# THE AUSTRALIAN INFRASTRUCTURE NETWORK SPECIALISTS
ANNUAL REPORT 2016

spark infrastructure

# SPARK INFRASTRUCTURE

Annual report for the financial year ended
31 December 2016

Spark Infrastructure represents Spark Infrastructure Trust and its consolidated entities. Spark Infrastructure RE Limited (ABN 36 114 940 984) is the responsible entity of Spark Infrastructure Trust.

Each unit in Spark Infrastructure Trust is stapled to one Loan Note issued by Spark Infrastructure Trust. The stapled securities trade on the Australian Securities Exchange.

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# DIRECTORS' REPORT

The Directors of Spark Infrastructure RE Limited ("Spark RE" or the "Company") as responsible entity of Spark Infrastructure Trust (the "Parent Entity" or the "Trust") provide this financial report for the year ended 31 December 2016 ("Financial Year" or "Current Year") of the Trust and its Consolidated Entities ("Spark Infrastructure" or the "Group"). In order to comply with the requirements of the *Corporations Act 2001*, the Directors report as follows:

## DIRECTORS

The persons listed below were Directors of Spark RE as at the date of this report:

Dr Douglas McTaggart (appointed Chair on 20 May 2016)

Mr Rick Francis (Managing Director and Chief Executive Officer)

Mr Andrew Fay

Mr Greg Martin (appointed 1 January 2017)

Ms Anne McDonald

Ms Christine McLoughlin

Ms Karen Penrose

Dr Keith Turner

**Retired during Current Year**

Mr Brian Scullin (retired 20 May 2016)

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

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

**Independent Director (since December 2015)**

Dr Doug McTaggart is an independent Non-Executive Director. He sits on the boards of the Suncorp Group and chairs its Audit Committee. He is Chair of the QIMR Berghofer Institute of Medical Research and also of Suncentral Maroochydore.

Dr McTaggart is a member of the Economic Development Advisory Panel for the NSW Government and is a member of ANU's Council. He has advised governments, most recently was a member of the Prime Minister's Expert Advisory Panel on the Reform of the Federation and the Northern Territory Government as a member of its Economic Development Advisory Panel. In early 2012 he retired as Chair of the Queensland Public Service Commission and as a member of the Queensland Public Sector Renewal Board. Dr McTaggart was also a Commissioner on the Queensland Independent Commission of Audit.

Dr McTaggart retired as CEO of QIC in June 2012 after 14 years. Prior to this appointment, Dr McTaggart held roles including Professor of Economics and Associate Dean at Bond University (1989–1996), and then Under Treasurer, Queensland Department of Treasury (1996–1998).

Dr McTaggart was a member of the Council of Australian Governments ("COAG") Reform Council (2007–2013) and Councillor on the National Competition Council ("NCC") (2000–2013).

Dr McTaggart has held various positions on industry bodies and public interest groups, including Director and Chair of IFSA (now the Financial Services Council), President of the Economic Society of Australia, Director of CEDA, and member of the Australian Accounting Standards Board ("AASB").

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)**

Mr Francis has been Managing Director and Chief Executive Officer of Spark Infrastructure since May 2012. Mr Francis joined Spark Infrastructure in February 2009 as the Chief Financial Officer and served in that role for three and a half years prior to becoming Managing Director.

Mr Francis has over 17 years' experience in the Australian energy and energy infrastructure industries. Prior to joining 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 including those of Group Financial Controller and Operations Manager, Energy Trading.

Mr Francis has considerable experience in matters related to corporate strategy, development and execution, operations management, corporate communications and investor relations, risk management, financial accounting and reporting, capital and treasury management and taxation. He also has 15 years' experience in the chartered accounting and finance fields in Australia and the UK.

Mr Francis was appointed as Chair of NSW Electricity Networks Operations Holdings Trust (trading as TransGrid) in December 2015 and is now Deputy Chair of TransGrid. He is also Chair of its Remuneration Committee and a member of its Audit, Risk and Compliance Committee and its Regulatory Committee.

Mr Francis has been a Non-Executive Director of SA Power Networks and Victoria Power Networks since 2009. He was also a member of the Audit, Risk Management and Compliance and Remuneration Committees of each business until 6 September 2016. He did not hold any other Australian listed entity directorships within the last three years.

### Mr Andrew Fay BAgEc (Hons), AFin

**Independent Director (since March 2010)**

Mr Fay is a Non-Executive Director of BT Investment Management Limited and J O Hambro Capital Management Holdings Limited, a UK company which is wholly owned by BT Investment Management. Mr Fay is also a Non-Executive Director of Gateway Lifestyle Group. Mr Fay was previously Chair of Tasman Lifestyle Continuum Ltd and Chair of Deutsche Managed Investments Limited. Mr Fay consults to the Dexus Property Group Ltd in the area of capital markets and advises Microbiogen Pty Ltd, a private company which operates in the renewable energy industry, on corporate development initiatives.

Mr Fay was Chair of Deutsche Asset Management (Australia) Limited ("DeAM") and associated companies until 2010 following a 20 year career in the financial services sector. During that time Mr Fay held a number of senior positions including CEO Australia, Regional CIO Asia Pacific and CIO of DeAM. Prior to joining Deutsche, Mr Fay spent six years at AMP Global Investors working in the areas of Fixed Income, Economics and Australian Equities. Mr Fay was also a member of the Investment Board Committee of the Financial Services Council for six years until 2006.

From November 2006 to November 2007 he was an Alternate Director for Spark Infrastructure and was also an Alternate Director for the Dexus Property Group from 2006 until 2009.

Mr Fay has been a Non-Executive Director of Victoria Power Networks, CitiPower and Powercor, and of SA Power Networks since 2011. He is a member of the Remuneration Committees of each business and is Chair of the SA Power Networks Audit Committee and a member of its Risk and Compliance Committee.

Mr Fay is a member of the ARC.

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 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 ("AGL"), including five years as CEO and Managing Director. After leaving 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 Chair of Iluka Resources Limited, Deputy Board Chair of Western Power and a Non-Executive Director of Santos Limited. Mr Martin is also Chair of the unlisted Sydney Desalination Plant. Mr Martin also serves as a member of the COAG Energy Council Energy Appointments Selection Panel. He is a Fellow of the Australian Institute of Management, a Member of the Australian Institute of Company Directors and holds a Bachelor of Laws from the University of Technology Sydney and a Bachelor of Economics from the University of Sydney.

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

| Listed Entity | Period directorship held |
|---|---|
| • Energy Developments Limited | 2006 to 2015 |
| • Santos Limited | 2009 to present |
| • Iluka Resources Limited | 2013 to present |

### Ms Anne McDonald BEc, FCA, GAICD

**Independent Director (since January 2009)**

Ms McDonald is the Chair of WaterNSW, a Non-Executive Director of Link Administration Holdings Ltd ("Link Group") and Co-Chair of Specialty Fashion Group Limited. Ms McDonald was previously a Director of GPT Group from 2006 to 2016, a Director of Sydney Water Corporation from 2013 to 2016 and a Director of Westpac's life insurance and general insurance businesses from 2006 to 2015.

Ms McDonald served as a partner of Ernst & Young for 15 years until 2005. She has broad based business and financial experience, gained through working with a wide cross section of international and local companies, assisting them with audit, transaction due diligence and regulatory and accounting requirements. She was a Board member of Ernst & Young Australia for 7 years.

Ms McDonald has been a Non-Executive Director of Victoria Power Networks, CitiPower and Powercor since 2009. In addition, she is Chair of the Audit Committee of Victoria Power Networks and a member of its Risk and Compliance Committee.

Ms McDonald is Chair of the ARC and a member of RemCo.

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

| Listed Entity | Period directorship held |
|---|---|
| • GPT Group | 2006 to 2016 |
| • Specialty Fashion Group Limited | 2007 to present |
| • Link Administration Holdings Limited | 2016 to present |

### Dr Keith Turner BE (Hons) ME, PhD Elec Eng

**Independent Director (since March 2009)**

Dr Turner possesses extensive experience in the New Zealand energy sector. He served as Chief Executive Officer of Meridian Energy Limited from 1999 to 2008. Prior to that, he worked as a private energy expert advising a range of large corporate clients and Government. He has previously served in a number of senior roles in establishing Contact Energy, and in the Electricity Corporation of New Zealand, and the New Zealand Electricity Department, as well as many industry reform roles.

Dr Turner is Chair of Fisher & Paykel Appliances Limited, Chair of Damwatch Holding Ltd and a Director of Chorus NZ Limited. He was previously Deputy Chair of Auckland International Airport Limited for 7 years and a Director for 10 years. Dr Turner was appointed to the Board of NSW Electricity Networks Operations Holdings Trust (trading as TransGrid) in December 2015 and is Chair of its Health, Safety and Environment Committee.

Dr Turner has been a Non-Executive Director of SA Power Networks, Victoria Power Networks, CitiPower and Powercor since 2009.

Dr Turner is a member of the RemCo.

