water Corporation and Westpac's life insurance and general insurance businesses.

Ms McDonald was a partner of Ernst & Young for 15 years, was a Board member of Ernst & Young Australia for 7 years and has broad based business and financial experience.

Ms McDonald is a director of Victoria Power Networks and is Chair of Victoria Power Networks' Audit Committee and a member of its Risk and Compliance Committee and Remuneration Committee.

Ms McDonald is Chair of the Remuneration Committee and a member of the Audit, Risk and Compliance Committee.

6 MS KAREN PENROSE

BCom, CPA, FAICD

Independent Director (since Oct 2014)

Ms Penrose is a director of Bank of Queensland Limited, Vicinity Centres, AWE Limited and Future Generation Global Investment Company Limited (pro bono).

Ms Penrose was formerly a director of UrbanGrowth NSW and Silver Chef Limited.

Ms Penrose has extensive experience in business, finance and investment banking. Her executive career includes 20 years with Commonwealth Bank and HSBC.

Ms Penrose was a Council member of Chief Executive Women for six years.

She is a member of the advisory panel for the Chief Executive Women Leaders Program and is a member of its governance and nominations committee.

Ms Penrose is the Chair of the Audit, Risk and Compliance Committee.

MANAGEMENT TEAM



1 MR NICHOLAS SCHIFFER

BCom, LLB, MTax

Chief Financial Officer

Nicholas Schiffer is an experienced finance executive with 22 years' experience in investment banking. Prior to joining Spark Infrastructure, he was a Managing Director at Credit Suisse, with responsibility for investment banking within the energy, transport and general infrastructure sectors.

Nicholas has been a key advisor to a range of Australian and global investors on dozens of projects involving Australian infrastructure and utilities businesses and possesses a deep understanding of these sectors and their key drivers and operating environments.

Nicholas is a director of Victoria Power Networks, SA Power Networks and NSW Electricity Assets Operations (TransGrid). Nicholas is also a member of the Victoria Power Networks Audit Committee and Risk and Compliance Committee and the SA Power Networks Audit Committee and Risk Management and Compliance Committee. Nick was appointed to the position of Chief Financial Officer on 17 July 2017.

2 MR BENJAMIN (BEN) BOLOT

BCom, LLB, MAICD

Chief Investment Officer

Ben Bolot has nearly 20 years' experience in the energy and infrastructure sectors, having previously worked at Origin Energy in Australia, Centrica plc in the United Kingdom and North America and Babcock & Brown.

Immediately prior to joining Spark Infrastructure, Ben was General Manager, Strategy, Development, Transactions and Policy at Origin Energy and was responsible for the international business expansion of Origin Energy including development of renewable energy projects in Chile, Indonesia and Papua New Guinea. Ben was also Chief Risk Officer at Origin Energy, responsible for the Enterprise Risk Framework, including the Health and Safety, Operational and Commercial Risk Systems.



Before working at Origin Energy, Ben worked at Babcock & Brown in the infrastructure team, leading a range of private and public market transactions in Australia, North America and Asia. Prior to this Ben was in the Corporate Finance team at Centrica plc, where he worked on a number of transactions in the United Kingdom and North America.

Ben holds a Bachelor of Laws and a Bachelor in Commerce.

He is a Chartered Accountant and was also admitted as a Barrister and Solicitor of the High Court of New Zealand.

Ben was appointed to the role of Chief Investment Officer on 1 January 2018.

3 MS ALEXANDRA FINLEY

Dip Law, MLM

Company Secretary and Legal Counsel

Alexandra Finley has extensive experience in the financial services sector having held strategic, operational and management roles.

Alexandra is an experienced corporate governance professional with over 20 years' legal and commercial experience gained in private practice and in-house.

Prior to joining Spark Infrastructure, Alexandra spent almost 10 years with National Australia Bank/MLC in various senior legal and commercial roles.

Her responsibilities include corporate governance, legal and regulatory compliance, risk management, corporate transactions and advising on general legal matters.

Alexandra was appointed to the position of General Counsel and Company Secretary in September 2008.

DIRECTORS' REPORT

The Directors of Spark Infrastructure RE Limited⁽¹⁾ present this financial report on the consolidated entity for the year ended 31 December 2017.

THE PRINCIPAL ACTIVITY OF SPARK INFRASTRUCTURE

During the reporting period, Spark Infrastructure invested in regulated electricity distribution and transmission businesses in Australia.

THE NATURE OF SECURITIES IN SPARK INFRASTRUCTURE

Spark Infrastructure is a stapled structure comprising two elements:

- one unit in the Trust; and
- one Loan Note issued by Spark RE, the Responsible Entity of the Trust

The stapled elements are quoted on the ASX as if they were a single security that investors can buy and sell.

SPARK INFRASTRUCTURE'S BOARD OF DIRECTORS

At the time of reporting, the Directors of the Company were:

Dr Douglas McTaggart, Chair

Mr Rick Francis, Managing Director and Chief Executive Officer

Mr Andrew Fay

Mr Greg Martin (appointed 1 January 2017)

Ms Anne McDonald

Ms Karen Penrose

During 2017 the following Directors retired:

Dr Keith Turner on 23 May 2017

Ms Christine McLoughlin on 15 October 2017

The Directors' qualifications, experience and special responsibilities are outlined below:

Dr Doug McTaggart PhD, MA(Econ), BEc(Hons), DUniv, FAICD, SF Fin

Chair and Independent Director (since December 2015)

Dr McTaggart is a director of the Suncorp Group and Chair of its Audit Committee, Chair of the QIMR Berghofer Medical Research Institute Council and also of Suncentral Maroochydore Pty Ltd. He is a member of the Australian National University Council.

Dr McTaggart has extensive experience in financial markets, having been Chief Executive of QIC Limited (1998-2012). Prior to QIC, he was Under Treasurer and Under Secretary of the Queensland Department of Treasury and had a distinguished academic career. He has served in various expert advisory roles to government and on several industry representative bodies.

Dr McTaggart is a member of the Remuneration Committee⁽²⁾.

Dr McTaggart has held the following directorships of other Australian listed entities within the last three years:

LISTED ENTITY	PERIOD DIRECTORSHIP HELD
• Suncorp Group Limited	2012 to present

Mr Richard (Rick) Francis BCom, MBA, CA, GAICD

Managing Director and Chief Executive Officer (since May 2012)

Rick Francis commenced as Managing Director and Chief Executive Officer of Spark Infrastructure in 2012. He originally joined Spark Infrastructure in 2009 as the Chief Financial Officer and served in that role for three and a half years prior to his appointment as Managing Director.

Rick has 20 years' experience in the Australian energy and energy infrastructure industries. Prior to Spark Infrastructure he was employed by the ASX-listed gas transmission and energy infrastructure business APA Group, where he was Chief Financial Officer for four years, and by Origin Energy Limited for over eight years in a number of senior management roles in the corporate and operational areas. Rick is also a Chartered Accountant.

Rick has been a director of SA Power Networks and Victoria Power Networks since 2009. He was appointed Chair of NSW Electricity Networks Operations (TransGrid) in December 2015 and has served as Deputy Chair since June 2016. He also sits on a number of board sub-committees for Spark Infrastructure's investments, including audit, risk management, regulatory, HS&E and remuneration committees. Rick did not hold any other Australian listed entity directorships within the last three years.

(1) In this report, Spark Infrastructure RE Limited is referred to as "Spark RE" or "Company". Spark RE is the responsible entity of Spark Infrastructure Trust, referred to as "Trust". The Trust and its consolidated entities are referred to as "Spark Infrastructure" or "Group".

(2) The Board resolved to resume nomination responsibilities from the Nomination and Remuneration Committee in December 2017. The Charters for the Board and Remuneration Committee have been amended accordingly.

SPARK INFRASTRUCTURE'S BOARD OF DIRECTORS CONTINUED

Mr Andrew Fay BAgEc (Hons), AFin Independent Director (since March 2010)

Mr Fay is a director of BT Investment Management Limited, J O Hambro Capital Management Holdings Limited, Gateway Lifestyle Group and National Cardiac Pty Limited. He was previously Chair of Tasman Lifestyle Continuum Ltd and Deutsche Managed Investments Limited. Mr Fay was Chair of Deutsche Asset Management (Australia) Limited and associated companies until 2010 following a 20-year career in the financial services sector and has served on industry representative bodies.

Mr Fay is a director of SA Power Networks. He is Chair of the SA Power Networks Audit Committee and a member of its Risk and Compliance Committee and Remuneration Committee.

Mr Fay is a member of the Audit, Risk and Compliance Committee.

Mr Fay has held the following directorships of other Australian listed entities within the last three years:

LISTED ENTITY	PERIOD DIRECTORSHIP HELD
• BT Investment Management Limited	2011 to present
• Gateway Lifestyle Group	2015 to present

Mr Greg Martin BEc, LLB, FAIM, MAICD Independent Director (since January 2017)

Mr Martin is Chair of Iluka Resources Limited and Chair of its nominations committee, Deputy Board Chair of Western Power and Chair of Sydney Desalination Plant. Mr Martin concluded his term as a member of the COAG Energy Council Energy Appointments Selection Panel on 19 January 2018. Mr Martin was previously a director of Santos Limited.

Mr Martin has over 35 years' experience in the energy, utility and infrastructure sectors in Australia, New Zealand and internationally, having spent 25 years with The Australian Gas Light Company, including five years as CEO and Managing Director. After AGL, Mr. Martin was CEO of the infrastructure division of Challenger Financial Services Group and, subsequently, CEO and Managing Director of Murchison Metals Limited.

Mr Martin is a member of the Remuneration Committee.

Mr Martin has held the following directorships of other Australian listed entities within the last three years:

LISTED ENTITY	PERIOD DIRECTORSHIP HELD
• Iluka Resources Limited	2013 to present
• Energy Developments Limited	2006 to 2015
• Santos Limited	2009 to 2017

Ms Anne McDonald BEc, FCA, GAICD Independent Director (since January 2009)

Ms McDonald is the Chair of WaterNSW, Chair of Specialty Fashion Group Limited and a director of Link Administration Holdings Ltd and St Vincent's Healthcare Limited. Ms McDonald's previous directorships include GPT Group, Sydney Water Corporation and Westpac's life insurance and general insurance businesses.

Ms McDonald was a partner of Ernst & Young for 15 years and was a Board member of Ernst & Young Australia for 7 years. She has broad based business and financial experience, working with international and local companies on audit, transaction due diligence, regulatory and accounting requirements.

Ms McDonald is a director of Victoria Power Networks and is Chair of Victoria Power Networks' Audit Committee and a member of its Risk and Compliance Committee and Remuneration Committee.

Ms McDonald is Chair of the Remuneration Committee and a member of the Audit, Risk and Compliance Committee.

Ms McDonald has held the following directorships of other Australian listed entities within the last three years:

LISTED ENTITY	PERIOD DIRECTORSHIP HELD
• Specialty Fashion Group Limited	2007 to present
• Link Administration Holdings Ltd	2016 to present
• GPT Group	2006 to 2016

Ms Karen Penrose BCom, CPA, FAICD
Independent Director (since October 2014)

Ms Penrose is a director of Bank of Queensland Limited, Vicinity Centres, AWE Limited and Future Generation Global Investment Company Limited (pro bono). Ms Penrose was formerly a director of UrbanGrowth NSW and Silver Chef Limited.

Ms Penrose has extensive experience in business, finance and investment banking in the banking and corporate sectors and is an experienced audit chair and member of due diligence committees.

Her executive career includes 20 years with Commonwealth Bank and HSBC and over eight years' experience as Chief Financial Officer and Chief Operating Officer for two ASX listed companies.

Ms Penrose was a Council member of Chief Executive Women for six years. She is a member of the advisory panel for the Chief Executive Women Leaders Program and is a member of its governance and nominations committee.

Ms Penrose is the Chair of the Audit, Risk and Compliance Committee.

Ms Penrose has held the following directorships of other Australian listed entities within the last three years:

LISTED ENTITY	PERIOD DIRECTORSHIP HELD
• AWE Limited	2013 to present
• Vicinity Centres	2015 to present
• Future Generation Global Investment Company Limited	2015 to present
• Bank of Queensland Limited	2015 to present
• Silver Chef Limited	2011 to 2015
• Novion Limited	2014 to 2015

SPARK INFRASTRUCTURE'S EXECUTIVE TEAM

At the time of reporting, in addition to the Managing Director, the other members of the Company's Executive Team were:

Mr Nicholas Schiffer BCom, LLB, MTax
Chief Financial Officer

Nicholas Schiffer is an experienced finance executive with 22 years' experience in investment banking. Prior to joining Spark Infrastructure he was a Managing Director at Credit Suisse, with responsibility for investment banking within the energy, transport and general infrastructure sectors.

Nicholas has been a key advisor to a range of Australian and global investors on dozens of projects involving Australian infrastructure and utilities businesses and possesses a deep understanding of these sectors and their key drivers and operating environments.

Nicholas is a director of Victoria Power Networks, SA Power Networks and NSW Electricity Assets Operations (TransGrid). Nicholas is also a member of the Victoria Power Networks Audit Committee and Risk and Compliance Committee and the SA Power Networks Audit Committee and Risk Management and Compliance Committee.

Nick was appointed to the position of Chief Financial Officer⁽¹⁾ on 17 July 2017.

Mr Benjamin (Ben) Bolot BCom, LLB, MAICD
Chief Investment Officer

Ben has nearly 20 years' experience in the energy and infrastructure sectors, having previously worked at Origin Energy in Australia, Centrica plc in the United Kingdom and North America and Babcock & Brown.

Immediately prior to joining Spark Infrastructure, Ben was General Manager, Strategy, Development, Transactions and Policy at Origin Energy and was responsible for the international business expansion of Origin Energy including development of renewable energy projects in Chile, Indonesia and Papua New Guinea. Ben was also Chief Risk Officer at Origin Energy, responsible for the Enterprise Risk Framework, including the Health and Safety, Operational and Commercial Risk Systems.

Before working at Origin Energy, Ben worked at Babcock & Brown in the infrastructure team, leading a range of private and public market transactions in Australia, North America and Asia. Prior to this Ben was in the Corporate Finance team at Centrica plc, where he worked on a number of transactions in the United Kingdom and North America.

Ben holds a Bachelor of Laws and a Bachelor in Commerce. He is a Chartered Accountant and was also admitted as a Barrister and Solicitor of the High Court of New Zealand.

Ben was appointed to the role of Chief Investment Officer on 1 January 2018.

Ms Alexandra Finley Dip Law, MLM
Company Secretary and Legal Counsel

Alexandra Finley has extensive experience in the financial services sector having held strategic, operational and management roles.

Alexandra is an experienced corporate governance professional with over 20 years' legal and commercial experience gained in private practice and in-house.

Prior to joining Spark Infrastructure, she spent almost 10 years with National Australia Bank/MLC in various senior legal and commercial roles.

Her responsibilities include corporate governance, legal and regulatory compliance, risk management, corporate transactions and advising on general legal matters.

Alexandra was appointed to the position of General Counsel and Company Secretary in September 2008.

(1) Greg Botham resigned as Chief Financial Officer on 30 April 2017.

OPERATING AND FINANCIAL REVIEW

Review of Operations – Spark Infrastructure

The table below provides a summary of key financial performance data:

			CHANGE COMPARED TO 2016	
	31 DECEMBER 2017 \$M	31 DECEMBER 2016 \$M	\$M	%
OPERATING CASH FLOWS				
Cash Distributions from Investment Portfolio Businesses				
– Victoria Power Networks ⁽¹⁾	154.4	144.6	9.8	6.8
– SA Power Networks	119.1	119.3	(0.2)	(0.2)
– TransGrid	10.9	44.5	(33.6)	(75.5)
Total Cash Distributions Received from Investment Portfolio Businesses	284.4	308.4	(24.0)	(7.8)
Net Interest Received/(Paid)	0.5	(3.3)	3.8	n/m
Corporate Expenses	(13.8)	(12.1)	(1.7)	14.0
Project Expenses ⁽²⁾	(3.6)	(2.6)	(1.0)	38.5
Net Operating Cash Flows⁽¹⁾⁽³⁾	267.5	290.4	(22.9)	(7.9)

(1) Includes repayment of shareholder loans.

(2) Principally Endeavour Energy related bid costs.

(3) Excludes net operating cash received from derivative contracts associated with DUET Group in 2016.

Cash distributions received from investment portfolio businesses

Spark Infrastructure's cash flow from operating activities for 2017 was \$267.5 million. Excluding the net operating cash received from the interest in DUET Group of \$15.2 million in 2016, the cash flow from operating activities was down 7.9% in 2017.

Total distributions received from Victoria Power Networks were \$154.4 million, up 6.8%. This increase reflects the strong operating performance of the business, including the strong benefits flowing from the World CLASS efficiency program.

Total distributions received from SA Power Networks were \$119.1 million, reflecting another strong year of operations.

Total distributions received from TransGrid were \$10.9 million, down 75.5%, primarily comprised of interest on subordinated loans. This was, in part, caused by TransGrid retaining surplus cash during the year to fund investment opportunities in unregulated infrastructure connection assets. New funding structures for the unregulated business are in the process of being implemented.

Corporate and project related expenses

Spark Infrastructure's corporate expenses increased by \$1.7 million to \$13.8 million during 2017, primarily reflecting the employment of additional resources to expand the breadth and depth of internal specialist resources.

Project related expenses rose by \$1.0 million to \$3.6 million and mainly comprised advisory fees for the Endeavour Energy bid. In addition, \$0.3 million was incurred for the establishment of contingent funding facilities for Spark Infrastructure's share of the purchase price should the bid have succeeded. Costs for 2016 were mainly fees for advice on the company's sale of its interest in DUET Group.

Net interest received/(paid)

Net interest received was \$0.5 million, which was \$3.8 million higher than 2016 reflecting higher levels of surplus cash on deposit and lower fees on the bank debt facilities.

Distributions paid to Securityholders

Spark Infrastructure pays out distributions which are fully supported by operating cash flows. Operating cash flows are reviewed at both the Spark Infrastructure level as well as on a look-through proportionate basis (i.e. at the investment level). Operating cash flows are reviewed after deducting an allowance for maintaining the relevant investment's regulated asset base where applicable. Within this framework, Spark Infrastructure continues to manage fluctuations in its working capital as efficiently as possible.

Spark Infrastructure paid a final distribution for 2016 of \$121.9 million to Securityholders in March 2017, representing 7.25 cents per security ("cps").

Spark Infrastructure paid an interim distribution to Securityholders of \$128.3 million in September 2017 for the half year to 30 June 2017. This represented a distribution of 7.625 cps.

The Directors declared a final distribution for 2017 of 7.625 cps. This will be paid in March 2018. The interim and final distributions are fully covered by operating cash flows, and are in line with distribution guidance previously provided.

Spark Infrastructure has a Distribution Reinvestment Plan ("DRP"). The Directors regularly assess the operation of the DRP and have determined that the DRP will remain suspended.

Impairment testing

Any significant changes to expectations about levels of distributions from the investment portfolio businesses are considered to be potential triggers for impairment. That is because the distributions are an important part of the overall valuation of investments. As previously disclosed, short-term distributions from TransGrid might be lower than the levels originally forecast at the time of Spark Infrastructure's initial investment in TransGrid. The expected reduction is primarily caused by increases in forecast unregulated capital expenditure, which in turn will see increased revenues in future years.

Accordingly, Spark Infrastructure calculated fair value less costs-to-sell to assess its investment in TransGrid. The calculation confirmed that the carrying value of the investment did not exceed its recoverable value. As a result, no impairment was found.

The Directors are satisfied that neither Victoria Power Networks nor SA Power Networks suffered an impairment loss during 2017.

Federal Treasury review of stapled structures

In March 2017, the Federal Treasury announced a review of stapled structures in Australia along with the release of a Consultation Paper. The review is being carried out in the context of protecting the integrity of Australia's corporate tax system.

Spark Infrastructure has been actively engaged in the consultation process to date and has also made a written submission. Spark Infrastructure will continue to monitor and engage with the Federal Treasury to ensure that they understand the impact of any potential reforms on Spark Infrastructure's structure, its investments and its Securityholders' tax position.

Review of Operations – Investment Portfolio Businesses

Spark Infrastructure derives most of its earnings from equity interests in four quality Australian electricity networks across Victoria, South Australia and New South Wales. These are 49% interests in CitiPower and Powercor (together known as "Victoria Power Networks") and SA Power Networks, and a 15.01% interest in the New South Wales electricity transmission business TransGrid.

CHANGE COMPARED TO 2016				
	31 DECEMBER 2017 \$M	31 DECEMBER 2016 \$M	\$M	%
Proportional Results (Spark Infrastructure's Share)				
Distribution and Transmission Revenue	940.3	921.3	19.0	2.1
Other Revenue	240.4	230.0	10.4	4.5
Total Revenue	1,180.7	1,151.3	29.4	2.6
Operating Expenses	(392.7)	(398.2)	5.5	(1.4)
Beon Margin	3.5	4.1	(0.6)	(14.6)
EBITDA	791.5	757.2	34.3	4.5
Net Finance Expenses	(171.1)	(174.7)	3.6	(2.1)
EBTDA	620.4	582.5	37.9	6.5
	31 DECEMBER 2017 \$M	31 DECEMBER 2016 \$M	VARIANCE \$M	VARIANCE %
Victoria Power Networks (100% basis)				
Distribution Revenue ⁽¹⁾	903.3	900.1	3.2	0.4
Advanced Metering Infrastructure ("AMI") Revenue	102.5	108.2	(5.7)	(5.3)
Semi-regulated Revenue	51.1	44.4	6.7	15.1
Other Unregulated Revenue	54.9	53.2	1.7	3.2
Total Revenue (excluding Beon Energy Solutions ("Beon"))	1,111.8	1,105.9	5.9	0.5
Operating Expenses (excluding Beon)	(338.6)	(330.1)	(8.5)	2.6
Beon Margin	7.2	8.3	(1.1)	(13.3)
EBITDA	780.4	784.1	(3.7)	(0.5)
Depreciation and Amortisation	(302.2)	(317.0)	14.8	(4.7)
Net Finance Expenses	(155.5)	(159.1)	3.6	(2.3)
Interest on Subordinated Debt	(143.3)	(159.4)	16.1	(10.1)
Tax Expense	(56.1)	(42.4)	(13.7)	32.3
Net Profit after Tax	123.3	106.2	17.1	16.1
Net Capital Expenditure	463.9	406.6	57.3	14.1
RAB	5,897	5,734	163	2.8
Net Debt/RAB (%)	71.0%	72.4%	N/A	(1.4)

(1) Adjustments are made to distribution revenues to defer/accrue for amounts in excess of/under the regulated revenue cap to reflect that these amounts will be returned to/recovered from electricity consumers in future periods via adjustments to tariffs.

OPERATING AND FINANCIAL REVIEW CONTINUED

Review of Operations – Investment Portfolio Businesses continued

Regulated, semi-regulated and unregulated revenues (excluding Beon)

During the year, various factors resulted in a 0.5% increase in regulated, semi-regulated and unregulated revenue at Victoria Power Networks.

DUoS revenue increased during 2017 by 0.4% to \$903.3 million. The increase in DUoS revenue was primarily due to annual changes in the inputs used to derive regulatory revenues. Key impacts relate to inflation and X-factors and the year on year movement in incentive payments:

The X-factors (the real increase in annual expected regulated revenue) applicable from 1 January 2017 for Powercor was 4.68% and for CitiPower was 0.4%, which represents a real decrease in revenues before CPI. DUoS revenue reduced by \$21.2 million as a result of the CPI-X adjustment.

2017 DUoS revenue included \$20.6 million of STPIS recovery relating to the 2015 regulatory year. 2016 DUoS revenue was reduced by \$11.0 million STPIS penalty incurred in the 2014 regulatory year.

A further factor contributing to the movement in DUoS revenue was the release in 2016 of a \$9 million provision. This release related to the receipt of a favourable Australian Tax Office ("ATO") ruling on the treatment of capital spent on power line replacement. After excluding this release from DUoS revenue for 2016, there was an increase of \$12.2 million or 1.4% in 2017.

Revenue from AMI decreased by 5.3% to \$102.5 million in 2017. This was reflective of the depreciating AMI RAB.

Victoria Power Network's semi-regulated revenues grew by 15.1% to \$51.1 million, mainly due to increased design services provided before connecting customers.

Victoria Power Network's unregulated revenue (excluding Beon) increased by 3.2% to \$54.9 million in 2017. The increase was mainly due to income from insurance recoveries and proceeds from sale of properties.

Regulated, semi-regulated and unregulated operating expenses (excluding Beon)

Operating expenses for Victoria Power Networks increased by 2.6% to \$338.6 million in 2017.

Drivers of the increase in 2017 operating expenses include increases to environment provisions of \$13.4 million and the non-cash impact of revaluing employee provisions. These were partially offset by efficiency improvements across corporate functions and increased workforce productivity with fewer full-time employees.

Beon energy solutions

Unregulated revenue received by Beon increased by \$26.6 million to \$100.9 million in 2017. Beon operating expenses also increased in 2017 as the business undertook additional projects, with the overall margin earned dropping by \$1.1 million to \$7.2 million.

External financing expenses

Victoria Power Networks reduced net finance expenses in 2017 by 2.3% to \$155.5 million. The reduction was largely due to lower interest charges on refinanced debt.