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

| Listed Entity | Period directorship held |
|---|---|
| • Auckland International Airport Limited | 2004 to 2014 |
| • Chorus NZ Limited | 2011 to present |

### Ms Christine McLoughlin BA/LLB (Hons), FAICD

**Independent Director (since October 2014)**

Ms McLoughlin is a Director of nib Holdings Ltd, Suncorp Group Limited and Whitehaven Coal Limited. Ms McLoughlin is also Chair of Stadium Australia and a Director of the McGrath Foundation. Ms McLoughlin was formerly a Director of Westpac's Insurance Businesses, the Victorian Transport Accident Commission, the Australian Nuclear Science and Technology Organisation and the Deputy Chair and Director of The Smith Family.

She was the inaugural Chair of Australian Payments Council during 2014 and was appointed a member of ASIC's Director Advisory Panel in September 2015.

Ms McLoughlin has over 25 years' experience in financial services, telecommunications and professional services industries in Australia, the UK and Asia.

Ms McLoughlin is Chair of the RemCo.

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

| Listed Entity | Period directorship held |
|---|---|
| • nib Holdings Limited | 2011 to present |
| • Whitehaven Coal Limited | 2012 to present |
| • Suncorp Group Limited | 2015 to present |

### 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, Future Generation Global Investment Company Limited (a pro bono board role), UrbanGrowth NSW and Marshall Investments Pty Limited.

Ms Penrose has a strong background and experience in business, finance and investment banking, in both the banking and corporate sectors. She is a full-time non-executive director. In her professional non-executive director career, she is also an experienced Audit Chair and member of due diligence committees. Her prior executive career includes 20 years with Commonwealth Bank and HSBC and, over the eight years to January 2014, Chief Financial Officer and Chief Operating Officer roles with two ASX listed companies. Ms Penrose served Chief Executive Women ("CEW") for six years as a member of CEW's Council and continues as a member of the advisory panel for CEW's Leaders Program.

Ms Penrose is a member of the ARC.

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

| Listed Entity | Period directorship held |
|---|---|
| • Silver Chef Limited | 2011 to 2015 |
| • AWE Limited | 2013 to present |
| • Novion Limited | 2014 to 2015 |
| • Vicinity Centres | 2015 to present |
| • Future Generation Global Investment Company Limited | 2015 to present |
| • Bank of Queensland | 2015 to present |

## COMPANY SECRETARY

### Ms Alexandra Finley Dip Law, MLM

Ms Finley is a corporate governance professional with over 15 years' in-house legal and corporate commercial experience. Prior to joining Spark Infrastructure, she spent almost 10 years with National Australia Bank in various senior legal and commercial roles, most recently as Company Secretary of the MLC Group of Companies.

Ms Finley has extensive experience in the financial services sector including mergers and acquisitions, corporate governance, risk management and regulatory compliance and has held strategic, operational and management roles. As a senior lawyer and senior associate in private practice, her experience includes property and construction, banking and finance, workplace relations and corporate advisory.

## PRINCIPAL ACTIVITIES

The principal activity of Spark Infrastructure during the Financial Year was investment in regulated electricity distribution and transmission businesses in Australia.

## STAPLED SECURITIES

Spark Infrastructure is a stapled structure, wherein:

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

are "stapled" and are quoted on the Australian Securities Exchange ("ASX") as if they were a single security.

## REVIEW OF OPERATIONS

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

| | UNDERLYING 2016[1] $'000 | UNDERLYING 2015 $'000 | CHANGE COMPARED TO 2015 $'000 | CHANGE COMPARED TO 2015 % |
|---|---|---|---|---|
| Income from associates | | | | |
| – Share of equity profits | 145,290 | 171,466 | (26,176) | (15.3) |
| – Interest income | 91,623 | 81,512 | 10,111 | 12.4 |
| | 236,913 | 252,978 | (16,065) | (6.4) |
| Gain on derivative contracts | 5,772 | 24,295 | (18,523) | (76.2) |
| Other income – interest | 1,230 | 3,333 | (2,103) | (63.1) |
| **Total Income** | 243,915 | 280,606 | (36,691) | (13.1) |
| Interest expense – other | (4,554) | (3,589) | (965) | 26.9 |
| General and administrative expenses | (13,545) | (14,196) | 651 | (4.6) |
| **Profit before Loan Note Interest** | 225,816 | 262,821 | (37,005) | (14.1) |
| Interest expense – Loan Notes | (118,582) | (111,034) | (7,548) | 6.8 |
| **Profit before Income Tax** | 107,234 | 151,787 | (44,553) | (29.4) |
| Income tax expense | (26,151) | (32,107) | 5,956 | (18.5) |
| **Net Profit after Income Tax Attributable to Securityholders** | 81,083 | 119,680 | (38,597) | (32.3) |
| Profit before Loan Note interest per Security (cents) | 13.43c | 17.77c | (4.34) | (24.4) |
| **Operating Cash Flow[2]** | 305,624 | 207,350 | 98,274 | 47.4 |
| Total distributions for the Current Year (cents) | 14.50c | 12.00c | 2.50 | 20.8 |
| Total distributions for the Current Year ($'000) | 243,890 | 188,903 | 54,987 | 29.1 |

(1) No Underlying Adjustments in the Current Year.
(2) Includes repayment of shareholder loans.

## UNDERLYING PROFIT

The Underlying Profit before Loan Note Interest for the Current Year decreased by 14.1% to $225,816,000 compared to the year ended 31 December 2015 ("Prior Year"), a result of lower equity accounted profits from associates, a lower gain on derivative contracts associated with the economic interest in DUET Group ("DUET"), which was fully disposed of during the Current Year, and increased net interest expense, partially offset by increased interest income from associates and decreased operating costs.

The following adjustments have been made to the reported results in order to calculate the underlying results:

| | IMPACT ON SHARE OF EQUITY ACCOUNTED PROFIT | | IMPACT ON NET PROFIT AFTER INCOME TAX ATTRIBUTABLE TO SECURITYHOLDERS | |
|---|---|---|---|---|
| UNDERLYING ADJUSTMENTS | 2016 $'000 | 2015[1] $'000 | 2016 $'000 | 2015[1] $'000 |
| Underlying Result | 145,290 | 171,466 | 81,083 | 119,680 |
| Australian Tax Office ("ATO") settlement regarding deductibility of interest on subordinated loans: | | | | |
| – Reflected in SA Power Networks and Victoria Power Networks results | – | (10,001) | – | (7,001) |
| – Net losses written off with respect to SA Power Networks | – | – | – | (24,655) |
| Total Adjustments | – | (10,001) | – | (31,656) |
| Statutory Result | 145,290 | 161,465 | 81,083 | 88,024 |

(1) Further details on the Prior Year Underlying Adjustments are provided in the ATO Tax Matters section of the Directors' Report.

## UNDERLYING RESULTS

The underlying income and profit summary reports the operating results of Spark Infrastructure after excluding certain non-cash and non-operating items which do not relate to the respective period's underlying performance ("Underlying Adjustments"). The Underlying Adjustments have been presented in accordance with the Australian Securities and Investment Commission ("ASIC") Regulatory Guide 230 *Disclosing non-IFRS financial information* issued in December 2011.

The Directors note that Underlying Adjustments have not been made in the Current Year and that they consider the Underlying Adjustments made in the Prior Year provide users of these reports with a clearer explanation of Spark Infrastructure's operating performance.

## OPERATING CASH FLOW

Operating cash flow for the Current Year, including repayment of shareholder loans from Victoria Power Networks, increased by $98,274,000 or 47.4% on the Prior Year, primarily due to increased distributions from associates. Distributions from associates include an inaugural $44,470,000 received from TransGrid. Distribution equivalents received under the DUET related derivative contracts and associated finance costs paid on those derivative contracts decreased in the Current Year by a net $7,264,000, reflecting Spark Infrastructure's exit of its interest in DUET during the first half of 2016. Operating cash flow for the Current Year was also impacted by lower interest income, finance charges on higher levels of drawn debt and higher operating costs.

| SA POWER NETWORKS PERFORMANCE (100% BASIS) | 31 DECEMBER 2016 $'000 | 31 DECEMBER 2015 $'000 | VARIANCE $'000 | VARIANCE % |
|---|---|---|---|---|
| Distribution Revenue | 739,669 | 831,531 | (91,862) | (11.0) |
| Other Revenue | 247,135 | 228,627 | 18,508 | 8.1 |
| **Total Revenue** | 986,804 | 1,060,158 | (73,354) | (6.9) |
| Operating Costs | (426,579) | (383,916) | (42,663) | 11.1 |
| **EBITDA** | 560,225 | 676,242 | (116,017) | (17.2) |
| Net Capital Expenditure | 285,700 | 315,500 | (29,800) | (9.4) |

Note

Customer contributions and gifted assets revenue is recorded by SA Power Networks using the replacement cost approach to determine fair value. Spark Infrastructure makes an adjustment to its share of equity accounted profits in relation to these customer contributions and gifted assets such that the fair value of these revenue items is effectively nil.

SA Power Networks defers/accrues 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. In the Current Year, under recovery of amounts below the regulated revenue cap have been recorded as revenue by SA Power Networks and are reflected in the results above.

During the Current Year, Distribution Use of System ("DUoS") revenue decreased by 11.0% to $739,669,000. This decrease is in line with the Final Determination for SA Power Networks for the new regulatory period which commenced on 1 July 2015. The Final Determination granted SA Power Networks additional regulated revenues of $626,000,000 (across 5 years) compared with the Preliminary Determination which existed for the first year of the current regulatory period (1 July 2015 to 30 June 2016). This additional amount does not include the impact of any appeal outcomes or subsequent judicial review. Recovery of the difference between the Preliminary and Final Determinations commenced on 1 July 2016 and will continue through years 2–5 of the current regulatory period. The current determination applies a revenue cap to each year of the regulatory period so that if, in any one year, more or less revenue is recovered compared to that specified in the determination, tariffs in the following years are adjusted to 'true up' the recovery of revenue. Across the 2015 and 2016 calendar years, SA Power Networks billed $15,945,000 more than the regulated revenue cap. This amount has been deferred in full as it will be returned to consumers through future tariffs. In the Current Year, SA Power Networks recovered $3,200,000 less than the regulated revenue cap.

Current Year DUoS revenue includes $7,900,000 of service target performance incentive scheme ("STPIS") recovery relating to the aggregated STPIS outcomes in respect of the 2013/14 and 2014/15 regulatory years. In the Prior Year, $6,500,000 of STPIS relating to the 2012/13 regulatory year was recovered. The STPIS outcome for the 2015/16 regulatory year of $26,000,000 (benefit) is expected to be recovered in tariffs from 1 July 2017.

Other unregulated and semi-regulated revenues increased by 8.1% to $247,135,000, largely reflecting an increase in asset relocation revenues primarily resulting from road infrastructure projects, partially offset by a step down of National Broadband Network ("NBN") contracted revenues, which had included materials sales as well as non-recurring revenues due to the timing of works during the Prior Year.

SA Power Networks operating expenses increased by 11.1% in the Current Year to $426,579,000, including the significant cost impact of major storm activity. The provision for Guaranteed Service Level ("GSL") payments to affected customers increased by $42,000,000 over the Prior Year, while costs associated with emergency response activities increased by almost $7,000,000. The major storm events in July, September and in particular late December 2016 accounted for around 85% of the GSL payments incurred. Operating expenses were also impacted by a decrease in NBN related costs due to both the timing and level of NBN related activity and materials costs, decreased vegetation management costs and various productivity and efficiency savings, partially offset by higher asset relocation related costs compared to the Prior Year.

| VICTORIA POWER NETWORKS PERFORMANCE (100% BASIS) | 31 DECEMBER 2016 $'000 | 31 DECEMBER 2015 $'000 | VARIANCE $'000 | VARIANCE % |
|---|---|---|---|---|
| Distribution Revenue | 900,095 | 944,727 | (44,632) | (4.7) |
| AMI Revenue | 108,246 | 109,250 | (1,004) | (0.9) |
| Other Revenue | 171,887 | 136,857 | 35,030 | 25.6 |
| **Total Revenue** | 1,180,228 | 1,190,834 | (10,606) | (0.9) |
| Operating Costs | (396,143) | (368,175) | (27,968) | 7.6 |
| **EBITDA** | 784,085 | 822,659 | (38,574) | (4.7) |
| Net Capital Expenditure | 406,600 | 466,300 | (59,700) | (12.8) |

Note
Customer contributions and gifted assets revenue is recorded by Victoria Power Networks using the replacement cost approach to determine fair value. Spark Infrastructure makes an adjustment to its share of equity accounted profits in relation to these customer contributions and gifted assets such that the fair value of these revenue items is effectively nil.
Victoria Power Networks defers/accrues 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. In the Current Year, amounts in excess of the regulated revenue cap have not been recorded by Victoria Power Networks as revenue; this is reflected in the results above.

In Victoria Power Networks Pty Ltd ("Victoria Power Networks"), during the Current Year, DUoS revenue decreased by 4.7% to $900,095,000. This decrease is reflective of Victoria Power Networks' new 5-year regulatory period, which commenced 1 January 2016. Victoria Power Networks operated under the less favourable parameters set under its Preliminary Determination in the Current Year, being the first year of the new regulatory period. Not including the impact of any appeal outcomes, the Final Determination granted Victoria Power Networks additional revenues of $180,000,000 (across 5 years) over the Preliminary Determination. Recovery of this 'true-up' commenced on 1 January 2017 and will continue through years 2–5 of the current regulatory period. From 1 January 2016, Victoria Power Networks has operated under a regulated revenue cap arrangement and has billed $9,700,000 in excess of the cap in the Current Year, which has been deferred in full. Current Year DUoS revenue also included a favourable impact from the reversal of a 2015 provision against revenue of $9,000,000 in respect of certain regulated revenue pass through matters.

Current Year DUoS revenue was reduced by an $11,000,000 penalty relating to the 2014 regulatory year STPIS outcome. The STPIS outcome for the 2015 regulatory year of $17,900,000 (benefit) is expected to be recovered in tariffs from 1 January 2017. AMI related revenue decreased by 0.9% to $108,246,000 in the Current Year, largely reflecting the impact of the depreciating AMI Regulatory Asset Base ("RAB").

Other unregulated and semi-regulated revenue increased by 25.6% to $171,887,000. Revenue earned by BEON Energy Solutions (formerly Powercor Network Services) from the Ararat wind farm and Yarra Trams projects accounted for an increase of approximately $27,000,000 in revenue over the Prior Year, while approximately $20,000,000 was received in the Current Year in respect of a one-off reimbursement of certain tax-related costs incurred in prior years.

Victoria Power Networks operating expenses increased by 7.6% to $396,143,000 over the Prior Year. In the Current Year a change in accounting policy was adopted in respect of the capitalisation of certain corporate overhead costs for both statutory reporting purposes and regulatory revenue setting purposes, effective from 1 January 2016. The change accounted for an increase in operating costs over the Prior Year, during which $53,900,000 of relevant costs had been capitalised. Third party unregulated activities increased costs incurred in the Current Year, however these were more than offset by World CLASS efficiency program savings. As at 31 December 2016, the annualised savings versus a 2013 base line either delivered or identified for delivery arising from the World CLASS program exceed $167,000,000 per annum in aggregate across both capital and operating expenditure. Of the savings identified, $139,000,000 had been delivered by 31 December 2016 with the remainder due to be delivered during 2017.

| TRANSGRID PERFORMANCE (100% BASIS) | 31 DECEMBER 2016 $'000 |
|---|---|
| Transmission Revenue | 784,605 |
| Unregulated Revenue | 51,248 |
| Other Revenue | 2,605 |
| **Total Revenue** | 838,458 |
| Operating Costs | (182,835) |
| **EBITDA** | 655,623 |
| Net Capital Expenditure | 206,400 |

Note
Amounts in excess of the regulated revenue cap are recorded by TransGrid as revenue in the Current Year. Spark Infrastructure makes adjustments to its share of equity accounted profits in order to reflect that these amounts will be returned to electricity consumers in future periods via adjustments to tariffs. These adjustments are reflected in the table above on a 100% basis.
The following performance review of TransGrid excludes 2015 results on the basis that TransGrid's financial results for the period from acquisition (16 December 2015) to 31 December 2015 are immaterial to Spark Infrastructure.

During the Current Year, Transmission Use of System ("TUoS") revenue was $784,605,000. From the commencement of its current regulatory period on 1 July 2014, TransGrid has operated under a regulated revenue cap arrangement. In the regulatory year ended 30 June 2016, TransGrid under recovered revenue compared to the regulated revenue cap by $7,852,000, which is being recovered via tariffs from 1 July 2016. This amount has been accrued and recognised as revenue at the Spark Infrastructure level. In the first six months of the regulatory year commenced 1 July 2016, TransGrid has billed $15,741,000 in excess of the cap, which has been deferred in full at the Spark Infrastructure level.

Current Year TUoS revenue also included $6,500,000 of STPIS benefit relating to the 2014 calendar year, recovered via tariffs from 1 July 2015. Recovery of a $12,100,000 STPIS benefit earned in the 2015 calendar year commenced on 1 July 2016, with $6,050,000 recovered in the Current Year, bringing the aggregate STPIS benefit in the Current Year TUoS revenues to $12,550,000. The STPIS outcome for the 2016 calendar year of $15,500,000 (benefit) is expected to be recovered in tariffs from 1 July 2017.

Unregulated revenue for the Current Year was $51,248,000 and included telecommunications of $6,400,000, property services of $4,700,000 and $40,148,000 of infrastructure services. The majority of infrastructure services revenues are from transmission connection contracts for various wind farms, solar farms and mines. The remainder is from line modifications (asset relocations) and associated consulting advice. Revenues from transmission connection agreements entered into with customers during late 2016 will generate additional revenues progressively from early 2018 onwards following construction completion with construction timeframes typically ranging between 12–24 months.