Capital expenditure

Continued investment in the augmentation and maintenance of the CitiPower and Powercor networks resulted in a 14.1% increase in net capital expenditure in 2017. This capital expenditure is added to Victoria Power Networks RAB, generating DUoS revenue in future periods.

	31 DECEMBER 2017 \$M	31 DECEMBER 2016 \$M	VARIANCE \$M	VARIANCE %
SA Power Networks (100% basis)				
Distribution Revenue ⁽¹⁾	797.6	739.7	57.9	7.8
Semi-regulated Revenue	86.1	92.5	(6.4)	(6.9)
Unregulated Revenue	172.6	154.6	18.0	11.6
Total Revenue	1,056.3	986.8	69.5	7.0
Operating Expenses	(403.2)	(426.6)	23.4	(5.5)
EBITDA	653.1	560.2	92.9	16.6
Depreciation and Amortisation	(225.1)	(221.2)	(3.9)	1.8
Net Finance Expenses	(124.7)	(130.5)	5.8	(4.4)
Interest on Subordinate Debt	(72.5)	(72.7)	0.2	(0.3)
Net Profit	230.8	135.8	95.0	70.0
Net Capital Expenditure	391.6	285.7	105.9	37.1
RAB	4,052	3,953	99	2.5
Net Debt/RAB (%)	73.1%	71.4%	N/A	1.7

(1) Adjustments are made to distribution revenues to defer/accrue for amounts in excess of/under the regulated revenue cap to reflect that these amounts will be returned to/recovered from electricity consumers in future periods via adjustments to tariffs.

Regulated, semi-regulated and unregulated revenues

During the year, various factors resulted in a 7.0% increase in regulated, semi-regulated and unregulated revenue at SA Power Networks.

SA Power Networks increased its DUoS revenue by 7.8% to \$797.6 million. The increase in DUoS revenue was primarily due to annual changes in the inputs used to derive regulatory revenues. Key impacts relate to inflation and X-factors and the year on year movement in incentive payments:

The X-factor (the real increase in annual expected regulated revenue) applicable from 1 July 2016 was -7.13% and from 1 July 2017 was -0.94%, which represent real increases in revenues before CPI. DUoS revenue increased by \$40.0 million as a result of the CPI-X adjustment.

2017 DUoS revenue includes \$22.0 million of STPIS recovery relating to the 2013/14, 2014/15 and 2015/16 regulatory years. DUoS revenue for the 2016 year included \$7.9 million of STPIS recovery relating to 2013/14 and 2014/15 regulatory years.

Semi-regulated revenues were down by 6.9% on 2016 to \$86.1 million. The reduction was caused by a decrease in road infrastructure activity following a peak year in 2016 for such asset relocation projects, partially offset by higher generation connection activity.

SA Power Networks' unregulated revenue increased by 11.6% to \$172.6 million because of the greater volume of major projects, mainly for ElectraNet.

Regulated, semi-regulated and unregulated operating expenses

SA Power Networks total operating expenses were \$403.2 million, a decrease of 5.5% from 2016.

The main drivers leading to the movement in operating expenses were: lower Guaranteed Service Level and emergency response expenditure following significant storm events in 2016 and lower costs for asset relocations, partially offset by higher connection activity expenditure and higher projects expenditure. Some of the 2016 storm related provisions were ultimately not required. Adjusting for these provisions, operating costs would have been \$411.4 million in 2017, a decrease of 1.7% on the adjusted 2016 operating costs.

Capital expenditure

Continued investment in the augmentation and maintenance of the South Australian network resulted in a 37.1% increase in net capital expenditure in 2017. This capital expenditure is added to SA Power Networks RAB, generating DUoS revenue in future periods.

External financing costs

SA Power Networks reduced net finance costs by 4.4% during the year to \$124.7 million as a result of lower interest charges on refinanced debt, partially offset by lower interest income.

	31 DECEMBER 2017 \$M	31 DECEMBER 2016 \$M	VARIANCE \$M	VARIANCE %
TransGrid (100% basis)				
Transmission Revenue ⁽¹⁾	711.6	784.6	(73.0)	(9.3)
Unregulated Revenue	66.8	51.2	15.6	30.5
Other Revenue	9.3	2.7	6.6	244.4
Total Revenue	787.7	838.5	(50.8)	(6.1)
Operating Expenses	(194.4)	(182.9)	(11.5)	6.3
EBITDA	593.3	655.6	(62.3)	(9.5)
Depreciation and Amortisation	(332.4)	(320.3)	(12.1)	3.8
Net Finance Expenses	(225.5)	(219.0)	(6.5)	3.0
Interest on Subordinate Debt	(83.9)	(89.9)	6.0	(6.7)
Net (Loss)/Profit	(48.5)	26.4	(74.9)	(283.7)
Capital Expenditure	331.5	206.4	125.1	60.6
RCAB ⁽²⁾	6,697	6,533	164	2.5
Net Debt/RCAB ⁽²⁾ (%)	81.5%	85.0%	N/A	(3.5)

(1) Adjustments are made to transmission revenues to defer/accrue for amounts in excess of/under the regulated revenue cap to reflect that these amounts will be returned to/recovered from electricity consumers in future periods via adjustments to tariffs.

(2) Regulated and contracted asset base. RAB is based on 31 December 2017 estimate.

OPERATING AND FINANCIAL REVIEW CONTINUED

Review of Operations – Investment Portfolio Businesses continued

Regulated revenue

TransGrid's TUoS revenue fell by 9.3% in 2017 to \$711.6 million.

The 2016 results include reimbursement through tariffs of approximately \$51 million under-recovered revenue from regulatory years before Spark Infrastructure invested in TransGrid. Excluding these amounts from the 2016 results, TUoS revenue in 2017 declined by approximately 2.5%.

The decrease in TUoS revenue was caused primarily by annual changes in the inputs used to derive regulatory revenues. Key impacts relate to inflation and X-factors and the year on year movement in incentive payments:

- TransGrid's TUoS X-factor, which applied from 1 July 2016, was 3.7%, resulting in a real decrease in revenues before CPI through to 30 June 2017. The X-factor applying from 1 July 2017 was 3.94%, a further real decrease before CPI. The inflation rates applying from 1 July 2016 and 1 July 2017 were 1.70% and 1.48% respectively. TUoS revenue decreased in 2017 by \$16.5 million as a result of the CPI-X adjustments; and
- TransGrid's TUoS revenue for 2017 includes \$13.8 million of STPIS benefits relating to the 2015 and 2016 calendar years. In 2016, TUoS revenue included \$12.1 million of STPIS benefits relating to the 2014 and 2015 calendar years.

Unregulated revenue

Unregulated revenue was \$66.8 million, an increase of 30.5% from 2016.

This includes \$53.4 million of infrastructure services revenue which was mainly derived from line modifications (and associated consulting services) as part of asset relocations, specifically in relation to Western Sydney Airport and the Peabody and Mandalong coal mines. There has also been an increase in transmission connection revenues in the year. However, contracts entered into with customers during late 2016 and into 2017, are only expected to generate additional revenues from early 2018 following completion of construction, which normally takes from 12 to 24 months.

Unregulated revenue also included \$8.5 million from telecommunications (up 32.8%) and \$5.0 million (up 6.4%) from property services.

Operating expenses

TransGrid's total operating expenses were \$194.4 million, an increase of 6.3% from 2016.

Unregulated operating expenses were \$29.4 million, an increase of 80.4%, principally due to the increase in line modification works. There was also some increase in overhead costs due to the expansion of TransGrid's Business Growth team with the addition of an Executive Manager and business development and project staff.

Prescribed operating expenses, i.e. those operating expenses relating to the regulated business, were in line with the regulatory operating expenses allowance provided in the base year and were 1.0% lower than 2016. TransGrid was deemed by the Australian Energy Regulator ("AER") to be an "efficient operator"⁽¹⁾. Notwithstanding this, reducing TransGrid operating expenses will continue to remain a keen focus for the business.

Capital expenditure

Capital expenditure was \$331.5 million, an increase of 60.6% from 2016. Regulated capital expenditure increased to \$230.8 million, an increase of 31.2% on 2016. Unregulated capital expenditure increased by 230.2% in 2017 to \$100.7 million.

Continued investment in the augmentation and maintenance of the regulated network is added to TransGrid RAB, generating TUoS revenue in future periods. Unregulated capital expenditure invested by TransGrid will result in increased unregulated revenues. The revenue will increase progressively as each project is completed and then escalate with inflation over the 25–30 year contract periods.

External financing expenses

TransGrid's net finance expenses for 2017 increased by 3.0% to \$225.5 million. The increase largely came from higher interest charges on longer dated capital markets debt, partially replacing short term bank facilities put in place at acquisition.

Financial Position – Spark Infrastructure

Total equity and Loan Notes decreased by \$60.5 million during 2017 to \$3,138.5 million.

Net profit after income tax increased retained earnings by \$88.6 million, while Spark Infrastructure's share of the investment portfolio businesses unfavourable mark-to-market movements on interest rate derivatives and actuarial gains on defined benefit superannuation plans reduced retained earnings and reserves by \$18.2 million. Capital distributions totalling \$131.6 million were paid to Securityholders during 2017.

Spark Infrastructure had available cash on hand at 31 December 2017 of \$112.3 million, excluding \$5 million in cash held to comply with the Australian Financial Services Licence.

At the end of 2017, Spark Infrastructure had no drawn debt. The company holds revolving bank debt facilities of \$250 million. Of this total, \$225 million will mature in November 2018 and the remaining \$25 million in November 2020. Because the company had no drawn debt at 31 December 2017, Spark Infrastructure did not hedge interest rates.

Outlook for 2018

The Directors have reaffirmed distribution guidance for 2018 of 16.0 cps, representing annual growth of 4.9% on 2017, subject to business conditions.

Spark Infrastructure anticipates that growth in distributions per security, through to the end of the regulatory determinations in 2020, will be at least CPI, subject to business conditions.

Spark Infrastructure expects to become a taxpayer in the short term. The timing and amount of tax payable will be dependent on a number of factors including the underlying financial performance of Spark Infrastructure's investment portfolio businesses, tax timing differences and, in the longer term, the outcome of existing disputes with the ATO.

(1) AER Annual Benchmarking Report – Electricity transmission network service providers, November 2017.

REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Dear Securityholders

On behalf of the Board, we are pleased to present our 2017 Remuneration Report for which we will seek your approval at our Annual General Meeting in May 2018. Our Remuneration Report is designed to demonstrate the link between strategy, performance and remuneration outcomes for our Executives and covers the remuneration arrangements for our Executives and Non-Executive Directors for the year ended 31 December 2017.

Operational Performance and Strategy – We have again met our distribution guidance and operational cash flow targets for 2017. Both the South Australian and Victorian businesses in our portfolio have met their budgets and 5-year business plans and remain ranked in the top quartile of efficiency against their peers. The TransGrid business has continued to focus on cultural transformation, efficiency improvements, locking down its next five-year regulatory determination and growing unregulated revenues during 2017. While TransGrid has had a year of excellent growth in unregulated business opportunities, this has had an impact on the distributions it has been able to provide to Spark Infrastructure. During 2017, TransGrid has predominantly only distributed sub-ordinated interest payments to its securityholders, and hence actual distributions received from TransGrid did not achieve their original target. Both TransGrid and its securityholders led by Spark Infrastructure are close to finalising a solution to appropriately finance the growth of its unregulated business for 2018 and beyond, which will see distributions recommence.

Spark Infrastructure has also maintained its strong share market performance in 2017. Over the past 5 years Spark Infrastructure has delivered a total shareholder return of 105.1% versus the broader ASX 200 total shareholder return of 60.8% over the same period.

In addition, 2017 represented the final year of the NSW Government's privatisation program. Spark Infrastructure with its NSW Power Networks consortium partners (i.e. our TransGrid partners) submitted a highly regarded and fully financed bid for the Endeavour Energy distribution business, which ultimately was unsuccessful on price. An interest in Endeavour Energy would have been consistent with Spark Infrastructure's investment strategy and would have complemented our existing portfolio of assets. Our consortium's experience as owners and operators of critical infrastructure enabled us to put forward a highly credible business transformation plan. The consortium undertook a disciplined and detailed valuation approach and had we been successful we are confident the acquisition would have enhanced Securityholder value.

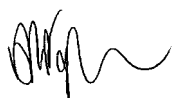
Industry and Stakeholders – 2017 has also been a year of extraordinary industry and regulatory change and challenge, with growth in renewable energy generation, an increased focus by regulators on ensuring that consumers receive value for money and governments seeking to ensure security of electricity supply across the National Electricity Market. Spark Infrastructure has been an active participant and thought leader in this space and will continue to do so seeking the best outcome for our Securityholders, the businesses in our investment portfolio and more broadly for our economy and our society.

Remuneration – There were no increases in remuneration for the Executives, Board or for Committee fees in 2017. For 2018, a CPI related increase of 2% has been determined for the Managing Director and Board and Committee fees.

Remuneration Structure and Governance – Directors introduced two new LTI measures in 2017. From 1 January 2017, the LTI measures comprised Risk Adjusted TSR at 50% weighting, stand-alone operating cash flow (OCF) at 25% weighting and look-through OCF at 25% weighting. Unregulated revenue performance at TransGrid was also introduced as a specific financial STI measure in 2017, while a third of the aggregated STI financial measures specifically related to the performance of TransGrid.

The Directors also introduced an Executive Minimum Securityholding Policy under which the Managing Director is required to hold the equivalent of 100% of Fixed Remuneration in Securities (including earned but not yet vested Securities) within a three-year period. The Managing Director has satisfied this requirement. For other KMP, the requirement is the equivalent of 50% of Fixed Remuneration in Securities (as set out above) within a three-year period. The Directors also established a Non-Executive Directors' Minimum Securityholding Policy requiring 100% of base fees to be held as Securities to be acquired over three years (from later of 1 January 2017 or commencement) and maintained throughout tenure.

There have been no fundamental changes to our Remuneration Framework and policies during 2017, and none are expected in 2018. We have, however, sought to provide greater detail in our Remuneration Report about non-financial KPIs. We will continue to engage with Securityholders in an open and transparent manner and remain receptive to feedback on our Remuneration Framework. We continue to look for opportunities to improve and further align the interests of Executives and Securityholders.



D McTaggart

Chair
Spark Infrastructure

Sydney
23 February 2018



A McDonald

Chair
Remuneration Committee

REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

CONTENTS

The Directors of Spark Infrastructure RE Limited⁽¹⁾ present this Remuneration Report ("Report") on the consolidated entity for the year ended 31 December 2017, prepared in accordance with section 300A of the *Corporations Act 2001* ("Act"). The Report provides information on the remuneration arrangements for Key Management Personnel ("KMP"), that is, Executive KMP ("Executives") and Non-Executive Director KMP ("NEDs") for 2017.

The information provided in this Report has been audited as required by section 308(3C) of the Act. This Report forms part of the Directors' Report.

The Report covers the following:

1. Summary of KMP Remuneration Arrangements and Defined Terms
2. 2017 Organisational and Financial Performance
3. Remuneration Governance
4. Remuneration Philosophy and Link to Business Strategy
5. Remuneration Policy and Mix
6. Remuneration Structure
7. Employment Contract Key Terms
8. Key Management Personnel
9. 2017 Remuneration Outcomes
10. Non-Executive Director Fees
11. Statutory Remuneration Disclosures

(1) In this report, Spark Infrastructure RE Limited is referred to as "Spark RE" or "Company". Spark RE is the responsible entity of Spark Infrastructure Trust, referred to as "Trust". The Trust and its consolidated entities are referred to as "Spark Infrastructure" or "Group".

1. SUMMARY OF KMP REMUNERATION ARRANGEMENTS AND DEFINED TERMS

The Board, through its Remuneration Committee⁽¹⁾ ("RemCo"), continues to review KMP remuneration arrangements to ensure they align with Spark Infrastructure's business strategy and take into consideration feedback from Securityholders, as appropriate.

This section highlights defined terms, which are used throughout this Remuneration Report as well as key elements of KMP remuneration for 2017.

1.1 Defined Terms

DEFINED TERMS USED IN THIS REPORT (AND NOT ELSEWHERE DEFINED)

MD	The Managing Director and Chief Executive Officer of Spark Infrastructure
CFO	The Chief Financial Officer of Spark Infrastructure
KMP	Key Management Personnel, being those people who have authority and responsibility for planning, directing and controlling the major activities of Spark Infrastructure, directly or indirectly, including any Director (whether Non-Executive or otherwise) of Spark Infrastructure and any Executive
Executives	The Managing Director and Chief Executive Officer, the Chief Financial Officer and the General Counsel / Company Secretary
Fixed Remuneration	Fixed Remuneration is the fixed annual remuneration component of Total Remuneration. Fixed Remuneration includes cash, superannuation, car leases and parking allowances but excludes Non-Monetary Items
LTI	The Long Term Incentive Plan. Details of the LTI are set out in the table below
NED	Non-Executive Directors
Non-Monetary Items	This includes life and income protection insurances and any other incidental benefits
KPIs	Key performance indicators set by the Board for the Executives
Securities	The securities traded on the ASX under the ticker "SKI" (comprising one unit in Spark Infrastructure Trust stapled to one loan note issued by Spark Infrastructure RE Limited (ACN 114 940 984) in its capacity as responsible entity for Spark Infrastructure Trust)
STI	The Short Term Incentive Plan. Details of the STI are set out in the table below
Total Remuneration	Total Remuneration comprises Fixed Remuneration plus Non-Monetary Items plus STI plus LTI
TSR	TSR or Total Securityholder Return is the total return from a security to an investor. It combines security price appreciation or diminution plus distributions reinvested to show the total return to an investor

1.2 Key Changes to Remuneration Structure in 2017 and 2018

There was no increase to Executive total remuneration opportunity or NED Board or Committee fees for 2017.

For 2017, Directors introduced two new LTI measures in relation to operating cash flow (OCF). From 1 January 2017, the LTI measures comprised Risk Adjusted TSR at 50% weighting, stand-alone OCF at 25% weighting and look-through OCF at 25% weighting.

The Directors introduced an Executive Minimum Securityholding Policy under which the MD is required to hold the equivalent of 100% of Fixed Remuneration in Securities (including earned but not yet vested Securities), to be acquired within a three-year period and maintained throughout tenure. For other KMP, the requirement is the equivalent of 50% of Fixed Remuneration to be held in Securities (as set out above).

The Board also established a NED Securityholding Policy requiring 100% of base fees to be held as Securities to be acquired over three years (from later of 1 January 2017 or commencement) and maintained throughout tenure.

Unregulated revenue performance at TransGrid was also introduced as a specific financial STI measure for 2017, while a third of the aggregated STI financial measures specifically related to the performance of TransGrid.

There are no changes to Remuneration structure proposed for 2018.

(1) The Board resolved to resume nomination responsibilities from the Nomination and Remuneration Committee in December 2017. The Charters for the Board and Remuneration Committee have been amended accordingly.

1. SUMMARY OF KMP REMUNERATION ARRANGEMENTS AND DEFINED TERMS CONTINUED

1.3 KMP Remuneration Arrangements for 2017

ELEMENT	SPARK INFRASTRUCTURE APPROACH	FURTHER INFORMATION												
SUMMARY OF 2017 REMUNERATION AND OUTCOMES														
1. Link between Spark Infrastructure's 2017 performance and Executive remuneration outcomes	<p>Summary of the remuneration structure for 2017 for KMP is summarised below in this section.</p> <p>Remuneration philosophy, policy and mix is described in sections 4 and 5.</p> <p>Explanation of the short-term incentive and long-term incentive arrangements is provided in section 6.</p> <p>Summary of the organisational and financial performance for Spark Infrastructure for 2017 is provided in section 2.</p> <p>Detail on the 2017 remuneration outcomes, incorporating financial and non-financial KPI performance, for KMP is provided in section 9.</p>	sections 2, 4, 5, 6 and 9												
EXECUTIVE REMUNERATION FRAMEWORK														
2. Proportion of fixed and variable remuneration	<p>Executive remuneration is comprised of fixed remuneration and variable (i.e. 'at-risk') remuneration, which includes STI and LTI. The proportion of fixed and variable remuneration for each executive is outlined below.</p> <table> <tr> <th>EXECUTIVE</th><th>FIXED REMUNERATION</th><th>VARIABLE REMUNERATION</th></tr> <tr> <td>MD</td><td>38%</td><td>62%</td></tr> <tr> <td>CFO</td><td>43%</td><td>57%</td></tr> <tr> <td>General Counsel / Company Secretary</td><td>50%</td><td>50%</td></tr> </table>	EXECUTIVE	FIXED REMUNERATION	VARIABLE REMUNERATION	MD	38%	62%	CFO	43%	57%	General Counsel / Company Secretary	50%	50%	section 5
EXECUTIVE	FIXED REMUNERATION	VARIABLE REMUNERATION												
MD	38%	62%												
CFO	43%	57%												
General Counsel / Company Secretary	50%	50%												
FIXED REMUNERATION														
3. Fixed remuneration	<p>Fixed remuneration is targeted at the median against Spark Infrastructure's market comparator group, composed of ASX-listed entities of a similar size and operational scope.</p> <p>There were no increases to Executive fixed remuneration in 2017. For Executives (excluding newly appointed Executives), the Board has determined that a CPI related increase to fixed remuneration of 2% for 2018 is appropriate.</p>	section 5.2												
SHORT TERM INCENTIVE PLAN ("STI")														
4. Structure and quantum	<p>Maximum STI opportunities in 2017 expressed as a percentage of Fixed Remuneration were as follows:</p> <table> <tr> <th>MD</th><th>CFO</th><th>GENERAL COUNSEL / COMPANY SECRETARY</th></tr> <tr> <td>100%</td><td>80%</td><td>70%</td></tr> </table> <p>Half of any STI is paid in cash following the end of the STI performance period. The remaining 50% of STI is deferred into Rights to strengthen the alignment of Executives to the delivery of value to our Securityholders. The Rights vest as follows:</p> <ul style="list-style-type: none"> • 50% vest 12 months after the end of the STI performance period; and • 50% vest 24 months after the end of the STI performance period. 	MD	CFO	GENERAL COUNSEL / COMPANY SECRETARY	100%	80%	70%	sections 5.1 and 6.1						
MD	CFO	GENERAL COUNSEL / COMPANY SECRETARY												
100%	80%	70%												

ELEMENT	SPARK INFRASTRUCTURE APPROACH	FURTHER INFORMATION
5. Performance measures and gateway	<p>STI performance measures include both financial and non-financial KPIs. Achievement of these KPIs can be influenced by Executives in exercising oversight of Spark Infrastructure's investments and driving performance through efficiency, regulatory outcomes and growth in the unregulated businesses. The weighting of financial and non-financial KPIs may differ among Executives depending on their relative influence in each area of focus.</p> <p>In 2017, financial KPIs were total distributions from investments, total look-through Operating Cash Flow ("OCF"), Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA"), unregulated revenue targets and total controllable costs. Non-financial KPIs included strategic measures as well as stakeholder management, operations and people development measures.</p> <p>In order for the financial component of the STI to be awarded, a performance gateway applies such that Spark Infrastructure must achieve its Distribution Guidance for the relevant year.</p> <p>The distribution gateway does not apply to the non-financial component of the STI.</p>	section 6.1
LONG TERM INCENTIVE PLAN ("LTI")		
6. Structure	<p>LTI awards are granted in the form of Rights. Each Right is a right to acquire a Security, subject to achievement of performance measures over the performance and vesting period.</p> <p>Executives receive one Security for each Right that vests, together with a distribution equivalent payment for each Security allocated on vesting (equal to the distributions the Executive would have been entitled to receive had they held the Securities during the vesting period).</p>	sections 5.1 and 6.2
7. Performance measures and vesting period	<p>The Board believes a mix of external (i.e. risk adjusted TSR) and internal (i.e. OCF) measures for the LTI provides the right focus for Executives on delivering long-term Securityholder value. Accordingly, grants made from 1 January 2017 and thereafter will be assessed against the following performance measures:</p> <ul style="list-style-type: none"> • Tranche 1 (50% of LTI award): Spark Infrastructure's risk adjusted TSR (assessed against the constituent companies in the S&P/ASX 200 index) over a four-year period. • Tranche 2 (25% of LTI award): Standalone OCF will be measured over a three-year period (the test period), plus require a further one-year service period in order to vest at the end of four years (i.e. four-year vesting period). • Tranche 3 (25% of LTI award): Look-through OCF will be measured over a three-year period (the test period), plus require a further one year service period in order to vest at the end of four years (i.e. a four-year vesting period). 	section 6.2

1. SUMMARY OF KMP REMUNERATION ARRANGEMENTS AND DEFINED TERMS CONTINUED

1.3 KMP Remuneration Arrangements for 2017 continued

ELEMENT	SPARK INFRASTRUCTURE APPROACH	FURTHER INFORMATION
NON-EXECUTIVE DIRECTORS ("NED") FEES		
8. NED fee quantum	<p>With the exception of the Board Chair, NEDs receive a base fee and additional fees for chairing or participating in Board committees. The Board Chair's fee is inclusive of committee membership.</p> <p>The Board has determined that a CPI related increase of 2% to NED fees is appropriate in 2018.</p>	section 10
9. NED fees from other entities	<p>NEDs may be appointed to the Boards of investment portfolio companies from time to time, and discharge their role as directors of those companies separately and in addition to their role on the Spark Infrastructure Board. NEDs receive fees directly from those investment portfolio companies. These fees are not paid by Spark Infrastructure because they are separate to fees paid for their role as NEDs of Spark Infrastructure. Directors' fees for investment portfolio companies are determined by the boards of those companies.</p>	section 10.4
KMP MINIMUM SECURITYHOLDING REQUIREMENT		
10. Minimum requirement	<p>From 1 January 2017, KMP are required to hold a minimum number of Securities as follows:</p> <ul style="list-style-type: none"> • MD: 100% of Fixed Remuneration • Other Executives: 50% of Fixed Remuneration • NEDs: Equivalent of one years' director base fees <p>Securities include Securities and Rights (earned but not yet vested) under the Deferred STI Plan. KMP are required to meet the minimum Securityholding requirement within a three-year period from 1 January 2017 or from commencing with Spark Infrastructure, whichever is the latter.</p>	section 9.5
2018 REMUNERATION		
11. Changes to Remuneration for 2018	<p>For 2018, a CPI related increase of 2% has been determined for the Managing Director and Board and Committee fees. There are no changes to the Remuneration Framework or Structure for 2018. The Board has sought to provide greater disclosure of non-financial KPIs in this 2017 Remuneration Report.</p>	sections 5.2 and 10.2

2. 2017 ORGANISATIONAL AND FINANCIAL PERFORMANCE

2017 was another year of consistent and strong performance for Spark Infrastructure which included the following significant achievements:

- An increase in distributions for 2017, up 5.2% to 15.25 cents per security (cps), achieving distribution guidance.
- Distribution guidance of 16.0cps for 2018, up 4.9% on 2017.
- Continued excellent performance from our investment portfolio businesses with an overall increase in distributions, growth in the unregulated revenue and unregulated business opportunities, and continued delivery of operational efficiencies.
- Growth of unregulated opportunities in TransGrid. Infrastructure connections opportunities are progressing well. An agreed capital funding structure to finance unregulated asset connections, while still providing distributions to securityholders, will be implemented by mid 2018, and will further enhance the competitiveness of TransGrid's market position.
- TransGrid submitted a robust and well-considered regulatory proposal for its next 5-year regulatory period (2018 to 2023). The proposal had received considerable input from a broad stakeholder group. The Australian Energy Regulator's (AER) draft determination indicated acceptance of a significant proportion of the proposal. This was a positive outcome and was consistent with TransGrid's expectations in terms of revenue. TransGrid submitted its response to the AER challenging material issues, in particular, reframing its proposal for expenditure to support the significant "Powering Sydney's Future" capital project.
- The Endeavour Energy privatisation process. Spark Infrastructure ran a robust and comprehensive due diligence process for the Endeavour Energy business exercising price discipline and submitting a fully funded bid to the State of NSW. Our bid included a highly acclaimed business plan, a unique synergy proposition involving TransGrid, leveraged the knowledge and expertise of our existing investment businesses and included a negotiated multi-year service level agreement solution to recognise and reward the value add services that Spark Infrastructure brought to the consortium and the subsequent business transformation exercise.
- Contribution to the energy sector debate. Increased recognition of Spark Infrastructure in the public arena, particularly in the regulatory space throughout the year, with important submissions and engagement with government and regulators on various matters including the inflation review, rate of return review, limited merits review and the ACCC review of electricity pricing. We were also instrumental in establishing an investors' reference group which has been formally incorporated into the AER rate of return review process.
- Investor and stakeholder engagement. The Chairman, independent directors and Management once again regularly met with investors and governance and remuneration advisers during the year in order to seek feedback and maintain an open and transparent dialogue with Securityholders. We were pleased to receive votes in support of the Board endorsed resolutions at the 2017 Annual General Meeting.

2.1 Spark Infrastructure Financial Performance

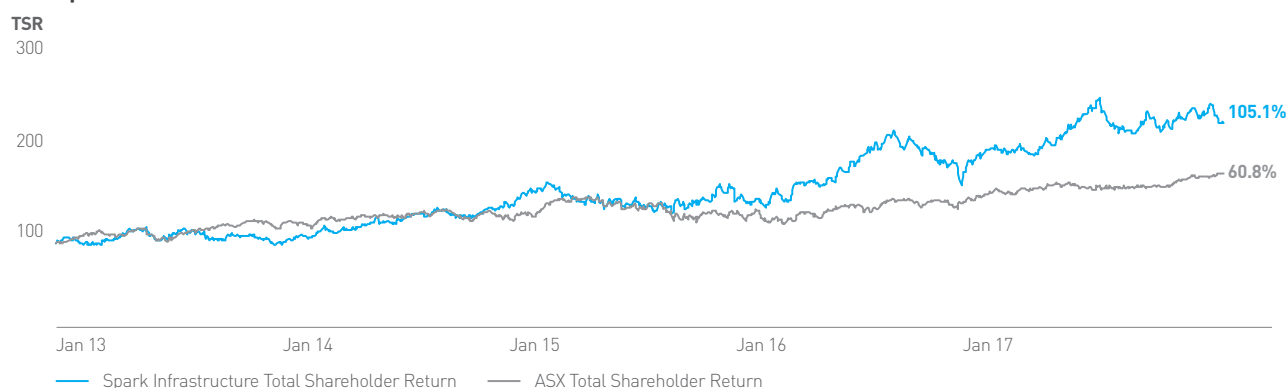
The table below shows the reported financial performance of Spark Infrastructure over the last five years.

	5 YEAR FINANCIAL PERFORMANCE				
	2017	2016	2015	2014	2013
Statutory Profit after tax attributable to Securityholders (\$'000)	88,641	81,083	88,024	128,133	128,435
Statutory Profit before Loan Note Interest and tax expense (\$'000)	265,804	225,816	252,820	272,092	294,482
Closing Security price at year end (\$)	2.51	2.38	1.92	2.13	1.62 ⁽¹⁾
Distribution per Security (cents)	15.25	14.50	12.00	11.50	11.00
Operating costs (\$'000) – includes project costs	16,953	13,545	14,196	11,315	8,195
Look-through Operating Cash flow (cps)	21.4	22.1	28.9	25.1	22.3
Net Debt/Regulatory Asset Base ("RAB") (%)	74.2	74.7	73.0	77.2	78.5

(1) The opening security price at the start of 2013 was \$1.67.

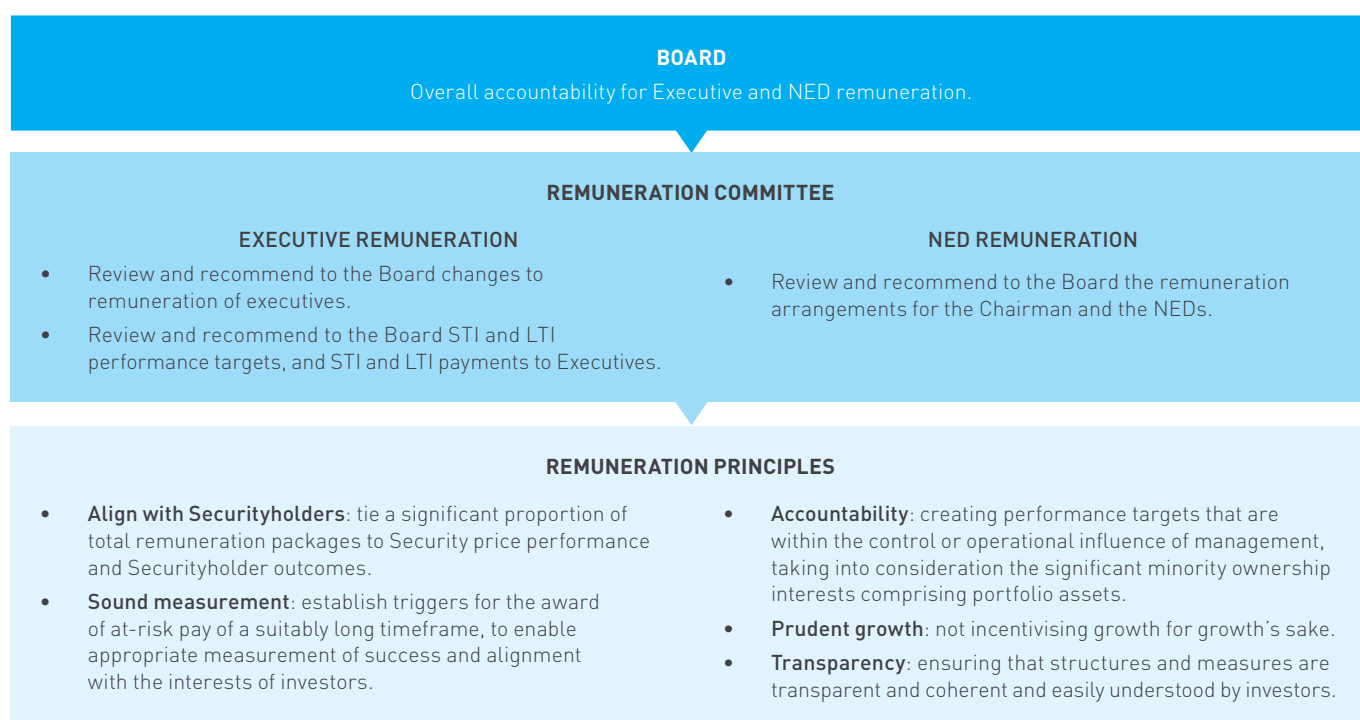
2. 2017 ORGANISATIONAL AND FINANCIAL PERFORMANCE CONTINUED

2.2 Spark Infrastructure 5 Year Total Shareholder Returns



3. REMUNERATION GOVERNANCE

The Board, RemCo, external advisors and management work together to apply our remuneration principles and ensure our remuneration strategy supports sustainable Securityholder value, while always maintaining high standards of corporate governance. The diagram below represents Spark Infrastructure's remuneration decision making framework.



The composition of the RemCo is set out on page 63. Further information on the RemCo's role, responsibilities and membership can be viewed at www.sparkinfrastructure.com/about/corporate-governance/governance-documents.

3.1 Use of Remuneration Advisors

The RemCo appointed Ernst & Young ("EY") as its external remuneration advisor during 2017.

The RemCo has established protocols to ensure that advice provided by advisors is free from undue influence from the members of the KMP to whom the advice relates.

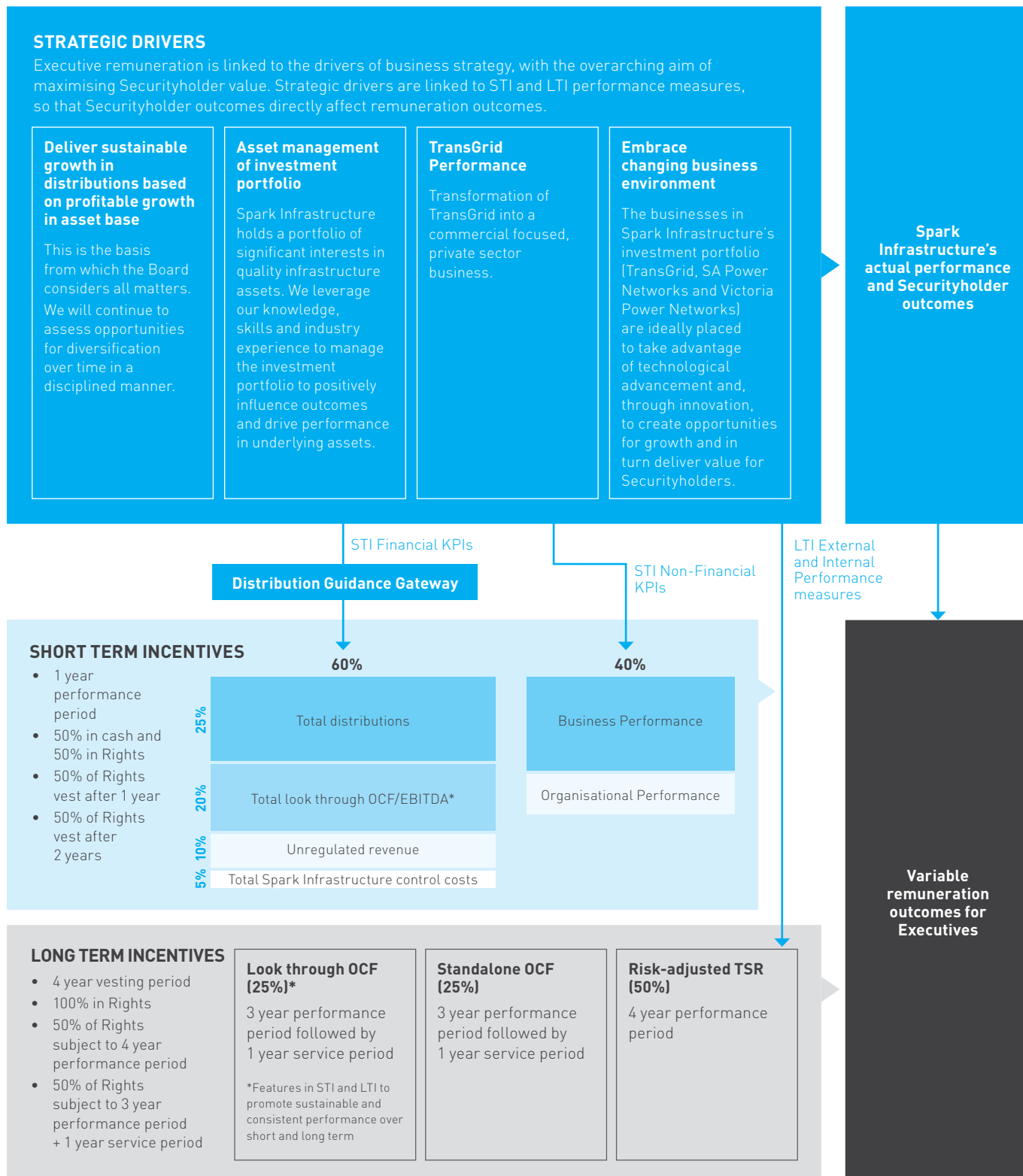
During 2017, EY provided the RemCo with:

- Market remuneration information;
- Independent input into key remuneration decisions; and
- Assistance with the development of the Remuneration Report.

No remuneration recommendations were provided by EY or any other advisor during the year.

4. REMUNERATION PHILOSOPHY AND LINK TO BUSINESS STRATEGY

At Spark Infrastructure, our Executive remuneration is linked to the drivers of our business strategy, with the overarching aim of maximising Securityholder value. Our strategic drivers are reflected in STI and LTI performance measures, so that Spark Infrastructure's actual performance directly affects what Executives earn.



5. REMUNERATION POLICY AND MIX

Executives' remuneration and mix of remuneration are appropriate to each Executive's position, responsibilities and performance, in a way that aligns with our business strategy.

Executives receive Fixed Remuneration and variable 'at-risk' remuneration consisting of short and long-term incentive opportunities. Executive remuneration is reviewed annually by the RemCo with reference to the market and Spark Infrastructure's business operations.

Spark Infrastructure's remuneration policy has a strong performance focus, with a large proportion of Executives' remuneration contingent on maximising Securityholder value. The charts below set out the remuneration structure and maximum remuneration mix for the MD and other Executives in 2017. Refer to section 6.1 and 6.2 for detail on the structure of the STI and LTI.

MD

Fixed remuneration 38%	Maximum STI 38% (50% cash, 50% deferred equity)	Maximum LTI 24% (100% equity)
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CFO

Fixed remuneration 43%	Maximum STI 35% (50% cash, 50% deferred equity)	Maximum LTI 22% (100% equity)
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GENERAL COUNSEL / COMPANY SECRETARY

Fixed remuneration 50%	Maximum STI 35% (50% cash, 50% deferred equity)	Maximum LTI 15% (100% equity)
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5.1 Potential Maximum At-Risk Remuneration for Executives in 2017

Presented below are the Executive maximum STI and LTI opportunities for 2017 expressed as a percentage of Fixed Remuneration. The opportunities are determined with reference to market norms and the Executive's relative influence on Spark Infrastructure's performance. The minimum STI and LTI opportunities are nil.

POSITION	MAXIMUM STI OPPORTUNITY % OF FIXED REMUN- ERATION	MAXIMUM LTI OPPORTUNITY % OF FIXED REMUN- ERATION
Managing Director	100%	65%
Chief Financial Officer	80%	50%
General Counsel and Company Secretary	70%	30%

5.2 The MD's Remuneration Package for 2017

Details of the MD's 2017 remuneration package are set out in the table below.

	BASE 2017 (INCL. SUPER- ANNUATION AND CAR PARKING) (\$)	2017 STI MAXIMUM OPPORTUNITY (%)	2017 STI MAXIMUM OPPORTUNITY (\$)	2017 LTI MAXIMUM OPPORTUNITY (%)	2017 LTI MAXIMUM OPPORTUNITY (\$)	TOTAL REMUN- ERATION MAXIMUM OPPORTUNITY (\$)
Rick Francis	817,000	100%	817,000	65%	531,050	2,165,050

The MD will receive a CPI increase of 2% in Base Remuneration in 2018. There are no other changes to the MD's remuneration package for 2018.

5.3 STI and LTI Common Features: Clawback, treatment of awards on cessation of employment and trading policy

Below are key common features shared between the STI and LTI.

Clawback	<p>Clawback arrangements remain in place for Executives. Unvested and vested but unpaid STI and/or LTI may be forfeited if an Executive:</p> <ul style="list-style-type: none">• has personally acted fraudulently or dishonestly;• has breached his or her material obligations to Spark Infrastructure; or• receives remuneration as a result of the fraud, dishonesty or breach of obligation of another person. <p>Spark Infrastructure's clawback policy may be accessed at: www.sparkinfrastructure.com/about/corporate-governance/governance-documents.</p>
Cessation of employment	<p>The treatment of Rights on termination of employment will vary based on assessment by the Board of the circumstances of termination.</p> <p>If an Executive ceases employment with Spark Infrastructure prior to the end of the performance period, vesting period (including additional service period in respect of the OCF component of the LTI award) or deferral period by reason of resignation or termination for cause, all unvested Rights automatically lapse.</p> <p>If an Executive ceases employment for any other reason (including death, redundancy, genuine retirement), a pro-rata portion of their unvested Rights will remain 'on-foot' subject to the original terms until the end of the vesting period. The pro-rata portion that remains 'on-foot' will be determined based on the portion of the performance or deferral period elapsed on the date of their cessation, and the remaining portion will lapse on the date of cessation.</p> <p>Executives who cease employment remain eligible for the cash component of their STI, pro-rated for the part year of their completed service (unless their employment is terminated for cause) in an amount to be determined by the Board by reference to their KPIs for that year. Any payment of the cash component of their STI will remain subject to achievement of the financial and non-financial KPIs as set by the Board.</p> <p>This leaver provision enhances Spark Infrastructure's risk management by:</p> <ul style="list-style-type: none">• encouraging retention;• allowing discovery of any factors that could contribute to financial restatement that may result in forfeiture of reward;• allowing for a review of Executive behaviours to ensure they have complied with Spark Infrastructure's ethical and risk management guidelines and standards of business conduct;• encouraging the establishment and maintenance of a sound management legacy; and• maintaining Securityholder alignment for a longer period.
Trading Policy	<p>Spark Infrastructure's Securities Trading Policy applies to all KMP. The Policy prohibits KMP from entering into transactions that operate to limit the economic risk of their Spark Infrastructure Securities (e.g. Hedging arrangements) with respect to unvested remuneration entitlements held pursuant to any plan, or Securities that are subject to a holding lock or other restriction on dealing under a plan. The Policy also prohibits employees from dealing in Spark Infrastructure Securities while in possession of material non-public information relevant to Spark Infrastructure. Spark Infrastructure's Trading Policy may be viewed at: www.sparkinfrastructure.com/about/corporate-governance/governance-documents.</p>

6. REMUNERATION STRUCTURE

6.1 Short-term Incentives

The following table sets out the key features of Spark Infrastructure's STI arrangements.

Purpose	<p>The STI plan is operated to:</p> <ul style="list-style-type: none"> • focus Executives, through challenging performance measures, on the achievement of results in areas that are expected to impact the performance of Spark Infrastructure in the short term; • create sustained annual performance over a longer term period through STI deferral; • assist in the attraction, reward and retention of high quality employees; • constrain the potential for unacceptable risk taking; • ensure that a significant portion of remuneration is "at risk" with a mix of financial and non-financial performance measures; and • strengthen the link between Executive remuneration and long-term Securityholder returns through STI deferral.
Gateway	<p>In order for the financial component of the STI to be awarded, Spark Infrastructure must achieve its Distribution Guidance for the year.</p> <p>The distribution gateway does not apply to the non-financial component of the STI.</p>
Performance measures	<p>An Executive's STI award is assessed based on financial KPIs (subject to the gateway) and non-financial KPIs over a 12-month performance period. Non-Financial KPIs may be weighted differently among participants depending on their relative influence in the area. The weighting of financial and non-financial KPIs for each Executive in 2017 was as follows:</p>

POSITION	FINANCIAL KPIS	NON-FINANCIAL KPIS
MD	60%	40%
CFO	60%	40%
General Counsel / Company Secretary	40%	60%

In 2017, Spark Infrastructure Financial KPIs and Non-Financial KPIs were:

Financial KPIs: definition and rationale

- **Total distributions (25%)** – Spark Infrastructure's objective is to deliver steadily growing distributions to Securityholders over time, based on distributions received from its investments.
- **Total look-through OCF/EBITDA (20%)** – Look-through cash flows demonstrates growth and operational excellence and performance of the underlying businesses, which produces distribution growth.
- **Unregulated revenue (10%)** – growth in unregulated revenue at TransGrid demonstrates achievement of key business priorities of our investment innovation, their innovation agendas and ability to participate in rapid industry change and the move to a renewable energy future.
- **Total Spark Infrastructure controllable costs (5%)** – Disciplined management of Spark Infrastructure's costs is an area of continual focus to deliver value for Securityholders.

Measures relevant to TransGrid had a 20% weighting across all financial KPIs (i.e. one third). The creation of long-term value accretion from the 2015 investment in TransGrid is a key priority for Spark Infrastructure.

A "target" and "stretch" goal is set at the start of the financial year with the outcome calculated based on the following scale. Outcomes are reviewed by the RemCo and recommended to the Board for approval.

PERFORMANCE LEVEL	% OF MAXIMUM STI AWARDED BASED ON SPARK INFRASTRUCTURE FINANCIAL KPIS
Below target	0%
Target	70%
Exceed stretch target	100%

BUSINESS PERFORMANCE

- **Strategic** – Spark Infrastructure’s vision is to be a leading Australian listed utility infrastructure investment fund, to provide long-term attractive stable returns and capital growth in line with its risk profile and market expectations, and to establish a diversified portfolio of quality regulated utility infrastructure assets over time.
- **Special projects** – from time to time Spark Infrastructure will undertake special projects such as the assessment of a potential acquisition opportunity with an assessment made on the diligence and effectiveness of how the project is executed and not on the outcome.
 - **Target – focus on Spark Infrastructure strategy and opportunities including disciplined bid for Endeavour Energy**
- **Operations** – operational efficiency, reliability and safety of the underlying businesses in the investment portfolio coupled with identifying and prosecuting unregulated business opportunities is a key tenet of success. Spark Infrastructure exercises robust stewardship of the business through its active management approach and participation on the boards in its investment portfolio.
 - **Target – focus on achieving efficiency and outperformance by investment businesses, resulting in distributions to Spark Infrastructure, TransGrid performance against acquisition model and transformation journey**
- **Optimising regulatory outcomes** – is critical to the ongoing financial performance of the businesses that comprise Spark Infrastructure’s investment portfolio.
 - **Target – focus on engaging with regulators, response on regulatory change and supporting TransGrid regulatory submission**

ORGANISATIONAL PERFORMANCE

- **People, governance and process improvement** – people development is fundamental in maintaining sustainable long-term operations. Spark Infrastructure has a small team of specialist employees and the creation of value for the listed entity relies on the skills, expertise and experience of its people. It is also essential to have an effective risk compliance framework in place.
 - **Target – focus on building team to enhance performance, remuneration structure for investment portfolio companies aligned to Spark Infrastructure as shareholder**
- **Stakeholder management** – interaction of management with investment partners, industry participants, market participants and the communities in which its underlying businesses operate is critical to realising near term value creation and ensuring the long-term sustainability of the investment portfolio. Spark Infrastructure is positioned to be an active participant and thought leader in industry and regulatory change.
 - **Target – focus on enhanced engagement with investors and partner relationships and contribution to the energy sector debate**

Non-Financial KPIs and targets for Executives (other than the MD) are set and assessed by the MD, and are reviewed by the RemCo.

The MD’s performance is assessed and approved by the Board. The Board’s assessment and review is conducted on both a quantitative and qualitative level.

For a summary of overall 2017 organisational and financial performance, refer to section 2.

6. REMUNERATION STRUCTURE CONTINUED

6.1 Short-term Incentives continued

Performance and deferral period	<p>Performance is measured at the end of Spark Infrastructure's financial year.</p> <p>For Executives, 50% of any STI award is paid in cash in February following the year of assessment. The remaining 50% of the STI is delivered in the form of Rights and vests (subject to continuous service) as follows:</p> <ul style="list-style-type: none"> • 50% vests 12 months after the end of the performance period; and • 50% vests 24 months after the end of the performance period (deferral periods). <p>Rights are granted at no cost to the Executive. Upon vesting, rights are automatically exercised and no amount is payable by the Executive on exercise. One Security is received for every Right that vests. A dividend equivalent payment is also made upon vesting, equal to the distributions the Executive would have been entitled to receive had they held the physical Securities during the deferral period.</p> <p>Spark Infrastructure uses a face value methodology for allocating Rights to each Executive, being the VWAP of Securities traded in the 30 trading days up to and including 31 December. The relevant VWAP for determination of the 2018 Grant of Rights is \$2.61.</p>
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6.1.1 Historic STI Deferral Arrangements

For FY2014, deferred STI awards were delivered under a cash-based "phantom" security plan, and hence are cash-settled at vesting. NB. The last tranche of the FY2014 deferred STI awards vested at 31 December 2016 (paid in March 2017).