Operating expenditure for the Current Year was $182,835,000, including costs relating to both regulated and unregulated activities. Costs for the Current Year included various items incurred in respect of the transition of TransGrid from public to private ownership and ongoing business improvement activities.

## CAPITAL EXPENDITURE AND REGULATORY ASSET BASE

The businesses in Spark Infrastructure's investment portfolio continue to invest in the augmentation and renewal of their networks, maintaining asset performance and reliability. During the Current Year, total regulated capital expenditure of $285,700,000 was invested on a net basis (i.e. net of customer contributions) by SA Power Networks, a decrease of 9.4% from $315,500,000 in the Prior Year. Victoria Power Networks invested $406,600,000 on a net basis, a decrease of 12.8% from $466,300,000 in the Prior Year. During the Current Year, total capital expenditure of $206,400,000 was invested by TransGrid, comprising regulated capital expenditure of $175,900,000 and unregulated capital expenditure of $30,500,000. Net regulated capital expenditure is added to the RAB of each of the businesses, generating prescribed (regulated) revenue in future periods. Unregulated capital expenditure invested by TransGrid during the Current Year will result in increased unregulated revenues from mid-2017 onwards. The revenue will increase progressively as each of the projects complete (from mid-2017 to mid-2019), and will then escalate with inflation over the 25–30 year contract periods.

The estimated RAB for SA Power Networks as at 31 December 2016 was $3,953,000,000 (100% basis), an increase of $24,000,000 or 0.6% over 31 December 2015. The estimated RAB for Victoria Power Networks as at 31 December 2016 was $5,734,000,000 (100% basis), an increase of $187,000,000 or 3.4% over 31 December 2015. The estimated RAB for TransGrid as at 31 December 2016 was $6,284,000,000 (100% basis), a decrease of $63,000,000 or 1.0% on 31 December 2015, as a result of actual capital expenditure and inflation during 2016 being less than the forecast capital expenditure and inflation contained in the determination for that year as well as a 'true-up' of actual versus estimated regulatory capital expenditure incurred during 2015.

Inflation has been lower in the Current and Prior Years than the estimate of expected inflation adopted to determine revenue and estimate RAB growth in the AER's determinations. The actual inflation has been between 1.5% and 1.7% over this period, leading to lower than expected nominal growth in RAB.

Spark Infrastructure's aggregate share of its investment portfolio RAB balances was $5,690,000,000, an increase of $94,000,000 or 1.7% over 31 December 2015.

## DIVESTMENT OF ECONOMIC INTEREST IN DUET

During the first half of 2016, Spark Infrastructure divested its economic interest in DUET, following completion of a review into the holding. The derivative contracts held with Deutsche Bank were unwound via a staged process, with no remaining financial assets or liabilities in respect of the economic interest being held at 31 December 2016.

Distribution equivalents of $22,952,000 were received in relation to the economic interest during the Current Year and associated finance costs of $7,743,000 were paid. In addition, transaction costs of $4,031,000 were incurred in the Current Year, which largely reflected the cost of cancelling 63,780,000 call options under the DUET related derivative contracts.

Investment proceeds of $210,708,000 were received following completion of Spark Infrastructure's divestment of all derivative contracts during May and June 2016, resulting in a net surplus of $4,297,000 over the cost of the economic interest. These proceeds were used to bring forward repayment of Spark Infrastructure's drawn debt into the Current Year.

A net gain on derivative contracts of $5,772,000 has been recorded in the Current Year.

## CORPORATE EXPENSES, LOAN NOTE INTEREST AND TAX EXPENSE

Corporate expenses decreased $651,000 over the Prior Year to $13,545,000. Interest expense and borrowing costs increased in the Current Year from $3,589,000 to $4,554,000, reflecting interest incurred on drawn debt during the first half of the Current Year. In the Prior Year only commitment fees were incurred on Spark Infrastructure's fully undrawn senior debt facilities.

Loan Note interest payable to Securityholders increased by $7,548,000 to $118,582,000, due to the additional Loan Notes issued during the Prior Year via an Entitlement Offer. Underlying income tax expense, which is non-cash, decreased by $5,956,000 to $26,151,000 for the Current Year.

## CASHFLOW

Spark Infrastructure's cashflow from operating activities for the Current Year was $240,650,000, 16.1% higher than the Prior Year. After adding $64,974,000 of distributions from Victoria Power Networks received by way of repayments of shareholder loans and included in investing activities, Spark Infrastructure's cashflow from operating activities (including all distributions received from associates) was $305,624,000 or 47.4% higher than the Prior Year.

Distributions received from SA Power Networks were $119,316,000, up $5,091,000 or 4.5%. Victoria Power Networks commenced paying additional distributions by way of the repayment of shareholder loans in the Current Year, with $64,974,000 repaid to Spark Infrastructure in the Current Year. Shareholder interest received from Victoria Power Networks was $79,577,000, down $2,651,000 due to the reducing shareholder loan principal balance. In total, distributions from Victoria Power Networks were $144,551,000 in the Current Year, up $62,323,000 or 75.8% over the Prior Year. This increase reflected the strong operating performance of Victoria Power Networks, including the strong benefits flowing from the World CLASS efficiency program. TransGrid commenced paying distributions in the second half of the Current Year, with a total of $44,470,000 (comprising loan note interest of $14,112,000 and ordinary distributions of $30,358,000) received.

Cash inflows from interest received were $1,061,000 for the Current Year, $2,733,000 lower than the Prior Year reflecting lower levels of surplus cash on deposit. Cash outflows for interest paid on senior debt were $4,375,000, up $1,695,000 on the Prior Year, reflecting commitment fees and interest paid on debt drawn during the first half of 2016.

Payment of residual issue costs of $1,733,000 relating to the 2015 Entitlement Offer occurred during the Current Year. Spark Infrastructure paid a final distribution for the year ended 31 December 2015 of $100,921,000 to Securityholders in March 2016, representing 6.00 cents per security ("cps"). An interim cash distribution of $121,945,000 representing 7.25 cps was paid in September 2016 in relation to the six months ended 30 June 2016.

## DEBT, GEARING AND HEDGING

Spark Infrastructure has no drawn debt as at 31 December 2016. Spark Infrastructure has bank debt facilities of $250,000,000, with $225,000,000 maturing in November 2018 and $25,000,000 maturing in November 2020. A total of $205,000,000 of these available facilities were drawn down during December 2015 in order to part fund Spark Infrastructure's investment in TransGrid. A further $15,000,000 was temporarily drawn during the Current Year, prior to the facilities being fully repaid. Spark Infrastructure had cash on hand at 31 December 2016 of $95,985,000 (excluding $5,000,000 of cash held for Australian Financial Services Licensing purposes).

Spark Infrastructure targets at least a BBB/Baa2 equivalent credit rating for each of the assets in its portfolio. SA Power Networks' net debt to RAB was 71.4%, down from 71.9% at 31 December 2015. Victoria Power Networks' net debt to RAB was 72.4%, down from 73.8% at 31 December 2015. TransGrid's net debt to RAB was 88.4%, up from 86.5% at 31 December 2015. Based on current business conditions, Spark Infrastructure expects that the gearing of SA Power Networks and Victoria Power Networks will move back up towards but not above the 75% net debt to RAB level over the medium term. TransGrid gearing is expected to remain above 85% but below 90% on a net debt to RAB level, in line with its credit rating. Exact gearing levels over time will be impacted by numerous factors, including actual inflation outcomes, which have been relatively low over the past couple of years.

Spark Infrastructure requires that the assets in its portfolio are fully hedged against currency fluctuations on foreign currency borrowings. In terms of interest rate hedging, as at 31 December 2016, SA Power Networks, Victoria Power Networks and TransGrid had 100%, 96% and 75% of gross debt hedged respectively, with interest rate swaps with terms between one and ten years in place and some fixed rate debt in place. This substantially limits the impact of volatility in the movement of interest rates on the financial results of these businesses and in turn on those of Spark Infrastructure. There is currently no interest rate hedging at the Spark Infrastructure level, as there was no drawn debt as at 31 December 2016.

## ATO TAX MATTERS

Both SA Power Networks and Victoria Power Networks have been subject to large business audits by the ATO. The tax matters being reviewed as part of the audits date back a number of years. Details of these tax matters have been previously disclosed in the Spark Infrastructure Financial Statements.

In June 2015, Spark Infrastructure, Victoria Power Networks and the SA Power Networks Partnership partners signed a Heads of Agreement with the ATO to finalise all outstanding matters in respect of the interest deductibility on subordinated loans to both SA Power Networks and Victoria Power Networks. As a result, Spark Infrastructure recorded a one-off, non-cash post tax expense item of $31,656,000 in the Prior Year, disclosed as an Underlying Adjustment.

The ATO refunded $38,994,000 plus $2,359,000 of interest accrued on this amount to Victoria Power Networks following the execution of a Deed of Settlement (incorporating the Heads of Agreement) in the Current Year.

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.

Further details on the ATO matters are provided in Note 4 to the Financial Statements.