For FY2015, deferred STI awards were to be delivered under a cash-based "phantom" security plan, whereby 'actual' Securities would not be granted. However, in February 2016, Executives elected to take their deferred STI for FY2015 as Rights, in line with the arrangements outlined above.

From FY2016, deferred STI awards are delivered as Rights in line with the arrangements outlined above.

For further detail regarding STI deferral awards 'on-foot' during 2017 (including the number of instruments granted), refer to section 11.2.

6.2 Long-term Incentives

The following table sets out the key features of Spark Infrastructure's LTI arrangements.

Purpose	<p>The LTI is operated to:</p> <ul style="list-style-type: none"> • align Executive reward with the long-term interests of Spark Infrastructure and its Securityholders, ensuring creation of sustainable Securityholder returns; • focus on performance hurdles that measure performance in terms of risk management as well as returns; and • ensure that a significant portion of remuneration is "at risk".
Performance measures	<p>Grants made in 2017 were subject to three independent performance measures:</p> <ul style="list-style-type: none"> • Risk Adjusted TSR (50% of LTI award) • Standalone OCF (25% of LTI award) • Look-through OCF (25% of LTI award)

Risk adjusted relative TSR Risk adjusted TSR is the return on a Security in excess of what would be expected taking into consideration the relative level of risk in each peer company. The relationship between risk and return is well understood; that is, if risk is high, then there is an expectation of higher returns, and vice versa.

Traditional TSR does not take into account the riskiness of an investment in a particular company. For example, two companies could have the same shareholder return, but one may be a much riskier investment than the other. While TSR is a common method of assessing long-term performance, in our view, executives who deliver the same level of return at a lower risk should be rewarded accordingly.

We understand investors in Spark Infrastructure generally seek stable returns and lower than average risk. To reflect this, we identified two key factors which influence returns: systemic risk (e.g. economic and political) and non-systemic risk (e.g. management skills and judgement). By adjusting for systemic risk in our calculation of TSR, the variability in adjusted returns is more strongly related to management performance.

Risk adjusted TSR is selected as the LTI measure as it provides Spark Infrastructure with a measure of how we are performing in comparison to the market. Where an absolute TSR measure is used, Executives could be rewarded by a rising market even if Spark Infrastructure performs relatively poorly.

Ranking companies by their risk-adjusted return, over a specific period, provides a comparison that more closely reflects how investment decisions are actually made. That is, when making an investment decision, an investor will have a requirement for a company return that is informed by the perceived risk associated with the company.

The Board views the constituents of the S&P/ASX 200 index to be the most appropriate comparator group as this group should represent the competing investment preferences of our investors.

Calculation of risk adjusted TSR and vesting schedule

The excess return of Spark Infrastructure (above what would be expected taking into consideration the relative level of risk in each peer company's security) is compared to the excess returns of S&P/ASX 200 index companies over the four-year performance period, to determine Spark Infrastructure's percentile ranking.

The degree to which LTI opportunity vests is determined by reference to the following scale:

TSR PERCENTILE RANKING		% OF LTI AWARD THAT VESTS
Below the 51st percentile		0%
At the 51st percentile		30%
Between the 51st percentile and the 75th percentile	Pro-rata vesting between 30% and 100%	
At or above the 75th percentile		100%

Testing of the award will occur shortly after the end of the four-year performance period. If any LTI awards do not vest on testing, they will immediately lapse. There is no retesting of LTI awards.

The risk adjusted TSR calculation is undertaken independently of management and is externally reviewed on an annual basis. The Board has disclosed the methodology used to calculate the risk adjusted TSR applicable to assess the LTI on Spark Infrastructure's website at www.sparkinfrastructure.com/about/corporate-governance/governance-documents.

6. REMUNERATION STRUCTURE CONTINUED

6.2 Long-term Incentives continued

Standalone OCF and Look-through OCF

Standalone OCF and Look-through OCF were selected as performance measures for the LTI as they:

- can be influenced by Executives by actively managing the cost, performance, capital expenditure and debt strategy of our investments;
- clearly demonstrate the performance of Spark Infrastructure; and
- reflect Spark Infrastructure's ability to influence the investment companies to ensure distributions are received and are available to be paid to Spark Infrastructure investors.

The OCF measures increase transparency and reduce any potential for artificial growth in distributions to Securityholders by more clearly linking the operational performance of the investment portfolio to the performance of Spark Infrastructure. The decision to use both look-through and standalone cash flow measures seeks to emphasise this balance.

Use of a look-through cash flow measure recognises the importance of protecting Securityholder interests through the appropriate extraction of cash from the investment portfolio. Use of a standalone cash flow measure recognises the application of management's particular skills in the management of minority interests and represents a significant part of the value added by Spark Infrastructure.

Calculation of OCF and vesting schedule

Operating Cash flow ("OCF") is the cash flow from operating activities of the businesses comprising Spark Infrastructure's investment portfolio. Operating cash flow is set each year in accordance with Spark Infrastructure's budget and business plan and reflects the underlying 5-year business plans of the investment portfolio businesses. Operating cash flow is measured on a standalone and a look through basis. Standalone OCF is calculated as the distributions from the portfolio businesses less corporate expenses and represents the cash flow available for distribution to Securityholders. Look-through OCF is comprised of the net cash flow from business operations of the investment portfolio.

The degree to which LTI opportunity vests is determined by reference to OCF performance over the three-year performance period and continued service until the end of the four-year vesting period. A three-year performance period was selected as it allows smoothing of outcomes over the testing period in order to reduce volatility between and across regulatory periods.

OCF performance is measured by reference to the following scale:

THREE-YEAR AGGREGATED OCF TARGET	% OF LTI AWARD THAT VESTS
Below 97.5% of target	0%
97.5% of target	25%
100% of target	Pro-rata vesting between 25% and 100%
105% of target	100%

Testing of the LTI opportunity will occur shortly after the end of the three-year performance period. To the extent any LTI awards are not eligible for vesting based on performance, they will immediately lapse.

LTI awards that become eligible for vesting (based on performance) will vest subject to continued service over an additional one-year service period.

There is no retesting of LTI awards.

Is LTI grant quantum based on "face value" methodology?

Spark Infrastructure uses a face value methodology for allocating Rights to each Executive, being the VWAP of stapled securities traded in the 30 trading days up to and including 31 December. The VWAP for assessment of the 2017 Grant of LTI Awards is \$2.61.

How are awards delivered?

LTI awards are delivered in the form of Rights, which are granted at no cost to the Executive. Executives receive one Security for every Right that vests, together with a distribution equivalent payment for each Security allocated on vesting. This distribution equivalent payment will be equal to the distributions the Executive would have been entitled to receive had they held the Securities during the vesting period. Rights are automatically exercised on vesting and no amount is payable by the Executive on exercise.

6.3 Historic LTI Arrangements

The FY2014 LTI award, due for vesting at 31 December 2017, was granted as “phantom” equity, unlike subsequent LTI awards that were delivered as Rights. The performance measure applied is the same as the FY2015 and FY2016 awards (i.e. 100% weighting to risk adjusted TSR), as is the period over which it is measured (i.e. a four year period). The Award will be tested following the end of the performance period and will vest based on the outcome of the testing. Further detail regarding this award may be found in the 2014 Remuneration Report, which is available on Spark Infrastructure’s website.

For a breakdown of LTI awards ‘on-foot’ during 2017 (including the number of instruments granted), refer to section 11.3.

7. EMPLOYMENT CONTRACT KEY TERMS

Each Executive, including the MD, has a formal employment agreement. These employment agreements are of a continuing nature and have no fixed term of service. There were no changes to the employment agreements for Executives in 2017.

The key terms of the employment agreements are summarised below:

POSITION	CONTRACT PERIOD	NOTICE PERIOD (BY EXECUTIVE OR SPARK INFRASTRUCTURE)	TERMINATION PAYMENT – WITHOUT CAUSE
Managing Director	Permanent	6 months	12 months’ Fixed Remuneration
Chief Financial Officer	Permanent	3 months	6 months’ Fixed Remuneration
General Counsel / Company Secretary	Permanent	3 months	6 months’ Fixed Remuneration

8. KEY MANAGEMENT PERSONNEL

This Report covers Spark Infrastructure’s KMP, comprised of Executives and Independent NEDs.

For the year ended 31 December 2017, the KMP were:

KMP	POSITION	TERM AS KMP
EXECUTIVES		
Mr Rick Francis	Managing Director and Chief Executive Officer	Full Year
Mr Greg Botham	Chief Financial Officer (ceased 30 April 2017)	Part Year
Mr Nicholas Schiffer	Chief Financial Officer (commenced 17 July 2017)	Part Year
Ms Alexandra Finley	General Counsel / Company Secretary	Full Year
INDEPENDENT NON-EXECUTIVE DIRECTORS		
Dr Douglas McTaggart	Independent Non-Executive Director and Chair, Member of Remuneration Committee	Full Year
Mr Andrew Fay	Member of Audit, Risk and Compliance Committee	Full Year
Mr Greg Martin	Member of Remuneration Committee	Full Year
Ms Anne McDonald	Chair of Audit Risk and Compliance Committee to 30 June 2017, and Member thereafter Member of Remuneration Committee to 30 June 2017, and Chair thereafter	Full Year
Ms Karen Penrose	Member of Audit, Risk and Compliance Committee to 30 June 2017, and Chair thereafter	Full Year
Ms Christine McLoughlin⁽¹⁾	Member of Remuneration Committee	Part Year
Dr Keith Turner⁽²⁾	Member of Remuneration Committee	Part Year

(1) Ms Christine McLoughlin retired from the Board with effect from 15 October 2017.

(2) Dr Keith Turner retired from the Board with effect from 23 May 2017.

9. 2017 REMUNERATION OUTCOMES

The sections below set out the outcomes for our Executives in 2017. Further information about STI and LTI awards are contained in sections 6.1 and 6.2, and 2017 remuneration outcomes are set out below.

9.1 STI Awards Reflect Spark Infrastructure Performance

Spark Infrastructure's financial performance directly influences the STI received by Executives in two ways:

1. In order for the financial component of the STI to be awarded, Spark Infrastructure must achieve its Distribution Guidance for 2017 of 15.25 cps. The Board has declared a Distribution of 15.25 cps for 2017. Accordingly, the Distribution Guidance was achieved; and
2. Spark Infrastructure's STI has key STI financial performance measures directly cascading from Spark Infrastructure's business strategy: total distribution financial measures, total look-through OCF/EBITDA financial measures, total TransGrid other financial measures, and total Spark Infrastructure controllable costs.

2017 performance was positive with a number of significant achievements against performance measures:

Financial Performance

- Total distributions to Securityholders increased by 5.2% to 15.25cps.
- Total distribution financial measures from investments was 73% of Target, primarily due to surplus cash in TransGrid being retained by the business to fund investment opportunities in unregulated infrastructure connection assets. Alternate funding structures for the unregulated business have been agreed and are being put in place, expected to complete in the first half of 2018.
- Total look-through Operating Cash Flow ("OCF") was 91% of Target.
- Aggregated proportional EBITDA increased by 4.5% to \$791.5 million.
- Aggregated proportional unregulated revenue increased by 4.5% to \$240.4 million, with TransGrid's unregulated revenue increasing by 30.5% to \$66.8 million (100% basis).
- Total TransGrid other financial measures was 67% of Target.
- Total Spark Infrastructure controllable costs was 73% of Target.

This resulted in an overall achievement of 78% for financial KPIs for KMP, as set out in the table below which outlines performance against each financial KPI.

FINANCIAL KPI'S	LEVEL OF ACHIEVEMENT
Total distribution financial measures from investments	73%
Total look-through OCF/EBITDA financial measures	91%
Total TransGrid other financial measures	67%
Total Spark Infrastructure controllable costs	73%
TOTAL FINANCIAL KPI's	78%

Business Performance

Operations – Spark Infrastructure portfolio businesses continue to operate in line with Business Plans, meeting or exceeding operation efficiency targets, driving cultural change at TransGrid and growth in unregulated business opportunities – **at target**.

Optimise regulatory outcomes – TransGrid regulatory submission and draft determination in line with Business Plan – **at target**.

Stakeholder relations and Special Projects– disciplined bid for Endeavour Energy business, continued engagement with regulators, business partners and industry peers – **at or above target**.

Organisational Performance

People, Governance and Process Improvement – Invested in people development and built on team of specialist employees with the commencement of Ben Bolot in the role of Chief Investment Officer (from 1 January 2018) and the commencement of Nick Schiffer as CFO on 17 July 2017. Maintained diversity and flexible working arrangements across Senior Management. Maintained strong risk compliance framework – **at target**.

Government/Regulatory Relations – Spark Infrastructure is an active participant and thought leader in industry and regulatory change – **at or above target**.

The Board assessed the performance of the MD and gave him an overall achievement of 74% against non-financial KPIs.

The following table shows the actual STI outcomes for each Executive for 2017. The actual STI outcome for Executives is based on a combination of the financial performance achieved and assessment of achievement against personal KPIs, producing a blended percentage outcome. Half of any STI award is paid in cash and the other half is awarded in Rights. For further detail regarding the STI and the weighting of financial and non-financial KPIs for individual KMP, refer to section 6.1.

EXECUTIVE	STI MAXIMUM OPPORTUNITY % OF FIXED REMUN- ERATION	ACTUAL STI (% OF OPPORTUNITY)	STI FORFEITED [% OF OPPORTUNITY]	ACTUAL STI (\$)	ACHIEVEMENT OF FINANCIAL KPIs	ACHIEVEMENT OF PERSONAL KPIs
Rick Francis	100%	76.4%	23.6%	624,188	78%	74%
Nicholas Schiffer ⁽¹⁾	80%	73.2%	26.8%	168,360	78%	66%
Alexandra Finley	70%	73.2%	26.8%	210,084	78%	70%

(1) Nicholas Schiffer commenced in the role of CFO on 17 July 2017 and was entitled to a pro-rata STI for the part year worked.

Greg Botham ceased employment on 30 April 2017. The Board determined he was to receive a proportion of the cash component of his pro-rata 2017 STI on leaving (\$108,000) being 75% of Mr Botham's total possible STI award for 2017 on a pro-rata basis, with the remainder of his unvested deferred STI from previous years and unvested LTI entitlements to lapse.

9.2 LTI Performance Testing at 31 December 2017

The LTI Award granted to KMP at 1 January 2014 (FY2014) had a performance period of four years, i.e. ending 31 December 2017. The FY2014 LTI Award had one measure, being relative performance measured on risk adjusted TSR basis (Jensen's Alpha approach) against all companies in the S&P ASX 200 index at grant date. The vesting profile was 30% vesting at the 51st percentile increasing up to 100% at the 75th percentile – i.e. below the 50th percentile there is no vesting, while vesting is capped at 100% for any result above the 75th percentile.

The risk adjusted TSR result for the four year period ended 31 December 2017 was that Spark Infrastructure ranked at the 80th percentile against the S&P ASX 200 index. Accordingly, 100% of the FY2014 LTI Award vested at 31 December 2017. The LTI Award will be cash settled in March 2018 (NB. LTIs granted in subsequent years will be delivered as Rights).

The calculation of risk adjusted TSR and of the relative performance against the S&P ASX 200 index was produced by an external expert, independent of Management.

9.3 One-off 2016 LTI Transition Payment – Paid 2017

As previously disclosed in the 2016 Remuneration Report, following independent assessment using the risk-adjusted TSR methodology, the LTI Transition Payment for the performance period 1 January 2014 to 31 December 2016 vested in full and was paid in March 2017. The LTI Transition Payment was cash settled. Future awards will be awarded in Rights, as set out in section 6.2. Refer the 2016 Financial Statements for further disclosure.

9. 2017 REMUNERATION OUTCOMES CONTINUED

9.4 Actual Remuneration Received by KMP in 2017

The following table shows details of the actual remuneration received by Executives in 2017 and 2016. (The amounts in the table differ from the Executive statutory remuneration which is set out in section 11.1) Actual remuneration received is provided in addition to the statutory reporting of remuneration expense to increase transparency about what the Executive actually received during the year.

	SHORT-TERM BENEFITS			POST-EMPLOYMENT	LONG-TERM BENEFITS	
	BASE SALARY (\$)	STI ⁽¹⁾ (\$)	NON-MONETARY (\$)	SUPER-ANNUATION (\$)	VESTED LTI ⁽²⁾ (\$)	TOTAL (\$)
EXECUTIVES						
Rick Francis						
2017	792,000	697,012	27,579	25,000	455,000	1,996,591
2016	792,000	479,092	23,160	25,000	173,253	1,492,505
Nicholas Schiffer⁽³⁾						
2017	218,423	–	5,329	10,024	–	233,776
2016	–	–	–	–	–	–
Alexandra Finley						
2017	390,168	218,352	12,441	19,832	128,765	769,558
2016	390,538	142,506	10,647	19,462	49,867	613,020
Greg Botham⁽³⁾						
2017	179,143	479,353	2,167	6,539	234,000	901,202
2016	520,538	257,662	6,500	19,462	80,210	884,372

(1) The STI received in 2017 represents amounts earned in relation to the individual's performance from FY2016 (not deferred) and from amounts previously deferred into "notional" securities in 2014 and deferred into performance rights in 2015 (both under the deferred STI plan). The STI received in 2016 only represents amounts earned in relation to the individual's performance from FY2015 (not deferred) and from the amount deferred into "notional" securities in 2014 (under the deferred STI plan).

(2) LTI received in 2017 relates to the 2014 LTI Transition Payment that vested on 31 December 2016.

(3) Greg Botham ceased as CFO on 30 April 2017 and Nicholas Schiffer commenced in the role on 17 July 2017.

9.5 Executive Minimum Securityholding Policy

From 1 January 2017, the MD is required to hold the equivalent of 100% of Fixed Remuneration in Securities, and is required to do so within a three-year period. For other KMP, the requirement is the equivalent of 50% of Fixed Remuneration in Securities within a three-year period.

For these purposes, Securities include Securities and Rights earned but not yet vested (under the Deferred STI Plan).

The below table sets out the estimated notional beneficial interests in securities held by Executives as at 31 December 2017:

	TOTAL SECURITIES/RIGHTS VESTED AT 1 JANUARY 2017	RIGHTS VESTED AT 31 DECEMBER 2017 ⁽¹⁾⁽³⁾	TOTAL SECURITIES/RIGHTS VESTED AT 31 DECEMBER 2017	UNVESTED RIGHTS AT 31 DECEMBER 2017 ⁽²⁾⁽³⁾	SECURITIES/RIGHTS AT 31 DECEMBER 2017
Rick Francis	116,176	167,770	283,946	186,816	470,762
Nicholas Schiffer ⁽⁴⁾	–	–	–	32,253	32,253
Alexandra Finley	28,170	53,567	81,737	62,977	144,714

(1) Rights vested at 31 December 2017 include estimated additional Rights in respect of distribution equivalents applicable to the deferral years.

(2) Unvested Rights at 31 December 2017 are scheduled to vest in two further tranches on 31 December 2018 and 2019 respectively, in accordance with the terms of the Deferred STI Plan (subject only to continuity of employment).

(3) The calculations of vested and unvested Rights are pre-tax.

(4) Nicholas Schiffer commenced as CFO on 17 July 2017.

10. NON-EXECUTIVE DIRECTOR FEES

10.1 Approach to Non-Executive Director Fees

Remuneration for NEDs is designed to ensure that Spark Infrastructure can attract and retain suitably qualified and experienced directors. Unlike Executive remuneration, fees for NEDs are fixed and not linked to performance. However, all NEDs are expected to hold Securities in Spark Infrastructure to reflect alignment with Securityholder interests.

NED fees are reviewed annually utilising external market data or the advice of an independent consulting firm. NED fees take the following matters into consideration:

- the Board Chair's fee is inclusive of the committee membership fee and is presented as one figure;
- the Board takes into account the relative workloads of committees in setting the fees applicable to committee chairs and committee members;
- members of Board committees shall be eligible to receive a committee membership fee in addition to the base NED fee; and
- NEDs may be appointed to special purpose committees established from time to time. NEDs who are members of special purpose committees may receive a one-off committee membership fee in addition to their other fees (for regular Board duties) to recognise the significant additional workload. Special purpose committee membership fees are determined by the Board.

In 2017, the Board established a Due Diligence Committee for the purposes of the bid for the Endeavour Energy business. The Due Diligence Committee (DDC) comprised Greg Martin (Chair), Andrew Fay, Karen Penrose and Keith Turner.

10.2 Schedule of Fees

The schedule of fees for NEDs during 2017 is set out in the table below.

ROLE	2017 AND 2016 FEE ⁽¹⁾ (\$)
Board Chair	296,750 ⁽²⁾
Non-Executive Director	127,000
Audit, Risk and Compliance Committee (ARC) Chair	39,000
Audit, Risk and Compliance Committee member	19,500
Remuneration Committee (REMCO) Chair	33,500
Remuneration Committee member	16,750

(1) There were no increases to NED fees in 2017. Following benchmarking of NED fees, the Board has determined that a CPI increase of 2% in 2018 is appropriate.

(2) The Board Chair fee is inclusive of all fees for committee memberships or attendance.

Except for the payment of statutory superannuation entitlements (where applicable), NEDs do not receive any other post-employment benefits. The fees above include any allowances for statutory superannuation entitlements.

The aggregate fee limit for NEDs approved by Securityholders is \$2 million, and is unchanged from 2015. There will be no change to the aggregate fee limit for 2018.

10. NON-EXECUTIVE DIRECTOR FEES CONTINUED

10.3 Actual Remuneration of Spark Infrastructure NEDs

The annual fees payable to NEDs (inclusive of statutory superannuation) for 2017 and 2016 were:

SHORT-TERM BENEFITS							POST-EMPLOYMENT
	YEAR	DIRECTOR FEES (\$)	ARC FEES (\$)	REMCO FEES (\$)	DDC FEES (\$)	TOTAL (INCLUSIVE OF SUPER-ANNUATION) (\$)	SUPER-ANNUATION CONTRIBUTION ⁽¹⁾ (\$)
CURRENT NON-EXECUTIVE DIRECTORS							
Douglas McTaggart ^[2]	2017	296,750	–	–	–	296,750	19,832
	2016	230,449	–	–	–	230,449	16,837
Andrew Fay ^[3]	2017	127,000	19,500	–	22,400	168,900	14,653
	2016	127,000	19,500	–	–	146,500	12,710
Greg Martin ^{[3][4]}	2017	127,000	–	3,368	22,400	152,768	13,254
	2016	–	–	–	–	–	–
Anne McDonald	2017	127,000	29,250	25,125	–	181,375	15,736
	2016	127,000	39,000	16,750	–	182,750	15,855
Karen Penrose ^[3]	2017	127,000	29,250	–	22,400	178,650	15,499
	2016	127,000	19,500	–	–	146,500	12,710
RETIRED NON-EXECUTIVE DIRECTORS							
Christine McLoughlin ^[4]	2017	100,469	–	21,626	–	122,095	10,593
	2016	127,000	–	33,500	–	160,500	13,925
Keith Turner ^{[3][4]}	2017	50,242	–	6,626	22,400	79,268	–
	2016	127,000	–	16,750	–	143,750	–
Brian Scullin ^[4]	2017	–	–	–	–	–	–
	2016	108,356	–	6,482	–	114,838	8,354
TOTAL	2017	955,461	78,000	56,745	89,600	1,179,806	89,567
	2016	973,805	78,000	73,482	–	1,125,287	80,391

(1) Contributions to personal superannuation on behalf of NEDs are deducted from their overall fee entitlements.

(2) Dr McTaggart was elected as Chair of the Board on 20 May 2016 on the retirement of Mr Scullin. 2016 fees for Dr McTaggart reflect approximately 5 months as a director and 7 months as Chair.

(3) 2017 fees for Mr Fay, Mr Martin, Ms Penrose and Dr Turner are inclusive of the \$3,200 per meeting payment received as members of the Due Diligence Committee.

(4) Mr Martin was appointed on 1 January 2017, Ms McLoughlin retired on 15 October 2017, Dr Turner retired on 23 May 2017 (2016: Mr Scullin retired on 20 May 2016). The amounts included for Mr Martin, Ms McLoughlin, Dr Turner and Mr Scullin represent payments made or payable relating to the period during which they were NEDs.

10.4 NED fees from other entities

Where it is deemed appropriate for Spark Infrastructure to nominate NEDs for appointment as directors of the Boards of investment portfolio companies, those NEDs are entitled to receive fees in that capacity from those portfolio companies. Those directors have separate corporate responsibilities to each company of which they are a director. The directors' duties they owe to the investment companies are separate and distinct from their responsibilities as NEDs of Spark Infrastructure. Fees received in their capacity as directors on such Boards are to compensate for those separate additional responsibilities. Those fees are determined and paid for by the investment portfolio company, not by Spark Infrastructure. The following Spark Infrastructure NEDs were directors on boards and committees of investment portfolio companies during 2017.

Victoria Power Networks

BOARD MEMBER	ANNUAL FEE	AUDIT COMMITTEE	ANNUAL FEE	RISK COMMITTEE	ANNUAL FEE	REMUN-ERATION COMMITTEE	ANNUAL FEE	TOTAL FEES RECEIVED FOR 2017
Anne McDonald	\$75,000	Chair	\$15,000	Member	\$10,000	Member (from December 2017)	\$10,000	\$100,833
Andrew Fay (resigned September 2017)	\$75,000	–	–	–	–	Member (to September 2017)	\$10,000	\$63,750
Keith Turner (Spark Infrastructure NED to May 2017)	\$75,000	–	–	–	–	–	–	\$31,250

SA Power Networks

BOARD MEMBER	ANNUAL FEE	AUDIT COMMITTEE	ANNUAL FEE	RISK COMMITTEE	ANNUAL FEE	REMUN-ERATION COMMITTEE	ANNUAL FEE	TOTAL FEES RECEIVED FOR 2017
Andrew Fay	\$75,000	Chair	\$15,000	Member	\$10,000	Member	\$10,000	\$110,000
Keith Turner (Spark Infrastructure NED to May 2017)	\$75,000	–	–	–	–	–	–	\$31,250

TransGrid

BOARD MEMBER	ANNUAL FEE	ENVIRON-MENTAL HEALTH AND SAFETY COMMITTEE	ANNUAL FEE	TOTAL FEES RECEIVED FOR 2017
Keith Turner (Spark Infrastructure NED to May 2017)	\$90,000	Chair	\$7,500	\$40,625

Note the Spark Infrastructure MD and CFO were both directors on the SA Power Networks and Victoria Power Networks boards in 2017. However, all board and committee fees received for their services were paid to Spark Infrastructure.

11. STATUTORY REMUNERATION DISCLOSURES

11.1 Executive statutory remuneration (for the years ended 31 December 2017 and 31 December 2016)

The following table shows the statutory total remuneration required to be disclosed for Executives in 2017 and 2016. These disclosures are calculated in accordance with the accounting standards and will therefore differ from the information presented in the 2017 actual remuneration received table in section 9.4 as the remuneration in the form of equity (deferred STI and LTI) in this section is based on the amount expensed by the company over the vesting period, rather than the amount delivered or received by the executive in the relevant year.

	YEAR	SHORT-TERM BENEFITS			POST EMPLOY- MENT	BENEFITS BASED ON SECURITIES			TOTAL (\$)
		CASH SALARY (\$)	STI – CASH (\$)	NON MONETARY BENEFITS ⁽¹⁾ (\$)	SUPER- ANNUATION (\$)	DEFERRED STI – RIGHTS ⁽²⁾ (\$)	LTI (\$)	LTI TRANSITION EXPENSE (\$)	
Rick Francis	2017	792,000	312,094	27,579	25,000	366,417	487,423	–	2,010,513
	2016	792,000	382,615	23,160	25,000	270,774	403,919	210,000	2,107,468
Nicholas Schiffer ⁽³⁾	2017	218,423	84,180	5,329	10,024	35,020	33,748	–	386,724
	2016	–	–	–	–	–	–	–	–
Alexandra Finley	2017	390,168	105,042	12,441	19,832	120,611	117,921	–	766,015
	2016	390,538	124,679	10,647	19,462	85,556	99,482	59,430	789,794
Greg Botham ⁽⁴⁾	2017	179,143	108,000	2,167	6,539	(129,577)	(289,505)	–	(123,233)
	2016	520,538	206,170	6,500	19,462	148,479	171,024	108,000	1,180,173
TOTAL	2017	1,579,734	609,316	47,516	61,395	392,471	349,587	–	3,040,019
	2016	1,703,076	713,464	40,307	63,924	504,809	674,425	377,430	4,077,435

(1) Non-monetary benefits include life and income protection insurances and any other incidental benefits.

(2) Represents the component of the STI that is deferred in Rights.

(3) Nicholas Schiffer commenced as CFO on 17 July 2017. His 2017 STI and LTI opportunities were pro-rated for his service period in 2017.

(4) Greg Botham ceased as CFO on 30 April 2017 and all his unvested rights lapsed on termination, resulting in a reversal of previously expensed deferred STI of \$129,577 and LTI expense of \$289,505.

11.2 Deferred STI at 31 December 2017

STI deferral was first applied to STI awards granted in respect of FY2014, and has continued to be applied to later grants. Since 2015, the deferred component has been delivered in the form of Rights. Refer to prior year Remuneration Reports and section 6.1 for detail regarding deferred STI, including the relevant KPIs and other vesting conditions. The minimum value of the grant is nil if the vesting conditions are not met. The maximum value is based on the estimated fair value calculated at the time of the grant, amortised in accordance with the accounting standard requirements.

Shown below are the number of outstanding Rights received under the deferred STI arrangements for 2015, 2016 and 2017, the year in which the Rights may vest, and the expense recognised.

AT 31 DECEMBER 2017	DEFERRED STI GRANT DATE	FINANCIAL YEAR DEFERRED STI RELATES TO	NUMBER OF RIGHTS GRANTED (NO.)	OPENING VWAP AT GRANT DATE (\$)	AMOUNT PAYABLE / FAIR VALUE (\$)	DEFERRED STI EXPENSE IN 2017 (\$)	VESTING DATE
Rick Francis	1 January 2016	2015	87,292	1.92	167,601	109,945	31 December 2017
	1 January 2017	2016	67,240	2.26	151,962	75,981	31 December 2017
	1 January 2017	2016	67,240	2.26	101,308	50,654	31 December 2018
	1 January 2018	2017	59,788	2.61	77,916	77,916	31 December 2018
	1 January 2018	2017	59,788	2.61	51,921	51,921	31 December 2019
TOTAL			341,348		550,708	366,417	
Nicholas Schiffer ⁽¹⁾	1 January 2018	2017	16,126	2.61	21,016	21,016	31 December 2018
	1 January 2018	2017	16,126	2.61	14,004	14,004	31 December 2019
TOTAL			32,252		35,020	35,020	
Alexandra Finley	1 January 2016	2015	26,667	1.92	51,201	34,102	31 December 2017
	1 January 2017	2016	22,731	2.26	51,372	25,686	31 December 2017
	1 January 2017	2016	22,731	2.26	34,248	17,124	31 December 2018
	1 January 2018	2017	20,123	2.61	26,224	26,224	31 December 2018
	1 January 2018	2017	20,123	2.61	17,475	17,475	31 December 2019
TOTAL			112,375		180,520	120,674	

(1) Nicholas Schiffer commenced in the role of CFO in July 2017.

11. STATUTORY REMUNERATION DISCLOSURES CONTINUED

11.3 LTI at 31 December 2017

The table below shows details for the grants made under the LTI plan which are yet to vest, including the number of instruments granted, the years in which they may vest, and the fair value recognised. From 2015, grants of Rights were made under the LTI plan. The 2014 LTI awards were delivered as 'Notional Reference Securities' under the former cash-based "phantom" security plan, and will be settled in cash.

Accounting standards require the estimated valuation of the grants recognised over the performance period. The minimum value of the grant is nil if the vesting conditions are not met. The maximum value is based on the estimated fair value calculated at the time of the grant, amortised in accordance with the accounting standard requirements. Refer to prior year Remuneration Reports and section 6.2 for detail regarding LTI, including the relevant performance measures and other vesting conditions.

	GRANT DATE	NUMBER OF RIGHTS / REFERENCE SECURITIES GRANTED (NO.)	OPENING VWAP / FAIR VALUE AT GRANT DATE (\$/CPS)	NOTIONAL TSR ACHIEVE- MENT (%)	CLOSING VWAP (\$/CPS)	AMOUNT PAYABLE / FAIR VALUE AT GRANT DATE (\$)	LTI EXPENSE IN 2017 (\$)	VESTING DATE
Rick Francis	1 January 2014 ⁽¹⁾	220,126	1.59	100%	2.61	687,068	234,159	31 December 2017
	1 January 2015 ⁽²⁾	198,985	1.70	N/A	N/A	338,275	64,090	31 December 2018
	1 January 2016 ⁽²⁾	276,589	1.08	N/A	N/A	298,716	65,517	31 December 2019
	1 January 2017 ⁽²⁾	234,978	2.11	N/A	N/A	494,629	123,657	31 December 2020
TOTAL							487,423	
Nicholas Schiffer ⁽³⁾	1 January 2017 ⁽²⁾	64,129	2.11	N/A	N/A	134,992	33,748	31 December 2020
TOTAL							33,748	
Alexandra Finley	1 January 2014 ⁽¹⁾	53,396	1.59	100%	2.61	166,662	56,800	31 December 2017
	1 January 2015 ⁽²⁾	53,729	1.70	N/A	N/A	91,339	17,305	31 December 2018
	1 January 2016 ⁽²⁾	64,063	1.08	N/A	N/A	69,188	15,175	31 December 2019
	1 January 2017 ⁽²⁾	54,425	2.11	N/A	N/A	114,565	28,641	31 December 2020
TOTAL							117,921	

(1) For the 2014 LTI award, a liability was measured initially at fair value, calculated using the opening VWAP at the grant date. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured using the closing VWAP as at that date, with any changes in fair value recognised as an expense (or gain) in the profit or loss for the period.

(2) For the 2015 LTI award onwards, a liability is measured at the fair value of the Rights at the grant date. The fair value determined at the grant date is expensed on a straight-line basis in the profit or loss over the vesting period, there is no subsequent re-measurement of fair value until the date of settlement.

(3) Nicholas Schiffer commenced in the role of CFO in July 2017. His 2017 LTI was granted on a pro-rata basis from his commencement date.

11.4 Movements in Rights during 2017

The movement in the number of Rights in relation to Deferred STI and LTI held by Executives during the year is set out below.

	BALANCE AT 1 JANUARY 2017 (NO.)	GRANTED AS REMUN- ERATION (NO.)	VALUE OF RIGHTS GRANTED ⁽¹⁾ (\$)	VESTED (NO.)	EXERCISED (NO.)	VALUE OF RIGHTS VESTED/ EXERCISED (\$)	LAPSED (NO.)	NET OTHER MOVE- MENTS (NO.)	BALANCE AT 31 DECEMBER 2017 (NO.)
Rick Francis	650,158	369,458	747,899	87,292	–	215,827	–	–	932,324
Nicholas Schiffer ⁽²⁾	–	64,129	134,992	–	–	–	–	–	64,129
Alexandra Finley	171,126	99,887	200,185	26,667	–	66,199	–	–	244,346
Greg Botham ⁽³⁾	318,443	–	–	47,513	–	113,675	(270,930)	–	–
TOTAL	1,139,727	533,474	1,083,076	161,472	–	395,701	(270,930)	–	1,240,799

(1) The fair value of LTI Rights granted to Executives on 1 January 2017 is set out in the table at 11.3 and the fair value of STI Rights is set out in the table at 11.2.

(2) Nicholas Schiffer commenced as CFO in July 2017.

(3) Greg Botham ceased as CFO on 30 April 2017. The first tranche of his Deferred STI in relation to the 2015 year vested on 31 December 2016 and was paid out in cash in 2017. All other unvested rights in relation to Deferred STI and LTI lapsed on termination.

11.5 Equity instrument disclosures relating to Executives

The table below details the Spark Infrastructure stapled securities in which Executives held direct relevant interests during 2017:

	OPENING BALANCE 1 JANUARY 2017 (NO.)	NET MOVEMENT ACQUIRED / (DISPOSED) (NO.)	CLOSING BALANCE 31 DECEMBER 2017 (NO.)
Rick Francis	23,942	92,234	116,176
Nicholas Schiffer ⁽¹⁾	–	–	–
Alexandra Finley	–	28,170	28,170

(1) Nicholas Schiffer commenced as CFO on 17 July 2017.

The calculation of Securities under the Executive Minimum Securityholding Policy includes interests in vested and unvested Rights under the Deferred STI Plan. The table at section 9.5 shows the beneficial interests in Securities, vested Rights and earned but not yet vested Rights held by Executives as at 31 December 2017.

11. STATUTORY REMUNERATION DISCLOSURES CONTINUED

11.6 Equity instrument disclosures relating to Non-Executive Directors

The relevant interest of each NED of Spark Infrastructure for 2017 is as follows:

	OPENING BALANCE 1 JANUARY 2017 (NO.)	NET MOVEMENT ACQUIRED / (DISPOSED) (NO.)	CLOSING BALANCE 31 DECEMBER 2017 (NO.)
Douglas McTaggart	120,000	15,000	135,000
Andrew Fay	188,590	–	188,590
Greg Martin ⁽¹⁾	–	50,000	50,000
Anne McDonald	61,000	10,000	71,000
Karen Penrose	50,000	–	50,000
Retired Directors:			
Christine McLoughlin ⁽¹⁾	66,766	–	–
Keith Turner ⁽¹⁾	75,706	–	–

(1) Mr Martin was appointed on 1 January 2017, Ms McLoughlin retired on 15 October 2017 and Dr Turner retired on 23 May 2017.

Spark Infrastructure has a minimum Securityholding requirement with effect from 1 January 2017, whereby NEDs must hold the equivalent of one year's director's fees (assessed at the later of 1 January 2017 or the date of appointment), and will be required to do so within a period of three years. The Securityholding requirement will apply throughout tenure of directorship.

STATUTORY DECLARATIONS

Attendance at Directors' Meetings

The following table sets out the number of Directors' meetings held during 2017 and the number of meetings attended by each Director which they were eligible to attend (that is, in the case of Directors, while they were appointed and provided they were not disqualified from attending because of observation of processes to guard against any perceived conflict of interest).

During 2017, 12 Board meetings, five Audit, Risk and Compliance Committee ("ARC") meetings, two Remuneration Committee ("RemCo") meetings, nine Investment Sub-committee meetings and one Special Purpose Sub-committee meeting of the company were held. References to meetings "Held" means the number of meetings a Director was eligible to attend.

	BOARD OF DIRECTORS		ARC		REMCO		INVESTMENT SUB-CO		SUB-CO	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
Dr Douglas McTaggart	12	12	–	–	2	2	–	–	–	–
Mr Rick Francis	12	12	–	–	–	–	–	–	–	–
Mr Andrew Fay	12	12	5	5	–	–	9	9	1	1
Mr Greg Martin	12	12	–	–	1	1	9	9	–	–
Ms Anne McDonald	12	11	5	4	2	2	–	–	–	–
Ms Christine McLoughlin	11	10	–	–	1	1	–	–	–	–
Ms Karen Penrose	12	12	5	5	–	–	9	9	1	1
Dr Keith Turner	9	9	–	–	1	1	9	9	–	–

By agreement with the committee chairs there is a standing invitation for all Directors to attend committee meetings. During 2017, Directors attended a number of committee meetings.

INDEMNIFICATION OF OFFICERS AND AUDITORS

The Directors and former Directors of Spark RE and the officers of Spark RE are indemnified under Spark RE's constitution against all liabilities to another person that may arise from their position as Directors or officers of Spark RE subject to the limitations imposed by the *Corporations Act 2001*.

During 2017, the Trust paid a premium in respect of a contract of insurance indemnifying the Directors against a liability incurred as a Director to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The entities have not otherwise, during or since the end of 2017, indemnified or agreed to indemnify an officer or auditor of the Trust or of any related body corporate against a liability incurred as an officer or auditor, except to the extent permitted by law.

NON-AUDIT SERVICES

Details of amounts paid or payable to the external auditor for non-audit services provided during 2017 are outlined in Note 13 to the financial statements.

The Directors are satisfied that the non-audit services provided by the auditor are compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are of the opinion that the services as disclosed in Note 13 to the financial statements do not compromise the external auditor's independence, based on advice received from the ARC, for the following reasons:

- non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and comply with Spark Infrastructure's policy on auditor independence; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110, *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board, which includes reviewing or auditing the auditor's own work, acting in a management or decision-making capacity, acting as an advocate or jointly sharing economic risks and rewards of Spark Infrastructure.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 76.

ENVIRONMENTAL REGULATIONS

Spark Infrastructure is not subject to any environmental regulations. However, SA Power Networks, Victoria Power Networks and TransGrid are subject to various environmental regulations. The Directors are not aware of any material breaches of those regulations by either SA Power Networks, Victoria Power Networks or TransGrid.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Except as otherwise disclosed, there was no significant change in the state of affairs of Spark Infrastructure during 2017.

INFORMATION APPLICABLE TO REGISTERED SCHEMES

Spark RE is the responsible entity of the Trust. Spark RE does not hold any stapled securities. The number of stapled securities at the beginning and end of the Current Year is disclosed in Note 10 to the financial statements.

OPTIONS OVER STAPLED SECURITIES

No options have been granted over the unissued Units of the Trust or stapled securities of Spark Infrastructure.

EVENTS OCCURRING AFTER REPORTING DATE


The Directors of Spark Infrastructure are not aware of any other matter or circumstance not otherwise dealt with in this financial report that has significantly affected or may significantly affect the operations or the state of affairs in the period since 31 December 2017 up to the date of this report.

ROUNDING OF AMOUNTS

As permitted by ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, amounts in the Directors' Report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of directors made pursuant to section 298(2) of the *Corporations Act 2001*.

On behalf of the Directors:



D McTaggart

Chair

Sydney

23 February 2018



R Francis

Managing Director



Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

The Board of Directors
Spark Infrastructure RE Limited
as responsible entity of Spark Infrastructure Trust
Level 29
Grosvenor Place, 225 George Street
SYDNEY NSW 2000

23 February 2018

Dear Directors

Spark Infrastructure Trust

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the Directors of Spark Infrastructure RE Limited, as responsible entity of Spark Infrastructure Trust.

As lead audit partner for the audit of the financial statements of Spark Infrastructure Trust for the financial year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

A handwritten signature in black ink, appearing to read "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read "Jason Thorne".

Jason Thorne
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited

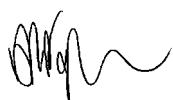
DIRECTORS' DECLARATION

The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable;
- (b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Trust and the Consolidated Entity;
- (c) the Directors have been given the declarations required by section 295A of the *Corporations Act 2001*; and
- (d) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1 to the financial statements.

Signed in accordance with a resolution of the Directors made pursuant to section 295(5) of the *Corporations Act 2001*.

On behalf of the Directors:



D McTaggart

Chair



R Francis

Managing Director

Sydney

23 February 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the Financial Year Ended 31 December 2017

	NOTES	YEAR ENDED 31 DEC 2017 \$'000	YEAR ENDED 31 DEC 2016 \$'000
INCOME FROM ASSOCIATES:			
– Share of equity accounted profits	6(c)	200,448	145,290
– Interest income	3(a)	82,690	91,623
		283,138	236,913
Gain on derivative contracts		–	5,772
Other income – interest		1,861	1,230
		284,999	243,915
Interest expense (including borrowing costs)	3(b)	(2,242)	(4,554)
General and administrative expenses	3(c)	(16,953)	(13,545)
Profit before Income Tax and Loan Note Interest		265,804	225,816
Loan Note interest		(118,582)	(118,582)
Profit before Income Tax		147,222	107,234
Income tax expense	4(a)	(58,581)	(26,151)
Net Profit after Income Tax Attributable to Securityholders		88,641	81,083
OTHER COMPREHENSIVE INCOME:			
Items that will not be reclassified subsequently to profit or loss:			
– Share of associates' actuarial gain on defined benefit plans	12	6,776	5,891
Items that may be reclassified subsequently to profit or loss:			
– Share of associates' losses on hedges	11	(31,027)	(2,050)
Income tax benefit/(expense) related to components of other comprehensive income		6,020	(700)
Other comprehensive (loss)/income for the Financial Year		(18,231)	3,141
Total Comprehensive Income for the Financial Year Attributable to Securityholders		70,410	84,224
EARNINGS PER SECURITY			
Weighted average number of stapled securities (No.'000)	14	1,682,011	1,682,011
Profit before income tax and Loan Note interest (\$'000)		265,804	225,816
Basic earnings per security before income tax and Loan Note interest (cents)	14	15.80¢	13.43¢
Earnings used to calculate earnings per security (\$'000)		88,641	81,083
Basic earnings per security based on net profit after income tax attributable to Securityholders (cents)	14	5.27¢	4.82¢

(Diluted earnings per security are the same as basic earnings per security).

Notes to the financial statements are included on pages 82 – 105.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

	NOTES	31 DEC 2017 \$'000	31 DEC 2016 \$'000
CURRENT ASSETS			
Cash and cash equivalents	21(a)	117,289	100,985
Receivables from associates	5	9,197	8,512
Other current assets		1,891	2,154
Total Current Assets		128,377	111,651
NON-CURRENT ASSETS			
Property, plant and equipment		699	126
Investments in associates:			
– Investments accounted for using the equity method	6(d)	2,550,342	2,494,712
– Loans to associates	7	598,837	680,627
– Loan notes to associates	8	237,444	237,444
Total Non-Current Assets		3,387,322	3,412,909
Total Assets		3,515,699	3,524,560
CURRENT LIABILITIES			
Payables		3,509	3,448
Loan Note interest payable to Securityholders		59,711	59,711
Total Current Liabilities		63,220	63,159
NON-CURRENT LIABILITIES			
Payables		232	1,226
Loan Notes attributable to Securityholders	9	1,061,744	1,061,724
Deferred tax liabilities	4(c)	313,739	261,167
Total Non-Current Liabilities		1,375,715	1,324,117
Total Liabilities		1,438,935	1,387,276
Net Assets		2,076,764	2,137,284
EQUITY			
Equity attributable to Parent Entity			
– Issued capital	10	1,067,502	1,199,119
– Reserves	11	(40,911)	(18,231)
– Retained earnings	12	1,050,173	956,396
Total Equity		2,076,764	2,137,284
TOTAL EQUITY ATTRIBUTABLE TO SECURITYHOLDERS IS AS FOLLOWS:			
Total Equity		2,076,764	2,137,284
Loan Notes attributable to Securityholders		1,061,744	1,061,724
Total Equity and Loan Notes		3,138,508	3,199,008

Notes to the financial statements are included on pages 82 – 105.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the Financial Year Ended 31 December 2017

	NOTES	ISSUED CAPITAL \$'000	RESERVES \$'000	RETAINED EARNINGS \$'000	TOTAL \$'000
2016					
Balance at 1 January 2016		1,303,404	(17,404)	870,355	2,156,355
Net profit after income tax for the year		–	–	81,083	81,083
Other comprehensive income for the year, net of income tax	11,12	–	(1,817)	4,958	3,141
Total comprehensive income for the year		–	(1,817)	86,041	84,224
Recognition of share-based payments	11	–	990	–	990
Capital distributions	10	(104,285)	–	–	(104,285)
Balance at 31 December 2016		1,199,119	(18,231)	956,396	2,137,284
2017					
Balance at 1 January 2017		1,199,119	(18,231)	956,396	2,137,284
Net profit after income tax for the year		–	–	88,641	88,641
Other comprehensive income for the year, net of income tax	11,12	–	(23,367)	5,136	(18,231)
Total comprehensive income for the year		–	(23,367)	93,777	70,410
Recognition of share-based payments	11	–	687	–	687
Capital distributions	10	(131,617)	–	–	(131,617)
Balance at 31 December 2017		1,067,502	(40,911)	1,050,173	2,076,764

Notes to the financial statements are included on pages 82 – 105.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the Financial Year Ended 31 December 2017

	NOTES	YEAR ENDED 31 DEC 2017 \$'000	YEAR ENDED 31 DEC 2016 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Distributions from associates – preferred partnership capital	2	69,635	69,826
Distributions from associates – other	2	50,931	79,848
Interest received from associates	2	82,004	93,689
Interest received – other		1,871	1,061
Interest paid – other		(1,385)	(4,375)
Distributions received from derivative contracts		–	22,952
Finance costs paid on derivative contracts		–	(7,743)
Other expenses	2	(17,302)	(14,608)
Net Cash Inflow Related to Operating Activities	21(c)	185,754	240,650
Cash Flows from Investing Activities			
Repayment of borrowings by associate	2	81,790	64,974
Purchase of property, plant and equipment		(706)	–
Proceeds from divestment of derivative contracts		–	210,708
Transaction costs paid on derivative contracts		–	(4,031)
Net Cash Inflow Related to Investing Activities		81,084	271,651
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of issue costs		–	(1,733)
Payment of external borrowing costs		(335)	–
Drawdown of external borrowings		–	15,000
Repayment of external borrowings		–	(220,000)
Distributions to Securityholders:			
– Loan Note interest		(118,582)	(118,582)
– Capital distributions		(131,617)	(104,285)
Net Cash Outflow Related to Financing Activities		(250,534)	(429,600)
Net Increase in Cash and Cash Equivalents for the Year		16,304	82,701
Cash and cash equivalents at beginning of the Year		100,985	18,284
Cash and Cash Equivalents at end of the Year	21(a)	117,289	100,985

Notes to the financial statements are included on pages 82 – 105.

NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2017

1. SUMMARY OF ACCOUNTING POLICIES

Basis of Preparation and Statement of Compliance

These consolidated financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and comply with other requirements of the law.

Accounting standards include Australian equivalents to International Financial Reporting Standards ("A-IFRS"). Compliance with A-IFRS ensures that these consolidated financial statements and notes of the Trust and the Group comply with International Financial Reporting Standards ("IFRS") for a for profit entity.

These consolidated financial statements are for the consolidated entity ("Spark Infrastructure") consisting of Spark Infrastructure Trust (the "Parent Entity" or the "Trust") and its controlled entities (collectively referred to as the "Group").