## EQUITY AND RESERVES

Total Equity including Loan Notes attributable to Securityholders decreased by $19,051,000 during the Current Year to $3,199,008,000 at 31 December 2016. Net profit after tax increased retained profits by $81,083,000, while other movements net of tax included: unfavourable mark-to-market movements in the value of interest rate derivatives held by the associates of $1,817,000; actuarial gains on defined benefit superannuation plans of the associates of $4,958,000; recognition of share based payment amounts of $990,000 and a capital distribution paid during the Current Year to Securityholders of $104,285,000. The mark-to-market movements and actuarial gains are non-cash impacts and result from the application of Australian Accounting Standards.

## IMPAIRMENT TESTING

The Directors consider the Australian Competition Tribunal's upholding of the AER's Final Determination for SA Power Networks as a potential indicator of impairment. Accordingly, fair value less costs to sell calculations were used to assess Spark Infrastructure's investment in SA Power Networks to confirm that its carrying value did do not exceed its recoverable value.

The Directors are satisfied that there is no indication that either Victoria Power Networks or TransGrid have suffered an impairment loss.

## AER PERFORMANCE BENCHMARKING

The AER released its annual benchmarking reports for the electricity distribution and transmission businesses under its jurisdiction on 30 November 2016. The benchmarking reports compare the productivity of network businesses and track changes over time. The overall benchmarking measures are part of the suite of tools the AER uses to assess the efficiency of network businesses.

The distribution benchmarking report shows that the Victorian and South Australian Distribution Network Service Providers ("DNSPs") are the most productive relative to their peers. CitiPower, SA Power Networks and Powercor are respectively ranked number one, two and four among the peer set of thirteen DNSPs. The transmission benchmarking report shows that TransGrid has significant scope for improvement under the private ownership of the NSWEN consortium of which Spark Infrastructure is a member. TransGrid is ranked number four amongst its peer set of five Transmission Network Service Providers. Importantly, the data is for 2015, which represents the final year of operation under government ownership.

## FINAL REGULATORY DETERMINATIONS FOR SA POWER NETWORKS AND VICTORIA POWER NETWORKS

In May 2016, the Australian Energy Regulator ("AER") released the Final Determination for CitiPower and Powercor (together known as Victoria Power Networks) for the 5-year regulatory period commencing on 1 January 2016. This followed the AER's release of the Final Determination for SA Power Networks' in October 2015 for the 5-year regulatory period commencing on 1 July 2015.

SA Power Networks and Victoria Power Networks had been operating under the parameters set by the AER's Preliminary Determinations for the first year of the 5-year regulatory periods. In years 2–5 a 'true-up' will occur to recover the difference in revenue between the Preliminary and Final Determinations on a no disadvantage basis. As previously disclosed, SA Power Networks received an additional $626,000,000 in its Final Determination relative to its Preliminary Determination for the 5-year regulatory period. Similarly, CitiPower and Powercor collectively received an additional $180,000,000 in their Final Determinations relative to their Preliminary Determinations for their 5-year regulatory periods. Recovery of these additional revenues is now underway.

## REGULATORY APPEALS

SA Power Networks and Victoria Power Networks (as CitiPower and Powercor) lodged appeals on various elements of their Final Determinations with the Australian Competition Tribunal ("ACT"). On 28 October 2016 the ACT published its decision in relation to the SA Power Networks review process. SA Power Networks sought review on gamma, return on debt transition, inflation, bushfire capital expenditure and labour cost escalation. The ACT affirmed the AER's decision on each matter. On 25 November 2016 SA Power Networks lodged an application for judicial review of the ACT's decision to the Federal Court in relation to gamma, return on debt transition and labour cost escalation. A decision is not expected until mid-2017.

The ACT hearings on the matters raised by CitiPower and Powercor concluded on 25 November 2016. Victoria Power Networks sought review of gamma and labour escalation. In addition, the Victorian government sought review of AMI productivity and corporate overheads (seeking a 3-year average rather than the 5-year average adopted by the AER). A decision is expected in February 2017.

## TRANSGRID PROPOSAL FOR 2018–2023 REGULATORY CONTROL PERIOD

TransGrid is subject to a 4-year regulatory period for the current regulatory cycle, which expires in June 2018. From 1 July 2018, TransGrid will revert to a standard 5-year regulatory period. TransGrid's regulatory reset process for the 2018 to 2023 regulatory period is underway and its initial regulatory proposal was submitted to the AER on 31 January 2017. A summary of the main elements of the regulatory proposal is provided in the table below:

| REGULATORY PERIOD 2018–2023 | TRANSGRID PROPOSAL | AER GUIDELINE |
|---|---|---|
| Equity Beta | 0.7 | 0.7 |
| Risk Free Rate | 2.24% | – |
| Market Risk Premium | 7.5% | 6.5% |
| Return on Equity | 7.49% | – |
| Cost of Debt | 10-year trailing average with transition | 10-year trailing average with transition |
| Gamma (Imputation) | 0.25 | 0.4 |
| Net Capex over 5-Years ($2018) | $1,612,000,000 | – |
| Opex over 5-Years ($2018) | $908,000,000 | – |
| Revenue ($2018) | $3,973,000,000 | – |

TransGrid has included in its proposal forecast operating expenditure at the start of the regulatory period that is more than 6% lower than 2015/16 operating expenditure and grows in line with network growth and input cost escalation consistent with the AER methodology for forecasting operating expenditure. Capital expenditure is forecast to be significantly higher than the 2014–18 regulatory period and includes $330,900,000 ($2018) for Powering Sydney's Future – a significant project to ensure the reliable and secure supply to the inner Sydney region. TransGrid has adopted the AER's approach to estimating the cost of debt and equity including a transition to the trailing average approach. However, TransGrid has updated the estimate of the cost of equity to reflect the latest market data used by the AER which suggests the market risk premium has increased to 7.5% and no longer supports the AER's recent estimate of 6.5%.

## INFLATION IMPACTS ON REGULATED REVENUES AND ASSET BASES

The AER has announced that it will consult on the approach to forecasting expected inflation during 2017. This is to examine and address an anomaly in the manner in which inflation is incorporated into the calculation of revenues for use in the regulatory process for Network Service Providers ("NSPs") that currently results in NSPs bearing the risk of any difference between forecast and actual inflation.

In the 2014/15 to 2017/18 regulatory period, there has been a mis-match between forecast and actual inflation that is resulting in TransGrid receiving significantly lower nominal revenue than what would have been allowed if actual inflation reflected the higher forecast inflation as set out in its current regulatory determination. This is an issue which affects all NSPs and is also impacting SA Power Networks and Victoria Power Networks.

TransGrid calculates this lower revenue to be $110,000,000 in the first two years of this regulatory period, and estimates it could be $170,000,000 by the end of the period.

TransGrid has submitted in its regulatory proposal that the current approach to forecasting inflation should not change without an ability to recover revenue forgone as a result of the mis-match in prior years.

## DISTRIBUTIONS AND CAPITAL MANAGEMENT

Spark Infrastructure pays out distributions which are fully supported by operating cashflows. Operating cashflows are reviewed at both the Spark Infrastructure level as well as on a look-through proportionate basis (i.e. at the investment level). Operating cashflows 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.

Distributions paid to Securityholders comprise interest income on the Loan Notes and can also include a capital distribution on Units and income distributions from the Trust. A final cash distribution of 6.00 cps was paid on 15 March 2016 in relation to the six months ended 31 December 2015 and comprised 3.55 cps of interest on the Loan Notes and 2.45 cps of capital distributions.

An interim cash distribution of 7.25 cps for the Current Year was paid on 15 September 2016 and was comprised of 3.50 cps interest on Loan Notes and 3.75 cps capital distribution.

The Board has declared a final cash distribution of 7.25 cps for the Current Year, payable on 15 March 2017, which will be comprised of 3.55 cps interest on Loan Notes for the period and 3.70 cps capital distribution. The full year 2016 distribution of 14.50 cps represents an increase of 20.8% on 2015, and a standalone payout ratio of 79.8% for the Current Year.

All distributions were unfranked and made by the Trust.

Distributions paid to Securityholders during the Current Year were:

| | FINAL 2015 DISTRIBUTION PAID 15 MARCH 2016 | | INTERIM 2016 DISTRIBUTION PAID 15 SEPTEMBER 2016 | | TOTAL DISTRIBUTIONS PAID IN 2016 | |
|---|---|---|---|---|---|---|
| | CENTS PER SECURITY | $'000 | CENTS PER SECURITY | $'000 | CENTS PER SECURITY | $'000 |
| Interest on Loan Notes | 3.55 | 59,712 | 3.50 | 58,870 | 7.05 | 118,582 |
| Capital distribution | 2.45 | 41,209 | 3.75 | 63,075 | 6.20 | 104,284 |
| **Total** | **6.00** | **100,921** | **7.25** | **121,945** | **13.25** | **222,866** |

Distributions paid and payable to Securityholders in respect of the Current Year were:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | CENTS PER SECURITY | $'000 | CENTS PER SECURITY | $'000 |
| Interim distribution paid | 7.25 | 121,945 | 6.00 | 87,982 |
| Final distribution proposed | 7.25 | 121,945 | 6.00 | 100,921 |
| **Total** | **14.50** | **243,890** | 12.00 | 188,903 |

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.