Information in respect of the Parent Entity in this financial report relates to the Trust. The financial information for the Parent Entity, disclosed in Note 23, has been prepared on the same basis as the financial statements for the Group.

These consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments. Cost is based on the fair values of consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The financial report was authorised for issue by the Directors of Spark Infrastructure RE Limited ("Spark RE" or the "Company") on 23 February 2017.

New and Revised Standards and Interpretations

Standards and Interpretations Affecting Amounts Reported in the Year Ended 31 December 2017 ("Current Year" or "Financial Year")

The following new and revised Standards and Interpretations have been adopted in the Current Year. Their adoption has not had any significant impact on the amounts reported in this financial report but may affect the accounting for future transactions or arrangements.

Adoption of New and Revised Standards

NEW AND REVISED STANDARD	REQUIREMENTS
AASB 2016-1 <i>Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses</i>	Amends AASB 112 <i>Income Taxes</i> to clarify: <ul style="list-style-type: none">unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;the carrying amount of an asset does not limit the estimation of probable future taxable profitsestimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differencesan entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.
AASB 2016-2 <i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107</i>	Amends AASB 107 <i>Statement of Cash Flows</i> to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.
AASB 2017-2 <i>Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016</i>	Amends AASB 12 <i>Disclosure of Interests in Other Entities</i> , to clarify the interaction of AASB 12 with AASB 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> to explain that disclosures under AASB 12 are required for interests in entities classified as held for sale or discontinued operations in accordance with AASB 5.

AASB 2016–5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions	<p>The amendments clarify the following:</p> <p>In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.</p> <p>Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.</p> <p>A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:</p> <ul style="list-style-type: none"> • the original liability is derecognised • the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date • any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.
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Standards and Interpretations in Issue Not Yet Adopted

At the date of authorisation of the financial report, the following Standards and Interpretations relevant to Spark Infrastructure were in issue but not yet effective:

STANDARD/INTERPRETATION	EFFECTIVE FOR THE ANNUAL REPORTING PERIOD BEGINNING ON	EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING
<p>AASB 15 <i>Revenue from Contracts with Customers</i> and AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15</p> <p>AASB 15 establishes a single model for accounting for revenue arising from contracts with customers and supersedes the current revenue standards AASB 118 <i>Revenue</i> and AASB 111 <i>Construction Contracts</i>. Under AASB 15, an entity recognises revenue when (or as) a performance obligation is satisfied.</p> <p>The Directors anticipate the that adoption of AASB 15 will not have a direct impact on the financial report of the Group in the year of initial application.</p> <p>The adoption of AASB 15 by Spark Infrastructure's portfolio businesses may have an impact on revenue recognition, and as a consequence, Spark Infrastructure's share of equity accounted profits. The portfolio businesses are currently conducting assessments of the impact of the new standard. Based on a preliminary analysis, it is currently expected that the adoption of AASB 15 will not have a material impact on the amounts reported and disclosures made in the portfolio businesses accounts.</p>	1 January 2018	31 December 2018
<p>AASB 16 <i>Leases</i></p> <p>AASB 16 primarily impacts the accounting for leases for a lessee by introducing non-financial assets and liabilities reflecting the committed lease terms.</p> <p>Spark Infrastructure currently holds one lease relating to its office premises, which is being accounted for as an operating lease and will be brought onto the balance sheet under AASB 16. However, the Directors anticipate the that adoption of AASB 16 will not have a material impact on the financial report of the Group in the year of initial application.</p> <p>The adoption of AASB 16 by Spark Infrastructure's portfolio businesses may have an impact on profit or loss, and as a consequence, Spark Infrastructure's share of equity accounted profits. However, at this stage, it is not expected that the adoption of AASB 16 will have a material impact on Spark Infrastructure's equity accounted profits.</p>	1 January 2019	31 December 2019

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

Standards and Interpretations in Issue Not Yet Adopted continued

STANDARD/INTERPRETATION	EFFECTIVE FOR THE ANNUAL REPORTING PERIOD BEGINNING ON	EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING
<p>AASB 9 <i>Financial Instruments</i> (December 2014) and AASB 2014-7 <i>Amendments to Australian Accounting Standards arising from AASB 9</i> (December 2014)</p> <p>AASB 9 (2014) introduces additional requirements in addition to the early adopted AASB 9 (2010), including a new expected credit loss model which involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component.</p> <p>The Directors anticipate the that adoption of AASB 9 (2014) will not have a material impact on the financial report of the Group in the year of initial application.</p>	1 January 2018	31 December 2018
<p>AASB 2017-7 <i>Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures</i></p> <p>Clarifies that an entity applies AASB 9 <i>Financial Instruments</i> to financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.</p> <p>An entity applies AASB 9 to such long-term interests before it considers whether to discontinue the recognition of losses (where its share of losses equals or exceeds its interest in an associate or joint venture) and impairment. In applying AASB 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying AASB 128 <i>Interests in Associates and Joint Ventures</i>.</p> <p>The Directors anticipate the that adoption of AASB 2017-7 will not have a material impact on the financial report of the Group in the year of initial application.</p>	1 January 2019	31 December 2019
<p>IFRS 17 <i>Insurance Contracts</i></p> <p>The Directors anticipate the that adoption of IFRS 17 will not have a material impact on the financial report of the Group in the year of initial application.</p>	1 January 2021	31 December 2021

Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of this report:

(a) Basis of Preparation and Statement of Compliance

These consolidated financial statements have been prepared on the basis of historical cost, except for certain financial instruments that are measured at fair values at the end of each reporting period. Cost is based on the fair values of consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(b) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Trust and its controlled entities as at 31 December 2017. Control is achieved where the Trust has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. Where control of an entity is obtained during the financial period, its results are included in the Statement of Profit or Loss and Other Comprehensive Income from the effective date of control.

All intra-group transactions, balances, income and expenses within the Group are eliminated in full on consolidation.

(c) Acquisition of Assets

The purchase method of accounting is used for all acquisitions of assets. Cost is determined as the fair value of the assets given up, equity issued or liabilities assumed at the date of acquisition plus incidental costs directly attributable to the acquisition.

(d) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

(e) Borrowing Costs

Borrowing costs directly attributable to acquisition, construction or production of qualifying assets which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised and added to the cost of these assets, until such time that the assets are ready for their intended use or sale.

All other borrowing costs are recognised in profit and loss in the period in which they are incurred.

(f) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments.

(g) Creditors and Accruals

Trade creditors and accruals are recognised when there is an obligation to make future payments resulting from the purchase of goods and services.

(h) Financial Instruments

Financial instruments are recognised when Spark Infrastructure becomes a party to the contractual provisions of the instrument.

Derivative Financial Instruments

Financial assets and liabilities are recognised when Spark Infrastructure becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss are recognised immediately in profit or loss. Transaction costs directly attributable to all other financial assets and liabilities adjust the fair value of the financial asset or liability on initial recognition.

1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

Significant Accounting Policies continued

(h) Financial Instruments continued

Financial Assets/Liabilities at Fair Value Through Profit or Loss

Financial assets/liabilities are classified as at fair value through profit or loss when the financial asset/liability is either held for trading or it is designated as at fair value through profit or loss.

A financial asset/liability may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and AASB 9 *Financial Instruments* permits the entire combined contract to be designated as at fair value through profit or loss.

Financial assets and financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement, at each reporting date, recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend, interest earned or interest liabilities on the financial asset or financial liability and is included in the 'gain on derivative contracts' line item.

Derivative financial instruments that are not designated and effective as hedging instruments are classified as held for trading.

Spark Infrastructure derecognises financial liabilities when, and only when, its obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derecognition of Financial Assets/Liabilities

Spark Infrastructure derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that has been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Transaction Costs on the Issue of Stapled Securities (including Loan Notes)

Transaction costs arising on the issue of stapled securities (including Loan Notes) are recognised directly in either debt or equity as a reduction of the proceeds of the stapled securities (including Loan Notes) to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those stapled securities and which would not have been incurred had those stapled securities (including Loan Notes) not been issued.

Interest, Dividends and Distributions

Interest, dividends and distributions are classified as expenses, distributions of profit or a return of capital consistent with the Statement of Financial Position classification of the related debt or equity instruments.

(i) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables, which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(j) Employee Benefits

Wages, Salaries, Annual Leave and Other Employee Benefits

Liabilities for wages and salaries, including non-monetary benefits and other employee benefits expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Long Service Leave

The Group's net obligation for long service leave is measured as the present value of expected future cash outflows to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are measured using discount rates based on the high quality corporate bond rate. Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

(j) Employee Benefits continued

Cash-Settled Long Term Incentives

For long-term incentives issued in 2014, a liability is calculated for the services acquired (or benefits provided), measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the period. The fair value of the long term and deferred incentive is expensed over the vesting period.

Equity Settled Long Term and Deferred Incentives

Equity-settled long term and deferred incentives issued from 2015 onwards are share-based payments to employees and others providing similar services and are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

(k) Income Tax

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the year. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in these consolidated financial statements and the corresponding tax base of those items. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in associates except where Spark Infrastructure is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which Spark Infrastructure expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and Deferred Tax for the Year

Current and deferred tax is recognised as an expense or income in profit and loss, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Income tax expense is not brought to account in respect of the Trust, as pursuant to the Australian taxation laws the Trust is not liable for income tax provided that its taxable income (including any assessable realised capital gains) is fully distributed to the Securityholders each year.

Tax Consolidation Legislation

Tax consolidated groups have been formed within Spark Infrastructure, whereby wholly-owned Australian resident entities have combined together to form a tax consolidated group that will be taxed under Australian taxation law as if it was a single entity. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of members of a tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the head entity in the relevant tax consolidated group. Further details are provided in Note 4.

Taxation of Financial Arrangements

The Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009 ("TOFA legislation") was applicable to the tax consolidated groups for tax years beginning 1 January 2011. The TOFA legislation has not had any material effect on the tax expense of the tax consolidated groups. No election was made to bring pre-commencement financial arrangements into the TOFA regime.

1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

Significant Accounting Policies continued

(l) Investments in Associates

Investments in associates are accounted for using the equity method of accounting. The associates are entities over which Spark Infrastructure has significant influence and that are neither subsidiaries nor joint ventures.

Under the equity method, investments in the associates are carried in the Statement of Financial Position at cost plus post-acquisition changes in share of net assets of the associates. After application of the equity method, Spark Infrastructure determines whether it is necessary to recognise any impairment loss with respect to its net investment in associates. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with AASB 136 *Impairment of Assets* as a single asset by comparing its recoverable amount (the higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of impairment loss is recognised in accordance with AASB 136 *Impairment of Assets* to the extent that the recoverable amount of the investment subsequently increases.

Spark Infrastructure's share of its associates' post-acquisition profits or losses is recognised in profit and loss, and its share of post-acquisition movements in equity (such as actuarial gains or losses) is recognised in reserves/retained earnings, as appropriate. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the individual entity's profit and loss.

(m) Loans and Receivables

Loans to associates and other receivables are recorded at amortised cost less any impairment.

(n) Revenue Recognition

Distribution and Interest Revenue

Distribution revenue from investments is recognised when the right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(o) Investments in Subsidiaries

Investments in subsidiaries by the Parent Entity are recorded at cost. Acquisitions of subsidiaries and businesses are accounted for using the acquisition method.

(p) Contributions from Customers for Capital Works

Non-refundable contributions received from customers towards the cost of extending or modifying the network are recognised as revenue and an asset respectively once control is gained of the cash contribution or asset and the customer is connected to the network of either Victoria Power Networks or SA Power Networks.

Customer contributions of cash and customer contributions of assets are measured at fair value at the date either Victoria Power Networks or SA Power Networks gains control of the cash contribution or asset. Fair value is based on the regulatory return expected to be derived from the RAB as a result of the specific extension or modification to the network.

(q) Critical Accounting Estimates and Judgements

The preparation of this financial report required the use of certain critical accounting estimates and exercises judgement in the process of applying the accounting policies. The estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectation of future events. The Directors believe the estimates and judgements are reasonable. Actual results in the future may differ from those reported.

Spark Infrastructure equity accounts the results of its associates (see Note 1(l)) and within these results there are several accounting estimates and judgements. These estimates and judgements will have a direct impact on the results reported by Spark Infrastructure as it recognises its share of profits or losses and post-acquisition movements in equity, which adjust the carrying amount of the investments in the associates. The key accounting estimates and judgements used in the preparation of this report are as follows:

- *Accounting for Acquisitions*

On 15 December 2005, Spark Infrastructure acquired a 49% interest in each of three electricity distribution businesses, being CitiPower and Powercor in Victoria (combined businesses referred to as "Victoria Power Networks") and SA Power Networks in South Australia.

This assessment of fair value for Victoria Power Networks and SA Power Networks by Spark Infrastructure resulted in a notional increase in the carrying value of certain depreciable assets and amortisable intangible assets, which are depreciated and amortised over the estimated useful life of such assets, extending up to 200 years. As a result of this, the share of Spark Infrastructure's equity accounted profits has been adjusted by additional depreciation and amortisation arising from this increase in the carrying value.

On 16 December 2015, Spark Infrastructure acquired a 15.01% interest in NSW Electricity Networks Assets Holdings Trust and NSW Electricity Networks Operations Holdings Trust (together referred to as "TransGrid"). Spark Infrastructure is required to reflect its equity accounted investments in the businesses by reference to its share of the fair value of the net assets of the businesses.

(q) Critical Accounting Estimates and Judgements continued

- *Impairment of Assets*

At each reporting date, Spark Infrastructure tests whether there are any indicators of impairment. Each associate, being Victoria Power Networks, SA Power Networks and TransGrid ("investment portfolio"), is regarded as a separate cash generating unit ("CGU") for the purposes of such testing. If any indicators are identified, the recoverable amounts are determined as the higher of fair value less costs to sell and value in use.

If such indicators were determined to exist, fair value less costs to sell calculations are used to assess Spark Infrastructure's investment portfolio and to confirm that their carrying values did not exceed their respective recoverable amounts.

The following key assumptions are used in the assessment of fair value less costs to sell:

- Fair value less costs to sell assessments based on discounted cash flow projections over a period of 10 years;
- Cash flow projections based on financial forecasts approved by management containing assumptions about business conditions, growth in RAB and future regulatory return;
- Appropriate discount rates specific to each CGU; and
- Appropriate terminal values based on RAB multiples for regulated activities and EBITDA multiples for unregulated activities that reflect recent transmission or distribution transaction multiples.

Cash flow projections for a 10-year period are deemed appropriate as the investment portfolio assets operate within regulated industries that reset every five years, and have electricity transmission or distribution assets that are long life assets.

Sensitivity analysis would be undertaken regarding the impact of possible changes in key assumptions.

Fair value less costs to sell is measured using inputs that are unobservable in the market and are therefore deemed to be Level 3 fair value measurements in accordance with AASB 13 *Fair Value Measurement*.

Any significant changes to expectations about levels of distributions from the investment portfolio businesses are considered to be potential triggers for impairment. That is because the distributions are an important part of the overall valuation of investments. As previously disclosed, short-term distributions from TransGrid might be lower than the levels originally forecast at the time of Spark Infrastructure's initial investment in TransGrid. The expected reduction is primarily caused by increases in forecast unregulated capital expenditure, which in turn will see increased revenues in future years.

Accordingly, Spark Infrastructure calculated fair value less costs-to-sell to assess its investment in TransGrid. The calculation confirmed that the carrying value of the investment did not exceed its recoverable value. As a result, no impairment was found.

The Directors are satisfied that neither Victoria Power Networks nor SA Power Networks suffered an impairment loss during 2017.

- *Fair Value of Customer Contributions and Gifted Assets at Victoria Power Networks and SA Power Networks*

With effect from 1 January 2014 Spark Infrastructure changed its basis of estimating the fair value of customer contributions and gifted assets from depreciated replacement cost to estimating the net present value of the future cashflows expected to be derived from the RAB as a result of the specific extension or modification to the network, as described in Note 1(p). This change better reflects the value for customer contributions and gifted assets included in the RAB, on which future regulatory returns are derived.

- *Significant Influence over NSW Electricity Networks Assets Holdings Trust and NSW Electricity Networks Operations Holdings Trust*

Note 6 describes that NSW Electricity Networks Assets Holdings Trust and NSW Electricity Networks Operations Holdings Trust are associates of Spark Infrastructure although Spark Infrastructure only has a 15.01% ownership interest. Spark Infrastructure has significant influence over NSW Electricity Networks Assets Holdings Trust and NSW Electricity Networks Operations Holdings Trust by virtue of its right under the Shareholders Agreement to appoint one director for every 10% shareholding. In addition, Spark Infrastructure has a special right to appoint a second director while its ownership remains at or above 15.01%. This right is particular to Spark Infrastructure.

- *Deferred Tax Arising on the Investment in NSW Electricity Networks Assets Holdings Trust and NSW Electricity Networks Operations Holdings Trust*

Deferred tax arising on the initial investment in NSW Electricity Networks Assets Holdings Trust and NSW Electricity Networks Operations Holdings Trust is considered to relate to temporary differences that give rise to no accounting or taxable profit. As such, deferred tax is not recognised under the initial recognition exemption. Furthermore, subsequent changes to the unrecognised deferred tax are not recorded.

- *Deferred Tax Assets*

Deferred tax assets are recognised to the extent that it is probable that there are sufficient taxable amounts available against which deductible temporary differences or unused tax losses and tax offsets can be utilised and they are expected to reverse in the foreseeable future. As at 31 December 2017 (2016: nil), there are no amounts unrecognised on the basis that the above criteria was not met.

(r) Rounding of Amounts

As permitted by ASIC Corporations (Rounding in Financials/ Directors' Reports) Instrument 2016/191, dated 24 March 2016 and in accordance with that Corporations Instrument, amounts in the Directors' Report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. SEGMENT INFORMATION

AASB 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Four segments are reported:

- Victoria Power Networks – the 49% interest in two electricity distribution businesses in Victoria (i.e. CitiPower and Powercor);
- SA Power Networks – the 49% interest in the electricity distribution business in South Australia;
- TransGrid – the 15.01% interest in the electricity transmission business in New South Wales (i.e. NSW Electricity Networks Assets Holdings Trust (“NSW Electricity Networks Assets”) and NSW Electricity Networks Operations Holdings Trust (“NSW Electricity Networks Operations”)); and
- Other – which represents the divested economic interest in DUET Group.

The segments noted also fairly represent the Group’s geographical segments determined by location within Australia.

The following is an analysis of the Group’s revenue and results from continuing operations by reportable segments.

	VICTORIA POWER NETWORKS		SA POWER NETWORKS		TRANSGRID		OTHER		TOTAL	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
SEGMENT CASH FLOWS										
Distributions from associates – preferred partnership capital	–	–	69,635	69,826	–	–	–	–	69,635	69,826
Distributions from associates – other	–	–	49,490	49,490	1,441	30,358	–	–	50,931	79,848
Interest received from associates	72,560	79,577	–	–	9,444	14,112	–	–	82,004	93,689
Repayment of borrowings by associates ⁽¹⁾	81,790	64,974	–	–	–	–	–	–	81,790	64,974
Net cash flows from derivative contracts	–	–	–	–	–	–	–	15,209	–	15,209
Total Segment Cash Flows	154,350	144,551	119,125	119,316	10,885	44,470	–	15,209	284,360	323,546
Net interest received/(paid)									486	(3,314)
Corporate expenses									(17,302)	(14,608)
Total Operating Cash Flows⁽¹⁾									267,544	305,624
SEGMENT REVENUE										
Share of equity accounted profits/(loss)	57,593	43,774	150,137	98,171	(7,282)	3,345	–	–	200,448	145,290
Interest income – associates	70,100	78,125	–	–	12,590	13,498	–	–	82,690	91,623
Gain on derivative contracts	–	–	–	–	–	–	–	5,772	–	5,772
Segment revenue	127,693	121,899	150,137	98,171	5,308	16,843	–	5,772	283,138	242,685
Interest revenue									1,861	1,230
Total Revenue									284,999	243,915
Segment Results										
Segment contribution	127,693	121,899	150,137	98,171	5,308	16,843	–	5,772	283,138	242,685
Net interest expense									(381)	(3,324)
Corporate expenses									(12,607)	(11,352)
Cost associated with investing activities									(4,346)	(2,193)
Profit for the year before Loan Note interest and income tax expense									265,804	225,816
Interest on Loan Notes									(118,582)	(118,582)
Income tax expense									(58,581)	(26,151)
Net Profit attributable to Securityholders									88,641	81,083

(1) Victoria Power Networks distributions include both interest on and repayment of shareholder loans. Repayments of loan principal are classified as investing activities for statutory reporting purposes.

	VICTORIA POWER NETWORKS		SA POWER NETWORKS		TRANSGRID		OTHER		TOTAL	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
SEGMENT ASSETS										
Investments accounted for using the equity method	468,849	420,285	1,626,949	1,606,976	454,544	467,451	-	-	2,550,342	2,494,712
Loans to associates	598,837	680,627	-	-	-	-	-	-	598,837	680,627
Loan notes to associates	-	-	-	-	237,444	237,444	-	-	237,444	237,444
Receivables from associates	6,052	8,512	-	-	3,145	-	-	-	9,197	8,512
Total Segment Assets	1,073,738	1,109,424	1,626,949	1,606,976	695,133	704,895	-	-	3,395,820	3,421,295
Unallocated Assets										
Cash and cash equivalents									117,289	100,985
Other current assets									1,891	2,154
Property, plant and equipment									699	126
Total Assets									3,515,699	3,524,560
Unallocated Liabilities										
Loan Notes attributable to Securityholders									1,061,744	1,061,724
Other liabilities									63,452	64,385
Deferred tax liabilities									313,739	261,167
Total Liabilities									1,438,935	1,387,276

3. PROFIT FOR THE FINANCIAL YEAR

	YEAR ENDED 31 DEC 2017 \$'000	YEAR ENDED 31 DEC 2016 \$'000
(A) INCOME FROM ASSOCIATES		
Equity Accounted Profits:		
- Victoria Power Networks Pty Ltd	57,593	43,774
- SA Power Networks Partnership	150,137	98,171
- NSW Electricity Networks Assets ⁽¹⁾	(6,381)	(4,404)
- NSW Electricity Networks Operations ⁽¹⁾	(901)	7,749
	200,448	145,290
Interest Income – Associates:		
- Victoria Power Networks Pty Ltd	70,100	78,125
- NSW Electricity Networks Operations	12,590	13,498
	82,690	91,623
	283,138	236,913
(B) INTEREST EXPENSE – OTHER		
- Interest costs and other associated costs of senior debt	2,242	4,554
(C) GENERAL AND ADMINISTRATIVE EXPENSES		
Staff costs – salaries and short term benefits	3,318	2,980
Staff costs – post employment benefits	158	161
Staff costs – incentives	2,105	2,700
Total staff costs	5,581	5,841
Directors' fees – short term benefits	1,090	1,045
Directors' fees – post employment benefits	90	80
Depreciation	129	62
Project related expenses ⁽²⁾	4,346	2,193
Other expenses	5,717	4,324
	16,953	13,545

(1) Together referred to as TransGrid.

(2) Principally Endeavour Energy related bid costs.

4. INCOME TAXES

	YEAR ENDED 31 DEC 2017 \$'000	YEAR ENDED 31 DEC 2016 \$'000
CURRENT TAX		
Current tax expense in respect of the Current Year	4,263	(241)
Adjustments recognised in relation to current tax in prior years ⁽¹⁾	(29,539)	(104,168)
	(25,276)	(104,409)
DEFERRED TAX		
Deferred tax expense recognised in the Current Year	(62,844)	(25,910)
Adjustments recognised in relation to deferred tax in prior years ⁽¹⁾	29,539	104,168
	(33,305)	78,258
Total income tax expense relating to continuing operations	(58,581)	(26,151)
(a) Income Tax Recognised in the Statement of Profit or Loss and Other Comprehensive Income		
Profit before tax for continuing operations	147,222	107,234
Income tax expense calculated at 30% (2016: 30%)	(44,167)	(32,170)
Add/(deduct):		
Effect of expenses that are not deductible in determining taxable profit	(365)	(180)
Effect of prior year adjustments in SA Power Networks tax base	(5,318)	7,081
Tax effect on operating results of the trusts	(8,731)	(882)
Total Current Year income tax expense	(58,581)	(26,151)
The tax rate of 30% used above is the current Australian corporate tax rate. There was no change in the corporate tax rate during the Current Year.		
(b) Income Tax Recognised Directly in Equity		
Share of associates' reserves	6,020	(700)
Income tax expense	6,020	(700)
(c) Deferred Tax Balances		
TEMPORARY DIFFERENCES		
Timing differences – other	(1,914)	(2,313)
Investment in associates	(494,314)	(410,881)
	(496,228)	(413,194)
UNUSED TAX LOSSES		
Tax losses	182,489	152,027
	(313,739)	(261,167)

(1) Amendments to the treatment of customer contributions and gifted assets reported in Spark Infrastructure Holdings No.2 Pty Ltd's income tax returns.

Tax Consolidation

Relevance of Tax Consolidation to Spark Infrastructure:

Spark Infrastructure Holdings No.1 Pty Ltd ("SIH No.1"), Spark Infrastructure Holdings No.2 Pty Ltd ("SIH No.2"), and Spark Infrastructure Holdings No.3 Pty Ltd ("SIH No.3") and their wholly owned entities have each formed a tax consolidated group and therefore each group is taxed as a single entity. The head entity within each tax consolidated group is SIH No.1, SIH No.2 and SIH No.3 respectively. The members of the tax consolidated groups are identified in Note 20.