## OUTLOOK

The Directors have reaffirmed distribution guidance for 2017 and 2018 of 15.25 cps and 16.0 cps, representing annual growth of 5.2% and 4.9% respectively, subject to business conditions.

Spark Infrastructure currently expects distributions from its investments in 2017 to be lower than 2016. As previously disclosed, TransGrid has a significant and growing pipeline of accretive unregulated infrastructure connection opportunities which are of larger value and arising earlier than previously forecast. This investment opportunity may require additional retention of cash by TransGrid to fund this growth. The construction period for these projects varies, but is generally between 1–2 years before completion and operations commence. Spark Infrastructure is working with its consortium partners and the business on various funding plans for these exciting opportunities. Spark Infrastructure will report developments to the market as and when they are agreed.

CPI measurements during 2016, which are used as inputs by the AER to calculate annual revenues (i.e. annual tariff adjustments) and RAB escalation, ranged between 1.5% and 1.7%, significantly below long term averages and significantly below the AER forecasts used in the businesses' regulatory determinations. The current outlook for CPI for the shorter to medium term remains relatively low, which may have the effect of constraining previous forecasts of RAB growth and tariff increases. The AER has recently announced a review of the treatment of inflation in the regulatory framework and regulatory revenue models. Spark Infrastructure and its businesses will actively participate in this review.

## 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 2016 up to the date of this report.

## 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 11 to the consolidated financial statements.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

## 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.

## NON-AUDIT SERVICES

Details of amounts paid or payable to the external auditor for non-audit services provided during the Current Year are outlined in Note 14 to the consolidated 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 14 to the consolidated 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.

## 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 the Current Year, the Trust paid a premium in respect of a contract of insurance indemnifying the Directors against a liability incurred as such 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 the Current Year, indemnified or agreed to indemnify an officer or auditor of the Trust or of any related body corporate against a liability incurred as such an officer or auditor, except to the extent permitted by law.

## OPTIONS OVER STAPLED SECURITIES

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

## DIRECTORS' MEETINGS

The following table sets out the number of Directors' meetings held during the Financial Year and the number of meetings attended by each Director for which they were eligible to attend (i.e. in the case of Directors, while they were appointed and where they were not disqualified from attending due to observation of processes to guard against any perceived conflict of interests).

During the Current Year, twelve Board meetings, five ARC meetings, seven RemCo meetings, two 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 | – | – | 5 | 5 | 2 | 2 | – | – |
| Mr Rick Francis | 12 | 12 | – | – | – | – | 2 | 2 | – | – |
| Mr Andrew Fay | 12 | 12 | 5 | 5 | – | – | 2 | 2 | 1 | 1 |
| Ms Anne McDonald | 12 | 12 | 5 | 5 | 7 | 7 | – | – | – | – |
| Ms Christine McLoughlin | 12 | 12 | – | – | 7 | 7 | – | – | – | – |
| Ms Karen Penrose | 12 | 12 | 5 | 5 | – | – | – | – | 1 | 1 |
| Dr Keith Turner | 12 | 12 | – | – | 7 | 4 | – | – | – | – |
| Mr Brian Scullin | 5 | 5 | – | – | 2 | 2 | – | – | – | – |

By agreement with the committee chairs there is a standing invitation for all Directors to attend committee meetings. In the Current Year, Directors have attended a number of committee meetings in an observer capacity.

## AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 38.

## ROUNDING OF AMOUNTS

As permitted by ASIC Class Order 2016/191 dated 24 March 2016, amounts in the Directors' Report and the financial report have been rounded to the nearest thousand dollars, unless otherwise indicated.

## REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

Dear Securityholders

On behalf of the Board we are pleased to present our 2016 Remuneration Report which covers the remuneration arrangements for our Executives and Non-Executive Directors for the year ended 31 December 2016.

Over the past three years the Board has made a number of important changes to the Executive Remuneration Framework to achieve better alignment of Executives and Directors with the long-term interests of Securityholders and to align with Spark Infrastructure's strategy. The Board has also given serious consideration and taken account of feedback received from Securityholders including that received at the 2016 AGM.

The updates for 2017 mark the culmination of this period of evolution of the Remuneration Framework. Defined terms are set out in section 1 of the Report.

The key changes are set out below:

- **New measures for LTI** – In addition to risk adjusted TSR, LTI will be assessed against Operating Cashflow (both standalone and look-through). From 2017, three measures will apply to the assessment of performance under the LTI – 50% weighting for risk adjusted TSR + 25% for Standalone Operating Cash Flow (OCF) + 25% for Look-through OCF.
- **Minimum share ownership** – Under a new Executive Share Ownership Policy, the MD is required to hold 100% of base pay in securities to be acquired over a 3-year period (50% of base pay is required for other KMPs). The Board has also established a Non-Executive Directors Securityholding Policy requiring 100% of base fees in Securities to be acquired over 3 years (and maintained throughout tenure).
- **STI weightings** –the weighting for the financial component of STI for each of the MD and CFO is 60% of Fixed Remuneration. For 2017, the aggregated measures relevant to TransGrid will have a 20% weighting and will include a measure for unregulated revenue.

The Board will continue to engage with Securityholders in an open and transparent manner in relation to its Remuneration Framework.

**Dr Doug McTaggart**
Chair
Spark Infrastructure

**Ms Christine McLoughlin**
Chair
Remuneration Committee

## REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

**Contents**

The Directors of Spark Infrastructure RE Limited as responsible entity of Spark Infrastructure Trust ("Trust") present the Remuneration Report ("Report") for the year ended 31 December 2016 ("Current Year" or "2016") of the Trust and its Consolidated Entities ("Spark Infrastructure"), 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")[1], that is, Executive KMP ("Executives") and Non-Executive Director KMP ("NEDs") for 2016, and summarises proposed changes 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. Key questions regarding KMP remuneration arrangements and defined terms
2. 2016 overview
3. Key Management Personnel
4. Executive remuneration link to business strategy
5. Executive remuneration policy and overview of incentive plans
6. Executive statutory remuneration
7. Employment contract key terms
8. Remuneration governance
9. Non-Executive Director fees
10. Additional required disclosures

(1) Refer to section 3 for further detail on KMP

## 1. KEY QUESTIONS REGARDING KMP REMUNERATION ARRANGEMENTS

In 2016 the Board, through its Remuneration and Nomination Committee ("RemCo"), revised KMP remuneration arrangements to better align with Spark Infrastructure's business strategy and taking into consideration feedback from Securityholders and in response to feedback received at the 2016 AGM.

At the 2016 AGM, Spark Infrastructure received 34.43% of votes cast against our Remuneration Report resulting in a first 'strike'. The 'against' vote was recorded despite all proxy advisers for institutional Securityholders recommending that Securityholders vote 'in favour' of the Remuneration Report.

The Board has taken the first strike extremely seriously and has undertaken a further review of the Remuneration Framework and consulted a wide group of stakeholders. In particular, the Board Chair and Chair of the Remuneration Committee undertook an extensive program of engagement with investors and other stakeholders throughout 2016. This has resulted in further changes to the Remuneration Framework in 2016, which will affect Executive remuneration from 2017 onwards.

This section sets out our response to issues raised by Securityholders at the 2016 AGM in relation to the Remuneration Report and in consultation with investors and other stakeholders. The table below summarises the key questions and answers in relation to 2016 remuneration and the proposed changes for 2017.

| QUESTION | SPARK INFRASTRUCTURE APPROACH | FURTHER INFORMATION |
|---|---|---|
| REMUNERATION FRAMEWORK | | |
| 1. What changes were implemented in 2016? | • As outlined in our 2015 Remuneration Report:<br>• **Short-term incentive ("STI"):** the weighting of financial KPIs increased in the Managing Director and Chief Executive Officer's ("MD") 2016 STI from 50% of the total opportunity to 60% to recognise the importance of aligning STI outcomes to Spark Infrastructure financial performance. A portion (20%) of the financial component of the STI is specifically related to the performance of TransGrid<br>• **Deferred STI:** the 2016 deferred STI was delivered as Rights (rather than cash as was our prior approach). The change is intended to increase equity holdings of Executives and create stronger alignment between interests of Executives with Securityholders. (In addition, Executives elected to take their 2015 Deferred STI in Rights rather than in cash.)<br>• **Long-term incentive ("LTI"):** Increased weighting on LTI for the MD and CFO from 20% to 24%, and 15% to 22% of total remuneration respectively. Note, the CFO's remuneration was rebalanced to reduce his STI from 90% to 80% and increase his LTI from 35% to 50%. | Section 4, Page 23<br>Section 5.2, Page 25<br>Section 5.3, Page 26<br>Section 5.3.3, Page 28 |
| 2. What portion of remuneration is 'at-risk'? | The Executives receive the following proportion of their total remuneration in STI and LTI opportunity:<br>• **MD:** 62%<br>• **CFO:** 57%<br>• **General Counsel / Company Secretary:** 50% | Section 5.1, Page 24 |
| 3. Is there a minimum Securityholding requirement for Executives? | Commencing in 2017 the MD will be required to hold the equivalent of 100% of Fixed Remuneration in Securities, and will be required to do so within a three-year period. For other KMP, the requirement will be the equivalent of 50% of Fixed Remuneration within a three-year period. The MD has already met this requirement as set out in the Executive Securityholding table at section 2.5. | Section 2.5, Page 21 |
| 4. Is there a minimum Securityholding requirement for NEDs? | The Board has established a minimum Securityholding policy for NEDs, whereby NEDs must hold the equivalent of one year's director's base fees (assessed at the later of the date of appointment or the effective date of the policy), and will be required to do so within a period of three years. It is intended that this Securityholding requirement will apply throughout the tenure of directorship. The effective date of the policy is 1 January 2017. | Section 10.5, Page 37 |
| REMUNERATION QUANTUM | | |
| 5. How is Spark Infrastructure's 2016 performance reflected in this year's Executive remuneration outcomes? | • Performance throughout 2016 was very positive with a number of good achievements against performance measures, most notably an increase in distributions for 2016 (up 21% to 14.5cps), increased distribution guidance of approximately 5% p.a. in 2017 and 2018; and the successful transition to private ownership of TransGrid and the commencement of its transformation exercise.<br>• The Board approved a suite of performance measures for Spark Infrastructure's incentive plans in 2016, which ensures all of our strategic drivers are linked to executive reward and that there is not undue focus on any one particular measure. | Section 2, Page 19<br>Section 4, Page 23 |
| 6. How is remuneration opportunity determined and what changes were made to Executive remuneration quantum in 2016? | Both Fixed Remuneration and Total Remuneration policy are around the median of Spark Infrastructure's peer group, which include ASX-listed entities of a similar size and operational scope.<br>The following remuneration movements were determined in 2015 in respect of 2016:<br>• **Fixed Remuneration:** increased by 2% for the MD, and 12% for the CFO.<br>• **LTI quantum:** as disclosed in our 2016 Notice of Annual General Meeting, the MD's LTI quantum increased (as a percentage of Fixed Remuneration) (50% to 65%). The CFO's LTI quantum also increased from 35% to 50% (as a percentage of Fixed Remuneration). | Section 4, Page 23<br>Section 5.1, Page 24 |

| QUESTION | SPARK INFRASTRUCTURE APPROACH | FURTHER INFORMATION |
|---|---|---|
| 7. Will Executive remuneration increase in 2017? | There will be no increases to Executive total remuneration in 2017. The Board determined this was appropriate giving consideration to feedback from Securityholders and in response to market conditions. It is not a reflection on the performance of Executives during 2016. The Board has recognised the performance of Executives as indicated by the STI outcomes set out below. The Board will continue its process of annual benchmarking of total remuneration. | Section 4, Page 23 |
| 8. Did the quantum of NED fees increase in 2016? | In 2015, the Board determined to increase 2016 NED fees (with effect from 1 January 2016) by approximately 4% to maintain alignment with market standards. | Section 9.2, Page 33 |
| 9. Will NED fees increase in 2017? | There will be no increases to NED fees in 2017. The Board determined this was appropriate giving consideration to feedback from Securityholders and in response to market conditions. The Board will continue its process of annual benchmarking of NED fees. | Section 9.2, Page 33 |
| 10. Do NEDs receive fees for their appointment on the Boards of SA Power Networks, Victoria Power Networks and TransGrid? | NEDs who are currently independently appointed as directors of the Boards of investment portfolio companies (SA Power Networks, Victoria Power Networks and TransGrid) are entitled to receive fees separate to those paid for their role as NEDs of Spark Infrastructure. Directors fees for investment portfolio companies are determined by the boards of those companies and are paid for by those companies as follows:<br>• **SA Power Networks and Victoria Power Networks:** fees are paid by the respective asset businesses to NEDs. Director fees for the Spark Infrastructure MD and CFO are in respect of their work on the asset company boards and are paid to Spark Infrastructure (not to the MD and CFO).<br>• **TransGrid:** all TransGrid securityholders (including Spark Infrastructure) receive an allowance to compensate for services provided to TransGrid, including the appointment of directors to the board of TransGrid. Spark Infrastructure uses its allowance to cover fees paid to NEDs who are TransGrid board members, with any residual retained by Spark Infrastructure. | Section 9.3, Page 34 |
| SHORT TERM INCENTIVE PLAN ("STI") | | |
| 11. What are the performance measures for the STI plan? How do they link with business strategy? | STI plan performance measures include both financial and non-financial KPIs. The measures reflect the Board's view of KPIs which can be influenced by Executives in actively managing Spark Infrastructure's investments.<br>The financial KPIs (60% of total STI opportunity for MD) for 2016 were:<br>• Total distribution financial measures from Spark Infrastructure's investments (including TransGrid) (25%)<br>• Total look-through operating cash flow (OCF) / EBITDA financial measures (including TransGrid (20%)<br>• Total TransGrid other financial measures (capex and credit rating) (10%)<br>• Total Spark Infrastructure controllable costs (5%)<br>The Non-Financial KPIs (40% of total STI opportunity for MD) for 2016 fall into the following categories with proportions allocated according to relative levels of operational criticality and strategic importance:<br>• Strategic<br>• Stakeholder management<br>• Operations<br>• Optimising regulatory outcomes<br>• People development<br>• Special projects | Section 2.1, Page 20<br>Section 5.3.1, Page 26 |

| QUESTION | SPARK INFRASTRUCTURE APPROACH | FURTHER INFORMATION |
|---|---|---|
| 12. Is there a minimum financial performance requirement before any STI is paid? | In order for the financial component of the STI to be awarded, Spark Infrastructure must achieve its Distribution Guidance for the relevant year. In 2016, the stated Distribution Guidance of 14.5 cents per security ("cps") was achieved. Accordingly, the financial component of the STI was available for payment subject to the performance hurdles.<br><br>The distribution gateway does not apply to the Non-Financial KPI portion of the STI. | Section 5.3.1, Page 26 |
| 13. What is the maximum STI opportunity each Executive can earn under the STI plan? How is this determined? | Executive maximum STI opportunities are expressed as a percentage of Fixed Remuneration as follows:<br>• **MD:** 100%<br>• **CFO:** 80%<br>• **General Counsel / Company Secretary:** 70%<br><br>Maximum STI opportunities are determined by the Board with consideration given to market remuneration opportunities. | Section 5.2, Page 25 |
| 14. Is a portion of STI deferred into Spark Infrastructure equity? | Half of any STI awarded is deferred into Rights, of which:<br>• 50% vests 12 months after the end of the STI performance period; and<br>• 50% vests 24 months after the end of the STI performance period.<br><br>Deferral into equity strengthens the alignment of Executives to the delivery of value to our Securityholders. | Section 5.3.1, Page 26 |
| 15. What changes will be made to the STI in 2017? | Unregulated revenue will be introduced as a financial KPI to the STI, with a corresponding adjustment and weighting of the existing financial KPIs for the MD as follows.<br>• Total distribution financial measures from Spark Infrastructure's investments (25%)<br>• Total look-through operating cash flow (OCF) / EBITDA financial measures (20%)<br>• Unregulated revenue targets (10%)<br>• Total Spark Infrastructure controllable costs (5%)<br><br>For 2017 the aggregated measures relevant to TransGrid will have 20% weighting. | Section 4, Page 23 |
| LONG TERM INCENTIVE PLAN ("LTI") | | |
| 16. What are the performance measures for determining LTI vesting? How do they link with business strategy? | Grants made in 2016 are subject to a risk adjusted TSR performance measure, assessed against the constituent companies in the S&P/ASX 200 index.<br><br>The Board believes a risk adjusted TSR is appropriate to Spark Infrastructure in aligning Executives to Securityholders' interests because it accounts for the relative riskiness of investments unlike a standard relative TSR measure.<br><br>The Board understands that Spark Infrastructure investors generally expect stable returns and relatively low-risk. By adjusting the TSR performance of Spark Infrastructure and the comparator group companies for risk outside of the companies' control, then the variation in relative company returns based on risk-adjusted TSR should be more reflective of management performance. | Section 5.3.3, Page 28 |
| 17. What comparator group(s) are the performance measures assessed against? How were they chosen? | The Board views the constituents of the S&P/ASX 200 index, adjusted for risk, to be the most appropriate comparator group.<br><br>Refer to our website for further detail: www.sparkinfrastructure.com/about/governance. | Section 5.3.3, Page 28 |