Nature of Tax Funding Arrangements and Tax Sharing Agreements

Entities within each tax consolidated group have entered into a tax funding arrangement and a tax sharing agreement with their respective head entities. Under the terms of the funding agreement, SIH No.1, SIH No.2, and SIH No.3 and each of the entities in the relevant tax consolidated group have agreed to pay a tax equivalent payment to or from the head entity, based on the current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group.

The tax sharing agreement between members of the tax consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in these consolidated financial statements in respect of this agreement as payment of any amounts under the agreement is considered remote at this time.

ATO Matters

The following is a summary of items that are in dispute with the ATO.

Victoria Power Networks Pty Ltd

- (a) the recognition of assessable income for assets transferred by customers to entities within the Victoria Power Networks consolidated group during the years ended 31 December 2007 to 31 December 2012;
- (b) a denial of deductions for rebates paid to customers by entities within the Victoria Power Networks consolidated group during the years ended 31 December 2007 to 31 December 2012;
- (c) a further consequential increase in the allowance of depreciation for the labour costs, motor vehicle running costs and transferred assets during the years ended 31 December 2007 to 31 December 2012;
- (d) a denial of deductions for certain labour costs and motor vehicle running costs incurred during the years ended 31 December 2007 to 31 December 2010 and
- (e) a denial of deductions in respect of certain asset replacement projects during the years ended 31 December 2008 to 31 December 2010.

In respect of items (a) to (c), in July 2017 Victoria Power Networks has now formally objected to amended assessments issued by the ATO. These objections were subsequently disallowed. On this basis these matters will now be litigated, with a hearing in the Federal Court to be scheduled. As stated above, Victoria Power Networks will continue to vigorously defend its position for all items.

SA Power Networks Partnership

- (a) a denial of deductions for direct internal labour and motor vehicle costs incurred by SA Power Networks on self-constructed assets, after separate favourable adjustments for asset replacement, on the grounds that they are of a capital nature, and a corresponding allowance of tax depreciation deductions for those costs over the effective life of the assets.

As previously reported, both Victoria Power Networks and the SA Power Networks Partnership have obtained legal advice with regard to the ongoing matters and will continue to vigorously defend their positions. The SA Power Networks Partnership partners and Victoria Power Networks continue to actively engage with the ATO on these matters.

Details of these tax matters have been previously disclosed in the Spark Infrastructure Financial Statements.

5. RECEIVABLES FROM ASSOCIATES – CURRENT

	31 DEC 2017 \$'000	31 DEC 2016 \$'000
Victoria Power Networks	6,052	8,512
NSW Electricity Networks Operations	3,145	–
	9,197	8,512

Receivables from associates relates to interest receivable on loans to Victoria Power Networks and loan notes to NSW Electricity Networks Operations per Notes 7 and 8. These receivables are expected to be settled in full within the next 12 months.

6. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(a) Investments in Associates

NAME OF ENTITY	PRINCIPAL ACTIVITY	OWNERSHIP INTEREST (%)		COUNTRY OF INCORPOR- ATION/ FORMATION
		2017	2016	
Victoria Power Networks Pty Ltd	Ownership of electricity distribution networks in Victoria	49.00	49.00	Australia
SA Power Networks	Ownership of an electricity distribution network in South Australia	49.00	49.00	Australia
NSW Electricity Networks Assets Holdings Trust ⁽¹⁾	Ownership of electricity transmission assets in New South Wales	15.01	15.01	Australia
NSW Electricity Networks Operations Holdings Trust ⁽¹⁾	Ownership of an electricity transmission business in New South Wales	15.01	15.01	Australia

(1) Together referred to as TransGrid.

(b) Summarised Financial Position of Associates (100% basis)

	31 DEC 2017 \$'000	31 DEC 2017 \$'000	31 DEC 2017 \$'000	31 DEC 2017 \$'000	31 DEC 2016 \$'000	31 DEC 2016 \$'000	31 DEC 2016 \$'000	31 DEC 2016 \$'000
	VICTORIA POWER NETWORKS	SA POWER NETWORKS	NSW ELECTRICITY NETWORKS ASSETS	NSW ELECTRICITY NETWORKS OPERATIONS	VICTORIA POWER NETWORKS	SA POWER NETWORKS	NSW ELECTRICITY NETWORKS ASSETS	NSW ELECTRICITY NETWORKS OPERATIONS
Current assets	352,302	421,567	138,964	153,661	260,237	382,831	82,783	128,429
Non-current assets	7,756,120	6,328,172	7,513,588	2,761,374	7,853,983	6,264,979	7,578,985	2,696,904
Total assets	8,108,422	6,749,739	7,652,552	2,915,035	8,114,220	6,647,810	7,661,768	2,825,333
Current liabilities	1,701,509	721,181	78,934	201,688	1,772,020	868,489	57,306	158,046
Non-current liabilities	4,950,784	3,659,212	5,600,364	1,620,354	4,991,418	3,438,674	5,552,205	1,610,624
Total liabilities	6,652,293	4,380,393	5,679,298	1,822,042	6,763,438	4,307,163	5,609,511	1,768,670
Net assets	1,456,129	2,369,346	1,973,254	1,092,993	1,350,782	2,340,647	2,052,257	1,056,663

(c) Summarised Financial Performance of Associates (100% basis)

	31 DEC 2017 \$'000	31 DEC 2017 \$'000	31 DEC 2017 \$'000	31 DEC 2017 \$'000	31 DEC 2016 \$'000	31 DEC 2016 \$'000	31 DEC 2016 \$'000	31 DEC 2016 \$'000
	VICTORIA POWER NETWORKS	SA POWER NETWORKS	NSW ELECTRICITY NETWORKS ASSETS	NSW ELECTRICITY NETWORKS OPERATIONS	VICTORIA POWER NETWORKS	SA POWER NETWORKS	NSW ELECTRICITY NETWORKS ASSETS	NSW ELECTRICITY NETWORKS OPERATIONS
Regulated revenue (including advanced metering)	1,005,825	788,641	–	769,009	1,008,341	739,669	–	796,405
Revenue – semi-regulated and unregulated	206,900	258,693	519,102	90,451	171,887	247,135	510,563	77,220
Customer contributions & gifted assets	–	–	–	–	116,799	79,573	–	–
Operating revenue	1,212,725	1,047,334	519,102	859,460	1,297,027	1,066,377	510,563	873,625
Revenue – transmission (pass-through)	301,437	243,445	–	–	278,390	251,562	–	–
Expenses	1,514,162	1,290,779	519,102	859,460	1,575,417	1,317,939	510,563	873,625
Expenses – transmission (pass-through)	(1,033,340)	(825,473)	(561,618)	(808,098)	(1,031,744)	(851,028)	(535,815)	(810,198)
	(301,437)	(243,445)	–	–	(278,390)	(251,562)	–	–
Profit/(loss) before income tax	179,385	221,861	(42,516)	51,362	265,283	215,349	(25,252)	63,427
Income tax expense	(56,068)	–	–	–	(77,443)	–	–	–
Net profit/(loss)	123,317	221,861	(42,516)	51,362	187,840	215,349	(25,252)	63,427
Other comprehensive income:								
(Loss)/gain on hedges	(41,367)	(23,148)	(36,487)	(127)	22,372	(17,246)	(8,552)	69
Actuarial gain/(loss) on defined benefit plans	15,050	621	–	8,724	(3,146)	8,549	–	18,525
Income tax benefit/(expense) related to components of other comprehensive income	7,895	–	–	–	(5,768)	–	–	–
Other comprehensive (loss)/income for the Financial Year	(18,422)	(22,527)	(36,487)	8,597	13,458	(8,697)	(8,552)	18,594
Total comprehensive income/(loss) for the Financial Year	104,895	199,334	(79,003)	59,959	201,298	206,652	(33,804)	82,021

6. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD CONTINUED

(c) Summarised Financial Performance of Associates (100% basis) continued

Reconciliation of the above summarised financial performance (on a 100% basis) to the net profit/(loss) attributable to Spark Infrastructure from SA Power Networks and Victoria Power Networks (on a 49% basis) and NSW Electricity Networks Assets and NSW Electricity Networks Operations (on a 15.01% basis), recognised in the financial report:

	YEAR ENDED 31 DEC 2017 \$'000	YEAR ENDED 31 DEC 2016 \$'000
Victoria Power Networks net profit	60,426	92,041
SA Power Networks net profit	108,712	105,521
Additional share of profits from preferred partnership capital ^a	35,514	35,611
NSW Electricity Networks Assets net loss	(6,382)	(3,790)
NSW Electricity Networks Operations net profit	7,709	9,520
	205,979	238,903
Adjustment in respect of customer contributions and gifted assets ^b	-	(79,053)
Adjustment in respect of regulated revenue cap ^c	(4,242)	(1,770)
Additional adjustments to share of equity profits ^d	(1,289)	(12,790)
	200,448	145,290

- a Under the partnership agreement, Spark Infrastructure is entitled to an additional share of profit in SA Power Networks, which ensures that Spark Infrastructure shares in 49% of the overall results of operations from SA Power Networks.
- b Differences in the measurement of the fair value of customer contributions and gifted assets under AASB 13 *Fair Value Measurement* (AASB 13). Spark Infrastructure changed its basis of estimating the fair value of customer contributions and gifted assets reported by Victoria Power Networks and SA Power Networks with effect from 1 January 2014 from 'depreciated replacement cost' to estimating the net present value of the future cashflows expected to be derived from the specific extension or modification to the network. From 1 January 2017 both Victoria Power Networks and SA Power Networks adopted this alternative approach and Spark Infrastructure no longer makes adjustments to the value of customer contributions and gifted assets for statutory reporting purposes.
- c Adjustments are made to distribution/transmission revenues to defer/accrue for amounts in excess of/under the regulated revenue cap to reflect that these amounts will be returned to/recovered from electricity consumers in future periods via adjustments to tariffs.
- d Additional adjustments made to share of equity profits includes additional depreciation/amortisation of fair value uplift of assets on acquisition.

(d) Movement in Carrying Amounts

	YEAR ENDED 31 DEC 2017 \$'000	YEAR ENDED 31 DEC 2016 \$'000
Carrying amount at beginning of the Current Year	2,494,712	2,495,256
Share of profits after income tax	200,448	145,290
Preferred partnership distribution received – SA Power Networks	(69,635)	(69,826)
Distributions received – SA Power Networks	(49,490)	(49,490)
Distributions received – NSW Electricity Networks Assets	(1,441)	(26,973)
Distributions received – NSW Electricity Networks Operations	-	(3,385)
Share of associates' comprehensive (loss)/income recognised directly in equity	(24,252)	3,840
Carrying amount at end of the Current Year	2,550,342	2,494,712

(e) Contingent Liabilities

Spark Infrastructure's share of contingent liabilities are provided in Note 16.

7. LOANS TO ASSOCIATES – INTEREST BEARING

	31 DEC 2017 \$'000	31 DEC 2016 \$'000
Victoria Power Networks	598,837	680,627

100 year loan to Victoria Power Networks at a fixed interest rate of 10.85% per annum. The loan is repayable at the discretion of the borrower. An amount of \$81,790,000 was repaid by the borrower to Spark Infrastructure during 2017 (2016: \$64,974,000).

8. LOAN NOTES TO ASSOCIATES – INTEREST BEARING

	31 DEC 2017 \$'000	31 DEC 2016 \$'000
NSW Electricity Networks Operations	237,444	237,444

Loan notes advanced to NSW Electricity Networks Operations at the applicable bank bill interest rate plus a margin of 3.50% per annum. The loan notes are redeemable at the discretion of the issuer, with a maximum maturity in December 2025.

9. LOAN NOTES ATTRIBUTABLE TO SECURITYHOLDERS

	31 DEC 2017 \$'000	31 DEC 2016 \$'000
Balance at beginning of the Financial Year	1,061,724	1,061,704
Write back of deferred discount ^a	20	20
Balance at end of the Financial Year	1,061,744	1,061,724

^a The deferred discount represents the difference between the Loan Notes face value of \$1.25 and the price of securities issued under the Distribution Reinvestment Plan in September 2009 of \$1.0862. The deferred discount is written back over the remaining term of the Loan Notes.

10. ISSUED CAPITAL

	31 DEC 2017 \$'000	31 DEC 2016 \$'000
Balance at beginning of the Financial Year	1,199,119	1,303,404
Capital distributions ^a	(131,617)	(104,285)
Balance at end of the Financial Year	1,067,502	1,199,119

^a Capital distributions of 4.125 cps on 15 September 2017 (3.75 cps on 15 September 2016) and 3.70 cps on 15 March 2017 (2.45 cps on 15 March 2016) were paid to Securityholders during the year – refer Note 15.

FULLY PAID STAPLED SECURITIES	NO.'000	NO.'000
Balance at the beginning and end of the Financial Year	1,682,011	1,682,011

11. RESERVES

	YEAR ENDED 31 DEC 2017 \$'000	YEAR ENDED 31 DEC 2016 \$'000
Cash Flow Hedging Reserve		
Balance at beginning of the Financial Year	(18,231)	(17,404)
Share of associates' losses on hedges ^a	(31,027)	(2,050)
Related tax benefit	7,660	233
Recognition of Share-based Payments	687	990
Balance at end of the Financial Year	(40,911)	(18,231)

^a The hedging reserve represents hedging gains and losses recognised on the effective portion of the cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedge transaction impacts the profit or loss.

12. RETAINED EARNINGS

	YEAR ENDED 31 DEC 2017 \$'000	YEAR ENDED 31 DEC 2016 \$'000
Balance at beginning of the Financial Year	956,396	870,355
Net profit after tax for the Financial Year	88,641	81,083
Share of associates' actuarial gain recognised directly in retained earnings ^a	6,776	5,891
Related tax expense	(1,640)	(933)
Balance at end of the Financial Year	1,050,173	956,396

^a Actuarial gains or losses on defined benefit superannuation plans operated by the investment portfolio assets are recognised directly in Retained Earnings.

13. REMUNERATION OF EXTERNAL AUDITOR

	YEAR ENDED 31 DEC 2017 \$	YEAR ENDED 31 DEC 2016 \$
Audit and review of the financial reports	261,000	268,500
General tax advice	101,000	226,500
Other accounting services	18,000	–
Project related tax advice and assurance services ⁽¹⁾	299,000	80,000
	679,000	575,000

The auditor of Spark Infrastructure is Deloitte Touche Tohmatsu.

(1) Principally Endeavour Energy related bid costs.

14. EARNINGS PER SECURITY (“EPS”)

	YEAR ENDED 31 DEC 2017 \$'000	YEAR ENDED 31 DEC 2016 \$'000
Profit before income tax and Loan Note interest	265,804	225,816
Weighted average number of securities (No. '000)	1,682,011	1,682,011
Basic earnings per security before income tax and Loan Note interest (cents)	15.80¢	13.43¢
Earnings used to calculate EPS	88,641	81,083
Basic earnings per security based on net profit attributable to Securityholders (cents)	5.27¢	4.82¢

Basic EPS is the same as diluted EPS.

15. DISTRIBUTION PAID AND PAYABLE

	2017		2016	
	CENTS PER SECURITY	TOTAL \$'000	CENTS PER SECURITY	TOTAL \$'000
DISTRIBUTION PAID:				
Interim distribution in respect of year ended 31 December 2017 paid on 15 September 2017 (2016: 15 September 2016):				
Interest on Loan Notes	3.50	58,870	3.50	58,870
Capital Distribution	4.125	69,383	3.75	63,075
	7.625	128,253	7.25	121,945
DISTRIBUTION PAYABLE/PROPOSED:				
Final distribution in respect of the year ended 31 December 2017 payable on 15 March 2018 (2016: 15 March 2017):				
Interest on Loan Notes	3.55	59,711	3.55	59,711
Capital Distribution	4.075	68,542	3.70	62,234
	7.625	128,253	7.25	121,945
Total paid and payable	15.25	256,506	14.50	243,890

16. CONTINGENCIES

	YEAR ENDED 31 DEC 2017 \$	YEAR ENDED 31 DEC 2016 \$
Share of associates' contingent liabilities	43,150	44,743

The contingent liabilities relate to a number of guarantees provided to various parties by the investment portfolio assets. There are no contingent liabilities or contingent assets in Spark Infrastructure.

17. KEY MANAGEMENT PERSONNEL (“KMP”) COMPENSATION

The aggregate compensation made to Directors and other members of KMP of Spark Infrastructure is set out below:

	YEAR ENDED 31 DEC 2017 \$	YEAR ENDED 31 DEC 2016 \$
Salary and Fees	2,669,973	2,747,974
Total STI Expense	1,005,429	1,218,273
Non-monetary Expense	47,516	40,308
Superannuation Expense	150,962	144,314
LTI Expense	349,587	674,424
LTI Transition Payment Expense	–	377,430
Total Expense	4,223,467	5,202,722

18. RELATED PARTY DISCLOSURES

(a) Directors

The relevant interest of each Director of Spark Infrastructure for the Current Year is as follows:

	OPENING BALANCE 1 JANUARY 2017 (NO.)	NET MOVEMENT ACQUIRED/ (DISPOSED) (NO.)	CLOSING BALANCE 31 DECEMBER 2017 (NO.)
2017			
Dr Douglas McTaggart	120,000	15,000	135,000
Mr Rick Francis	23,942	92,234	116,176
Mr Andrew Fay	188,590	–	188,590
Ms Anne McDonald	61,000	10,000	71,000
Ms Karen Penrose	50,000	–	50,000
Mr Greg Martin ⁽¹⁾	–	50,000	50,000
Ms Christine McLoughlin ⁽²⁾	66,766	–	–
Dr Keith Turner ⁽³⁾	75,706	–	–

(1) Mr Martin was appointed to the Board on 1 January 2017.

(2) Ms McLoughlin retired from the Board on 15 October 2017.

(3) Dr Turner retired from the Board on 23 May 2017.

The relevant interest of each Director of Spark Infrastructure in respect of 2016 was as follows:

	OPENING BALANCE 1 JANUARY 2016 (NO.)	NET MOVEMENT ACQUIRED/ (DISPOSED) (NO.)	CLOSING BALANCE 31 DECEMBER 2016 (NO.)
2016			
Dr Douglas McTaggart	50,000	70,000	120,000
Mr Rick Francis	23,942	–	23,942
Mr Andrew Fay	68,590	120,000	188,590
Ms Anne McDonald	61,000	–	61,000
Ms Christine McLoughlin	51,766	15,000	66,766
Ms Karen Penrose	38,824	11,176	50,000
Dr Keith Turner	75,706	–	75,706
Mr Brian Scullin ⁽¹⁾	77,648	–	–

(1) Mr Scullin retired from the Board on 20 May 2016.

18. RELATED PARTY DISCLOSURES CONTINUED

(b) Group Executives

The table below details the Spark Infrastructure securities in which Group Executives held relevant interests:

	OPENING BALANCE 1 JANUARY 2017 (NO.)	NET MOVEMENT ACQUIRED/ (DISPOSED) (NO.)	CLOSING BALANCE 31 DECEMBER 2017 (NO.)
2017			
Mr Rick Francis	23,942	92,234	116,176
Mr Nicholas Schiffer ⁽¹⁾	-	-	-
Ms Alexandra Finley	-	28,170	28,170
Mr Greg Botham ⁽²⁾	-	-	-
	OPENING BALANCE 1 JANUARY 2016 (NO.)	NET MOVEMENT ACQUIRED/ (DISPOSED) (NO.)	CLOSING BALANCE 31 DECEMBER 2016 (NO.)
2016			
Mr Rick Francis	23,942	-	23,942
Ms Alexandra Finley	-	-	-
Mr Greg Botham	-	-	-

(1) Mr Schiffer was appointed as CFO on 17 July 2017.

(2) Mr Botham resigned as CFO on 30 April 2017.

(c) Responsible Entity

The responsible entity of the Trust is Spark Infrastructure RE Limited.

(d) KMP

KMP are those having the authority and responsibility for directing and controlling the activities of an entity. The Directors and certain employees that meet the definition of KMP are disclosed above along with their remuneration in Note 17. Securityholding details are disclosed in Note 18(a) and Note 18(b).

(e) Other Related Parties

Other related parties include associates, subsidiaries, and entities within Spark Infrastructure.

Associates

The details of ownership interests in associates are provided in Note 6. The details of interest receivable and loans provided to associates are detailed in Notes 5, 7 and 8. Details of interest income on these loans are detailed in Note 3(a).

Subsidiaries

The details of ownership interest in subsidiaries are provided in Note 20. The terms of the tax sharing and tax funding agreements entered into by SIH No.1, SIH No.2 and SIH No.3 with their subsidiaries are provided in Note 4.

Entities within Spark Infrastructure

There are loans receivable by the Trust from other entities within Spark Infrastructure, being Spark Infrastructure (Victoria) Pty Limited, Spark Infrastructure (SA) Pty Limited, SIH No.3 and Spark Infrastructure Electricity Operations Trust.

19. SUBSEQUENT EVENTS

There were no events, other than those described in this report, that have arisen since the end of the Financial Year that have significantly affected or may significantly affect the operations of Spark Infrastructure.

20. CONTROLLED ENTITIES

ENTITY	COUNTRY OF INCORPORATION	2017 EQUITY HOLDINGS [%]	2016 EQUITY HOLDINGS [%]
Controlled entities of Spark Infrastructure Trust:			
– Spark Infrastructure Holdings No. 1 Pty Limited ^a	Australia	100	100
– Spark Infrastructure Holdings No. 2 Pty Limited ^a	Australia	100	100
– Spark Infrastructure Holdings No. 3 Pty Limited ^a	Australia	100	100
– Spark Infrastructure Electricity Assets Trust	Australia	100	100
Controlled entity of SIH No. 1 ^a :			
– Spark Infrastructure (Victoria) Pty Limited ^b	Australia	100	100
Controlled entities of SIH No. 2 ^a :			
– Spark Infrastructure (South Australia) Pty Limited ^c	Australia	100	100
– Spark Infrastructure SA (No 1) Pty Limited ^c	Australia	100	100
– Spark Infrastructure SA (No 2) Pty Limited ^c	Australia	100	100
– Spark Infrastructure SA (No 3) Pty Limited ^c	Australia	100	100
Controlled entities of SIH No. 3 ^a :			
– Spark Infrastructure Holdings No. 4 Pty Limited (“SIH No.4”) ^d	Australia	100	100
– Spark Infrastructure Holdings No. 5 Pty Limited (“SIH No. 5”) ^d	Australia	100	100
– Spark Infrastructure RE Ltd ^d	Australia	100	100
– Spark Infrastructure Electricity Assets Pty Ltd ^d	Australia	100	100
– Spark Infrastructure Electricity Operations Trust	Australia	100	100
– Spark Infrastructure Electricity Operations Pty Ltd ^d	Australia	100	100

a Head entity of a tax consolidated group.

b An entity within a tax consolidated group with SIH No. 1 as the head entity.

c An entity within a tax consolidated group with SIH No. 2 as the head entity.

d An entity within a tax consolidated group with SIH No. 3 as the head entity.

21. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of Cash and Cash Equivalents

	31 DEC 2017 \$'000	31 DEC 2016 \$'000
Cash on hand and at bank	24,277	10,974
Cash at bank held for Australian Financial Services Licensing purposes	5,000	5,000
Cash on deposit	88,012	85,011
Cash and Cash Equivalents	117,289	100,985

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments.

(b) Committed Financing Facilities

	31 DEC 2017 \$'000	31 DEC 2016 \$'000
Syndicated unsecured bank loan facilities:		
– Amount used	–	–
– Amount unused	250,000	250,000
	250,000	250,000

Committed Finance Facility maturities are:

- November 2018: \$100,000,000 3-year revolving facility with Commonwealth Bank of Australia, maturing within 12 months
- November 2018: \$100,000,000 3-year revolving facility with Westpac Banking Corporation, maturing within 12 months
- November 2018: \$25,000,000 3-year revolving facility with The Bank of Tokyo-Mitsubishi UFJ, Ltd (“BTMU”), maturing within 12 months
- November 2020: \$25,000,000 5-year revolving facility with BTMU

21. NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED

(c) Reconciliation of Profit for the Financial Year to Net Cash Inflows Related to Operating Activities

	YEAR ENDED 31 DEC 2017 \$'000	YEAR ENDED 31 DEC 2016 \$'000
Net profit after tax	88,641	81,083
Add back / (subtract):		
Loan Note interest expense	118,582	118,582
Non-cash income tax expense	58,581	26,151
Non-cash interest expense	867	10
Non-cash depreciation expense	129	62
Share of equity accounted profits and losses of associates net of distributions received	(79,882)	4,384
Gain on derivative contracts (less distributions)	-	9,437
Changes in net assets and liabilities:		
(Increase)/decrease in current receivables	(1,225)	4,315
Increase/(decrease) in current payables	61	(3,374)
Net cash inflow related to operating activities	185,754	240,650

22. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives

Spark Infrastructure's treasury function manages the financial risks and co-ordinates access to financial markets. Spark Infrastructure does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by Spark Infrastructure's treasury policy, approved by the Board, which has written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by management and Spark Infrastructure's internal auditors on a regular basis.

(b) Capital Risk Management

Spark Infrastructure manages its capital through the use of a combination of debt and equity to ensure that it will be able to operate as a going concern and provide appropriate returns to Securityholders.

The capital structure of Spark Infrastructure comprises net debt (borrowings offset by cash and cash equivalents as detailed in Note 21), Loan Notes attributable to the Securityholders and equity. As the Loan Notes are a long-term instrument and subordinated, they are regarded as part of equity capital for these purposes. On this basis the total equity capital of Spark Infrastructure as at 31 December 2017 was \$3,138,508,000 (2016: \$3,199,008,000) comprising \$1,061,744,000 (2016: \$1,061,724,000) in Loan Notes and \$2,076,764,000 (2016: \$2,137,284,000) in equity attributable to the Securityholders.

The debt covenants under the bank debt facilities require, inter alia, that the gearing at Spark Infrastructure does not exceed 30% on a standalone basis and on a consolidated basis (including its proportionate share of debt of the investment portfolio assets) and that the gearing does not exceed 75% at any time. During the Current Year Spark Infrastructure complied with all of its debt covenants.

Spark Infrastructure holds less than a 50% interest in the investment portfolio assets and while it has significant influence, does not control these businesses and is not in a position to determine their distribution policy alone. The Distribution Policies are set out in Shareholder Agreements between Spark Infrastructure and its fellow shareholders. Any change in the Distribution Policies requires a special majority resolution of the shareholders. Further, the revenue of the investment portfolio assets is significantly reliant on the regulatory determinations of the AER. This could in turn impact on distributions received by Spark Infrastructure.

(c) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1.

(d) Categories of Financial Instruments

	31 DEC 2017 \$'000	31 DEC 2016 \$'000
FINANCIAL ASSETS		
Cash and cash equivalents	117,289	100,985
Receivables from associates	9,197	8,512
Loans to associates	598,836	680,627
Loan notes to associates	237,444	237,444
FINANCIAL LIABILITIES		
Payables	3,741	4,674
Loan Note interest payable	59,711	59,711
Loan Notes at amortised cost	1,061,744	1,061,724

(e) Financial Market Risk

The principal financial market risks that Spark Infrastructure is exposed to is interest rate risk. Note 22(f) below discusses the strategy adopted to manage the interest rate risk.

Further, the revenue of the investment portfolio is significantly reliant on the regulatory determinations of the AER. This could in turn impact on distributions received by Spark Infrastructure.

(f) Interest Rate Risk Management

Spark Infrastructure is exposed to interest rate risk if it borrows funds at floating interest rates. Spark Infrastructure's treasury policy specifies that interest rate risk on long term drawn term debt is managed principally through the use of interest rate swap contracts. At 31 December 2017 Spark Infrastructure had no drawn debt facilities or interest rate swaps in place.

Interest Rate Swap Contracts

Under interest rate swap contracts, Spark Infrastructure agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable Spark Infrastructure to mitigate the risk of changing interest rates on debt held. The fair values of interest rate swaps are based on market values of equivalent instruments at the reporting date.

All interest rate swap contracts on behalf of Spark Infrastructure have previously been entered into by Spark Infrastructure (Victoria) Pty Limited, a subsidiary of SIH No. 1, which is the borrower of all unsecured facilities of the Group.

Interest Rate Risk Sensitivity

Sensitivity analysis is determined based on exposure to interest rates for both derivative and non-derivative financial instruments at the end of the reporting period. An impact of a 100 basis points ("bps") movement is considered reasonable given the current level of both short and long term Australian dollar interest rates.

As there was no drawn debt at 31 December 2017 (2016: nil), any movement in interest rates would have no impact on the Group's profit for the year ended 31 December 2017.

(g) Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to Spark Infrastructure. Spark Infrastructure's credit risk arises from cash held on deposit and previously for derivative financial instruments. Spark Infrastructure has adopted a policy of only dealing with creditworthy counterparties and establishing and maintaining limits, as a means of mitigating the risk of financial loss from defaults. Spark Infrastructure's exposure and the credit ratings of its counterparties are continuously monitored and the transactions, where deemed appropriate, are spread amongst approved counterparties to minimise risk to any single counterparty.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

22. FINANCIAL INSTRUMENTS CONTINUED

(h) Liquidity Risk Management

Spark Infrastructure manages liquidity by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, and by continuously monitoring forecast and actual cash flows. Details of undrawn facilities are provided in Note 21.

Liquidity and Interest Risk Tables

The following tables detail Spark Infrastructure's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cashflows of financial liabilities based on the earliest date on which Spark Infrastructure can be required to make payment. The tables include undiscounted amounts for both interest and principal cashflows.

2017	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE % PA	LESS THAN 1 MONTH \$'000	1-3 MONTHS \$'000	3 MONTHS TO 1 YEAR \$'000	1-5 YEARS \$'000	5+ YEARS \$'000	TOTAL \$'000
Payables	–	564	2,763	183	196	35	3,741
Commitment fee on interest bearing liabilities	–	334	–	981	552	–	1,867
Loan Notes attributable to Securityholders ^a	10.85	–	59,711	58,870	474,327	10,935,594	11,528,502
Total		898	62,474	60,034	475,075	10,935,629	11,534,110

a The Loan Notes mature in 2105.

2016	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE % PA	LESS THAN 1 MONTH \$'000	1-3 MONTHS \$'000	3 MONTHS TO 1 YEAR \$'000	1-5 YEARS \$'000	5+ YEARS \$'000	TOTAL \$'000
Payables	–	673	2,477	298	1,187	39	4,674
Commitment fee on interest bearing liabilities	–	334	–	981	1,913	–	3,228
Loan Notes attributable to Securityholders ^a	10.85	–	59,711	58,870	474,327	11,054,176	11,647,084
Total		1,007	62,188	60,149	477,427	11,054,215	11,654,986

a The Loan Notes mature in 2105.

The interest on Loan Notes was fixed at 10.85% per annum on a notional principal balance of \$1.25 per Loan Note for an initial 5-year period ending 30 November 2010. The Restructure in 2010 comprised a partial repayment of the Loan Notes which resulted in a reduction in the principal amount outstanding on the Loan Notes of \$0.60, from \$1.25 to \$0.65 per Loan Note. No change was made at that date or the reset date on 30 November 2015 to either the interest rate or the 5-year reset period. For future reset periods, any change (if made) to the interest rate must be at least the relevant swap rate plus a margin of 4%. In the above tables, the Loan Note interest rate of 10.85% has been assumed for the remaining term of the Loan Notes post 30 November 2020 (the next reset date); however the actual rate for each reset period will be subject to finalisation at future points in time.

The amounts for Loan Notes disclosed reflect undiscounted amounts for interest for the remaining term of the Loan Notes plus the outstanding principal due in 2105. The outstanding principal as at 31 December 2017 was \$0.65 per Loan Note (31 December 2016: \$0.65 per Loan Note). The Responsible Entity may defer interest payments, by notice to the Note Trustee and Noteholders. Interest continues to accrue on any outstanding amount. All outstanding interest must be paid on the next reset date, except to the extent that monies are owing by the Group to any bank, financial institution or other entity providing financial accommodation (drawn or undrawn, or secured or unsecured) for over \$5,000,000. Deferral of interest payments, and non-payment on a reset date in the circumstances described above, does not constitute a default.

(i) Fair Value of Financial Instruments

The Directors consider that the carrying amount of financial assets and financial liabilities recorded in these consolidated financial statements approximates their fair values.

23. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

The following aggregate amounts are disclosed in respect of the Parent Entity, Spark Infrastructure Trust:

	31 DEC 2017 \$'000	31 DEC 2016 \$'000
FINANCIAL POSITION		
Current assets	20,271	124,345
Non-current assets	2,224,438	2,085,365
Total Assets	2,244,709	2,209,710
Current liabilities	59,760	59,715
Non-current liabilities	1,074,501	880,618
Total liabilities	1,134,261	940,333
Net Assets	1,110,448	1,269,377
EQUITY		
Issued capital	1,067,490	1,199,107
Retained earnings	42,958	70,270
Total Equity	1,110,448	1,269,377
	YEAR ENDED 31 DEC 2017 \$'000	YEAR ENDED 31 DEC 2016 \$'000
FINANCIAL PERFORMANCE		
Net (loss)/profit for the year	(27,312)	8,962
Other comprehensive income	–	–
Total comprehensive (loss)/income for the Financial Year	(27,312)	8,962

(b) Guarantees entered into by the Parent Entity

The Parent Entity has provided financial guarantees in respect of Financing Facilities, refer Note 21(b).

(c) Contingent liabilities of the Parent Entity

The Parent Entity has no contingent liabilities.

(d) Contractual commitments for the acquisition of property, plant and equipment by the Parent Entity

As at 31 December 2017, the Parent Entity had no contractual commitments (2016: nil).

24. ADDITIONAL INFORMATION

The registered office of business of the Trust is as follows:

Level 29, 225 George Street
Sydney NSW 2000
Australia



Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor
Place
Sydney NSW 1220 Australia

DX: 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9254 1193
www.deloitte.com.au

Independent Auditor's Report to the members of Spark Infrastructure Trust

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Spark Infrastructure Trust (the Trust) and its subsidiaries (the Group), which comprises the Consolidated Statement of Financial Position as at 31 December 2017, the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of Spark Infrastructure RE Limited (the directors), as responsible entity of the Trust, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Member of Deloitte Touche Tohmatsu

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Recoverable amount of Investments accounted for using the equity method</p> <p>As at 31 December 2017 the Group's Consolidated Statement of Financial Position includes 'Investments accounted for using the equity method' amounting to \$2,550 million, comprising investments in Victoria Power Networks, SA Power Networks and TransGrid. Refer to Note 6 'Investments accounted for using the equity method' for a summary of balances as at 31 December 2017.</p> <p>An indicator of impairment relating to the investment in TransGrid was identified by management. Accordingly, Spark Infrastructure management prepared a fair value less cost to sell impairment model relating to the investment in TransGrid.</p> <p>The fair value less cost to sell model is based on the forecast distributions from the investment, the projected terminal value of the Regulated Asset Base ('RAB') and the projected terminal value of the unregulated business. The fair value less costs to sell model is used to confirm that the carrying value of the investment does not exceed its recoverable value.</p> <p>The assessment of the recoverable value of the investment involves the exercise of significant judgement in determining the assumptions to be used in the discounted cash flow model, including the distributions, the discount rate, the RAB multiple and the EBITDA multiples for unregulated activities. Refer to Note 1(q) 'Critical Accounting Estimates and Judgements'.</p>	<p>In conjunction with Deloitte valuation specialists, our procedures included but were not limited to:</p> <ul style="list-style-type: none"> • understanding management's process for the preparation and review of the impairment model; • evaluating the discounted cash flow model developed to assess the recoverable value of the investment in Transgrid, including critically assessing the following key assumptions: <ul style="list-style-type: none"> ◦ distributions; ◦ discount rate; ◦ RAB multiple; ◦ EBITDA multiples for unregulated activities <p>We corroborated the RAB and EBITDA multiples by reference to external data. The discount rate was assessed using our own independent data.</p> <ul style="list-style-type: none"> • performing sensitivity analysis on a number of assumptions, including the discount rate and the appropriate terminal value based on RAB multiples for regulated activities and EBITDA multiples for unregulated activities; • on a sample basis testing the mathematical accuracy of the discounted cash flow model; and • evaluating the adequacy of disclosures in the financial report. <p>We concur with the assessment that the carrying value of the investment does not exceed its recoverable value.</p>

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report which we obtained prior to the date of this auditor's report, and the other documents comprising the annual report (excluding the financial report and our auditor's report thereon) which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and accordingly we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent



with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the other documents comprising the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Responsibilities of the Directors' for the Financial Report

The directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group 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 to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Deloitte.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report of Spark Infrastructure Trust and its Consolidated Entities included in pages 47 to 74 of the Directors' Report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of Spark Infrastructure Trust and its Consolidated Entities, for the year ended 31 December 2017, has been prepared in accordance with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors have voluntarily presented the Remuneration Report which has been prepared in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Jason Thorne
Partner
Chartered Accountants
Sydney, 23 February 2018

ADDITIONAL ASX DISCLOSURES

ASX requires certain disclosures to be made in the annual report, which are set out below.

STAPLING

As a part of the usual conditions of listing a stapled structure ASX reserves the right to remove the Spark Infrastructure Trust (the Stapled Entity) from the official list if:

- any of the securities cease to be “stapled” to the corresponding securities of the Stapled Entity; or
- any security is issued by the Stapled Entity which is not stapled to corresponding securities of the Stapled Entity.

DIVESTMENT OF SECURITIES

Certain provisions in the Constitution of Spark Infrastructure Trust and Note Trust Deed (the Stapled Entity Constitutions) permit the divestment of securities in limited circumstances. These are summarised below.

Designated Foreign Holders

In certain circumstances Spark Infrastructure may divest a foreign holder of their Stapled Securities. This may occur where Spark Infrastructure wishes to issue or transfer a further security which is to be stapled to the already existing Stapled Securities (“New Attached Security”), but the issue of the New Attached Security to certain foreign holders would be unreasonable in Spark Infrastructure’s opinion. In that case, rather than issue New Attached Securities to those foreign holders, Spark Infrastructure may instead divest those foreign holders of their existing Stapled Securities. Spark Infrastructure may cause New Attached Securities to be stapled provided certain conditions are satisfied including:

- the New Attached Security is (or will be) officially quoted;
- the ASX has indicated that it will approve the stapling of the New Attached Security to the Stapled Securities;
- the Stapled Entity (excluding the issuer of the New Attached Security) has agreed to the stapling of the New Attached Security to the Stapled Security and that the stapling of the New Attached Security is in the best interest of holders as a whole and is consistent with the then investment objectives of Spark Infrastructure;
- the constituent documents for the New Attached Security have provisions giving effect to the stapling;
- the issuer of the New Attached Security has agreed to enter into the Accession Deed;
- where the New Attached Security is partly-paid, or approved from holders is required to the transaction, approval of the holders has been obtained; and
- the number of New Attached Securities issued is identical to the number of Stapled Securities on issue.

The issue/transfer of a New Attached Security to a foreign holder may require compliance with legal and regulatory requirements in the foreign jurisdiction. Subject to applicable ASIC relief, the provisions in the Stapled Entity Constitutions relating to the stapling of securities provide that Spark Infrastructure will have the ability to determine that a Foreign Investor (a holder whose address in the register is in a place other than Australia) is a Designated Foreign Holder and divest that Designated Foreign Holder of their Stapled

Securities where Spark Infrastructure determines that it is unreasonable to issue or transfer New Attached Securities to such holders, having regard to the following criteria:

- the number of Foreign Investors in the foreign place;
- the number and the value of New Attached Securities that may be issued or transferred to the Foreign Investors in the foreign place; and
- the cost of complying with legal requirements and the requirements of any relevant regulatory authority applicable to the issue or transfer of the New Attached Securities in the foreign place.

Where Designated Foreign Holders are divested of their Stapled Securities they will receive the proceeds of sale of those Stapled Securities (net of transaction costs including without limitation any applicable brokerage, stamp duty and other taxes or charges) as soon as practicable after the sale.

Stapled Securities are issued on terms under which each investor who is or becomes a Designated Foreign Holder agrees to the above terms and irrevocably appoints each Stapled Entity as that holder’s agent and attorney to do all acts and things and execute all documents which Spark Infrastructure considers necessary, desirable or reasonably incidental to effect the above actions.

Excluded US Persons

The Stapled Securities have not been, and will not be, registered under the US Securities Act and none of the Stapled Entities have been, or will be, registered under the US Investment Company Act. Accordingly, the securities may not be offered, sold or resold in, the United States or to, or for the account or benefit of US Persons except in accordance with an available exemption from, or a transaction not subject to, the registration requirements of the US Securities Act, the US Investment Company Act and applicable United States state securities laws.⁽¹⁾

In order to at all times qualify for the exemptions, the provisions of the Stapled Entity Constitutions dealing with stapling of securities provide that where a holder is an Excluded US Person:

- the Stapled Entity may refuse to register a transfer of Stapled Securities to that Excluded US Person; or
- the Excluded US Person may be requested to sell their Stapled Securities and if they fail to do so within 30 Business Days, to be divested of their Stapled Securities and to receive the proceeds of sale (net of transaction costs including without limitation any applicable brokerage, stamp duty and other taxes or charges) as soon as practicable after the sale.

In addition, the provisions in the Stapled Entity Constitutions relating to the stapling of securities provide that a holder may be required to complete a statutory declaration in relation to whether they (or any person on whose account or benefit it holds Stapled Securities) are an Excluded US Person. Any holder who does not comply with such a request can be treated as an Excluded US Person.

Stapled Securities are issued on terms under which each holder who is or becomes an Excluded US Person agrees to the above terms and irrevocably appoints the Stapled Entity as that holder’s agent and attorney to do all acts and things and execute all documents which Spark Infrastructure considers necessary, desirable or reasonably incidental to effect the above actions.

⁽¹⁾ Stapled Securities are not permitted to be held by or for the account or benefit of any US person (as defined in Rule 902 of Regulation S under the US Securities Act, as amended) who is not both a qualified institutional buyer (QIB) (as defined in Rule 144A of the US Securities Act) and also a qualified purchaser (QP) (as defined in Section 2(a)(51) of the US Investment Company Act, as amended and the rules and regulations of the Securities and Exchange Commission promulgated thereunder). The Stapled Entity may determine that an investor is an Excluded US Person, if it considers the investor is a US person that is not both a QIB and a QP, or holds or will hold Stapled Securities for the account or benefit of any US person who is not both a QIB and a QP.

SECURITYHOLDER INFORMATION

Spark Infrastructure Group

Fully paid stapled securities (total) as at 31 December 2017

TOP HOLDERS

RANK	NAME	UNITS	% OF UNITS
1.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	739,057,219	43.939
2.	J P MORGAN NOMINEES AUSTRALIA LIMITED	221,778,476	13.185
3.	CITICORP NOMINEES PTY LIMITED	151,801,767	9.025
4.	NATIONAL NOMINEES LIMITED	77,398,769	4.602
5.	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	33,590,908	1.997
6.	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	14,873,397	0.884
7.	CUSTODIAL SERVICES LIMITED <BENEFICIARIES HOLDING A/C>	13,432,301	0.799
8.	BNP PARIBAS NOMS PTY LTD <DRP>	12,598,234	0.749
9.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	10,024,569	0.596
10.	BNP PARIBAS NOMS (NZ) LTD <DRP>	8,849,094	0.526
11.	NAVIGATOR AUSTRALIA LTD <SMA ANTARES INV DV BUILD A/C>	8,657,380	0.515
12.	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <MBA A/C>	8,083,083	0.481
13.	PRUDENTIAL NOMINEES PTY LTD	6,500,000	0.386
14.	NATIONAL EXCHANGE PTY LTD	6,500,000	0.386
15.	IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	6,394,372	0.380
16.	ARGO INVESTMENTS LIMITED	4,868,363	0.289
17.	UBS NOMINEES PTY LTD	3,588,658	0.213
18.	AMP LIFE LIMITED	3,483,068	0.207
19.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	3,476,461	0.207
20.	AVANTEOS INVESTMENTS LIMITED <ENCIRCLE IMA A/C>	3,455,493	0.205
Total securities of top 20 holdings		1,338,411,612	79.572
Total securities		1,682,010,978	

SUBSTANTIAL HOLDERS

Substantial holders as at 31 December 2017

NAME OF HOLDER	% OF UNITS
Lazard Asset Management	14.2
Legg Mason	11.2
Investors Mutual	5.0

Spark Infrastructure Group

Analysis of holdings as at 31 December 2017

RANGE OF UNITS SNAPSHOT

HOLDINGS RANGE	HOLDERS	TOTAL UNITS	% OF UNITS
1–1,000	1,313	654,793	0.039
1,001–5,000	5,291	16,726,067	0.994
5,001–10,000	5,014	38,047,769	2.262
10,001–100,000	8,122	202,806,167	12.057
100,001–99,999,999,999	302	1,423,776,182	84.647
Total	20,042	1,682,010,978	100.000

UNMARKETABLE PARCELS (UMP)

TOTAL SECURITIES	UMP SECURITIES	UMP HOLDERS	UMP%
1,682,010,978	5,291	334	0.00031

GLOSSARY OF TERMS

ACT	Australian Capital Territory
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Beon	Beon Energy Solutions, a subsidiary of Victoria Power Network for unregulated operations
CAB	Contracted Asset Base, being the value of assets resulting from TransGrid providing connection and other contracted services
cps	Cents per Security
DPS	Distributions per Security
HSE	Health, safety and environment
Look-through OCF	Look-through operating cash flow, being an estimate of Spark Infrastructure's proportion of the operating cash flow of the investment businesses available for distribution to Securityholders
MW	Megawatts
NEG	National Energy Guarantee
NEM	National Electricity Market
NSW	New South Wales
RAB	Regulated Asset Base, being the value of the assets used to provide prescribed distribution/transmission services
RCAB	Regulated and Contracted Asset Base added together
REFCLs	Rapid Earth Fault Current Limiters
RERT	Reliability and Emergency Reserve Trader
SA	South Australia
Solar PV	Photovoltaic cells used in solar generation
Standalone OCF	Standalone operating cash flow, being Spark Infrastructure's cash flows from operating activities, including repayment of shareholder loans from the investment businesses
STPIS	Service Target Performance Incentive Scheme
TWh	Terawatt hours

CONTACT INFORMATION

REGISTERED OFFICE

Spark Infrastructure

Level 29, 225 George Street
Sydney NSW 2000

T: +61 2 9086 3600
F: +61 2 9086 3666

E: info@sparkinfrastructure.com
W: sparkinfrastructure.com

ENQUIRIES AND INFORMATION

Security Registry

Boardroom Pty Limited

ABN 14 003 209 836
GPO Box 3993
Sydney NSW 2001

T: 1300 737 760 (within Australia)
T: + 61 2 9290 9600 (outside Australia)
F: + 61 2 9279 0664

www.boardroomlimited.com.au
enquiries@boardroomlimited.com.au

Investor Relations

Linda Assatoury
Head of Investor Relations

Company Secretary

Alexandra Finley

Auditor

Deloitte Touche Tohmatsu

Spark Infrastructure RE Limited (ABN 36 114 940 984) as the responsible entity for Spark Infrastructure Trust (ARSN 116 870 725)

This report is not an offer or invitation for subscription or purchase of or a recommendation to purchase securities or financial product.

This report contains general information only and does not take into account the investment objectives, financial situation and particular needs of individual investors. It is not financial product advice. Investors should obtain their own independent advice from a qualified financial advisor having regard to their objectives, financial situation and needs.

FIVE-YEAR SUMMARY OF PERFORMANCE

		2017	2016	2015	2014	2013
SPARK INFRASTRUCTURE KEY METRICS						
Distribution per Security	cents	15.25	14.5	12.0	11.5	11.0
Standalone Operating Cash Flow ⁽¹⁾	\$ million	267.5	305.6	207.4	206.9	189.3
Look-through Operating Cash Flow	\$ million	420.7	371.5	426.8	353.6	310.3
Distributions Received from Associates ⁽¹⁾	\$ million	284.4	308.3	196.5	206.3	203.2
SPARK INFRASTRUCTURE INCOME STATEMENT						
Total Income	\$ million	285.0	243.9	270.6	288.7	311.0
Profit before Loan Note Interest	\$ million	265.8	225.8	252.8	272.1	294.4
Profit after Tax Attributable to Securityholders	\$ million	88.6	81.1	88.0	128.1	128.4
SPARK INFRASTRUCTURE BALANCE SHEET						
Total Assets	\$ million	3,515.7	3,524.6	3,724.2	3,019.8	2,646.8
Total Liabilities	\$ million	1,438.9	1,387.3	1,567.9	1,174.2	1,013.9
Total Equity	\$ million	2,076.8	2,137.3	2,156.4	1,845.6	1,632.9
VICTORIA POWER NETWORKS KEY METRICS						
Total Revenue	\$ million	1,212.7	1,297.0	1,308.1	1,174.7	1,154.5
EBITDA	\$ million	780.4	900.9	939.9	805.6	759.0
Net Capital Expenditure	\$ million	463.9	406.6	466.3	506.0	534.4
RAB ⁽²⁾	\$ million	5,897	5,734	5,547	5,167	4,932
Net Debt to RAB	%	71.0	72.4	73.8	79.5	80.3
No. of Customers	'000	1,125	1,108	1,094	1,081	1,072
SA POWER NETWORKS KEY METRICS						
Total Revenue	\$ million	1,047.3	1,066.4	1,140.7	1,187.3	1,132.7
EBITDA	\$ million	644.2	639.8	756.8	830.5	820.4
Net Capital Expenditure	\$ million	391.6	285.7	315.5	363.8	348.5
RAB ⁽²⁾	\$ million	4,052	3,953	3,929	3,862	3,686
Net Debt to RAB	%	73.1%	71.4	71.9	74.2	76.2
No. of Customers	'000	865	856	852	847	840
TRANSGRID KEY METRICS⁽³⁾						
Total Revenue	\$ million	845.1	888.9			
EBITDA	\$ million	650.7	685.4			
Capital Expenditure	\$ million	331.5	206.4			
RCAB ⁽²⁾	\$ million	6,697	6,533			
Net Debt to RCAB	%	81.5	85.0			

(1) Includes repayment of shareholder loans.

(2) RAB and RCAB values are estimates.

(3) 2016 results for TransGrid are based on special purpose financial statements for the period 12 November 2015 to 30 June 2016 and unaudited financial information for the period 1 July 2016 to 31 December 2016.