| QUESTION | SPARK INFRASTRUCTURE APPROACH | FURTHER INFORMATION |
|---|---|---|
| 18. Is LTI grant quantum based on "face value" methodology? | Spark Infrastructure uses a face value methodology for allocating Rights to each Executive. The face value is the volume weighted average price ("VWAP") of stapled securities traded in the 30 trading days up to and including 31 December. The VWAP applicable for the allocation of the 2017 Rights to Executives is $2.26. | Section 5.3.3, Page 28 |
| 19. What changes will be made to the LTI in 2017? | The LTI will continue to operate as a four year plan with payments made in the form of equity (Rights) at the end of four years.<br><br>Two cash flow performance measures will be introduced: Standalone Operating Cash flow before tax ("Standalone OCF") and Look-through Operating Cash flow ("Look-through OCF"), which can both be directly influenced by Executives through actively managing our investments. The Board believes the inclusion of internal measures (i.e. cash flow measures) and an external measure (i.e. risk adjusted TSR) on the LTI provides the right focus for Executives on delivering long-term Securityholder value.<br><br>Consequently, 2017 LTI awards will be separated into three tranches:<br>• **Tranche 1 (50% of LTI award):** Spark Infrastructure's risk adjusted TSR performance will be assessed over a four-year period.<br>• **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).<br>• **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 5.3.3, Page 28 |
| 20. What decision has been made around the LTI Transition Payment? | Executives have the opportunity to receive a one-off LTI Transition Payment. The Transition Payment was to compensate for the gap in LTI vesting (created by the shift from a three to four-year LTI performance period in 2014) together with other changes (benefits foregone) to Executive contracts, as previously disclosed. The Transition Payment was not a guaranteed award and payment is subject to independent assessment using the risk adjusted TSR methodology over the period 1 January 2014 to 31 December 2016.<br><br>An independent assessment of the LTI Transition Payment has been conducted using the risk adjusted TSR methodology with the Board having determined this as an appropriate relative performance measure.<br><br>The results of the independent assessment as at 31 December 2016, using the risk adjusted TSR methodology, showed Spark Infrastructure at the 83rd percentile against the S&P/ASX200 being the relevant peer group. The LTI vesting schedule provides for 100% vesting at or above the 75th percentile.<br><br>Applying the LTI vesting schedule, this would indicate vesting in full and therefore 100% achievement of the LTI Transition Payment.<br><br>The Transition Payment vested on 31 December 2016. | Section 2.2, Page 20 |

| DEFINED TERMS NOT OTHERWISE DEFINED IN THIS REPORT | |
|---|---|
| MD | The Managing Director and Chief Executive Officer of Spark Infrastructure |
| CFO | The Chief Financial Officer of Spark Infrastructure |
| Key Management Personnel ("KMP") | 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 |
| 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) |
| 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 |
| AGM | The Annual General Meeting of Spark Infrastructure |

## 2. 2016 OVERVIEW

2016 was another year of consistent and strong performance for Spark Infrastructure with many notable achievements such as:

- Increase in distributions for 2016 (up 21% to 14.5cps) and distribution guidance of approximately 5% p.a. in both 2017 and 2018
- Standalone operating cashflow up 47.4% to $305,600,000[1]
- Successful transition to private ownership of TransGrid with implementation of appropriate supporting governance frameworks
- Appointment of new TransGrid CEO and Independent Chair
- Achievement of Baa2 credit rating from Moody's for TransGrid
- Creation of a solid and growing pipeline of infrastructure connection opportunities with TransGrid
- TransGrid regulatory submission development
- Good progress on transformation of TransGrid into a commercially customer focussed innovative business
- Victoria Power Network's World CLASS efficiency program achieving $167,000,000 p.a. in savings
- Continued active management of our investment portfolio
- Continued constructive engagement with our investment partners
- Active and credible thought leadership within the industry
- Enhanced program of engagement with investors and other stakeholders
- Orderly divestment of the economic interest in DUET Group during the year
- Repayment of all corporate debt facilities by 30 June 2016

Executive remuneration outcomes reflect the performance of Spark Infrastructure and Executives' active management of Spark Infrastructure's investments in 2016. Further detail is outlined below.

(1) Includes repayment of shareholder loans.

### 2.1 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 2016 of 14.5 cps. The Board has declared a Distribution of 14.5 cps for 2016. Accordingly, the Distribution Guidance was achieved; and
2. Spark Infrastructure's STI has four key 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.

The table below outlines Spark Infrastructure's performance against each financial KPI.

| FINANCIAL KPI'S | LEVEL OF ACHIEVEMENT |
|---|---|
| Total distribution financial measures from investments | 82% |
| Total look-through OCF/EBITDA financial measures | 58% |
| Total TransGrid other financial measures | 85% |
| Total Spark Infrastructure controllable costs | 77% |
| **Total financial KPI'S** | **74%** |

The following table shows the actual STI outcomes for each Executive for 2016. The actual STI outcome for Executives is based on a combination of the financial performance achieved (74% for 2016) and assessment of achievement against personal KPIs, producing a blended percentage outcome. For further detail regarding the STI, refer to section 5.3.1.

| EXECUTIVE | STI MAXIMUM OPPORTUNITY % OF FIXED REMUNERATION | ACTUAL STI (% OF OPPORTUNITY) | STI FORFEITED (% OF OPPORTUNITY) | ACTUAL STI ($) |
|---|---|---|---|---|
| Rick Francis | 100% | 74.4% | 25.6% | 607,848 |
| Greg Botham[1] | 80% | 76.4% | 23.6% | 330,048[1] |
| Alexandra Finley | 70% | 71.6% | 28.4% | 205,492 |

(1) The CFO resigned in February 2017. Accordingly, half of the CFO's Actual STI for 2016 which has been deferred into Rights will lapse.

### 2.2 LTI Transition Payment Vesting

As a result of the Board's decision in 2014 to change the LTI performance period from three years to four years, no LTI awards were due to vest in 2016.

As disclosed in our 2014 and 2015 Remuneration Reports, to compensate for this gap in vesting (created by the shift from a three to four-year LTI performance period) and for other changes (benefits foregone) to Executive contracts, Executives were granted the opportunity to receive a one-off LTI Transition Payment with effect from 1 January 2014.

The LTI Transition Payment was not a guaranteed award and payment has been subject to assessment by the Board using a risk adjusted TSR performance hurdle over the period 1 January 2014 to 31 December 2016. This approach is consistent with the current LTI plan, applying the same performance measure but assessed across a three-year period.

The results of the independent assessment using the risk adjusted TSR methodology showed Spark Infrastructure in the 83rd percentile against the constituent companies in the S&P/ASX200 (as at 1 January 2014) as the relevant peer group. The LTI vesting schedule provides for 100% vesting at or above the 75th percentile. Applying the LTI vesting schedule, this indicated vesting in full and therefore 100% achievement of the LTI Transition Payment. LTI Transition Payments will be paid in March 2017. The LTI Transition Payment is cash settled.

### 2.3 The MDs Remuneration Package

Details of the MD's 2016 remuneration package are set out in the table below.

| | BASE 2016 (INCL. SUPER-ANNUATION AND CAR-PARKING) | 2016 STI MAXIMUM OPPORTUNITY (%) | 2016 STI MAXIMUM OPPORTUNITY ($) | 2016 LTI MAXIMUM OPPORTUNITY ($) | 2016 LTI MAXIMUM OPPORTUNITY ($) | TOTAL REMUNERATION MAXIMUM OPPORTUNITY ($) |
|---|---|---|---|---|---|---|
| Rick Francis | 817,000 | 100% | 817,000 | 65% | 531,050 | 2,165,050 |

There is no change to the MD's remuneration package for 2017.

### 2.4 Actual remuneration received

Based on the outcomes described in section 2.1 and 2.2 above, the following table shows details of the actual remuneration received by Executives in 2016 and 2015. (The amounts in the table differ from the Executive statutory remuneration which is set out in section 6.)

| | SHORT-TERM BENEFITS | | | POST-EMPLOYMENT | LONG-TERM BENEFITS | |
|---|---|---|---|---|---|---|
| | BASE SALARY ($) | STI[1] ($) | NON-MONETARY ($) | SUPER-ANNUATION ($) | VESTED LTI[2] ($) | TOTAL ($) |
| **EXECUTIVES** | | | | | | |
| **Rick Francis** | | | | | | |
| 2016 | 792,000 | 479,092 | 23,160 | 25,000 | 173,253 | 1,492,505 |
| 2015 | 775,709 | 278,250 | 18,442 | 25,000 | 461,449 | 1,558,850 |
| **Greg Botham** | | | | | | |
| 2016 | 520,538 | 257,662 | 6,500 | 19,462 | 80,210 | 884,372 |
| 2015 | 463,663 | 145,440 | 5,730 | 19,046 | 170,352 | 804,231 |
| **Alexandra Finley** | | | | | | |
| 2016 | 390,538 | 142,506 | 10,647 | 19,462 | 49,867 | 613,020 |
| 2015 | 350,483 | 77,556 | 8,929 | 19,046 | 163,071 | 619,085 |

(1) STI received in 2016 represents both amounts earned in relation to the individual's performance from 2015 and amounts deferred into "notional" securities in 2014 that vested on 31 December 2015. STI received in 2015 represents amounts earned in relation to the individual's performance from 2014.

(2) LTI received in 2016 relates to the 2013 LTI allocation which vested on 31 December 2015. LTI received in 2015 relates to the 2012 LTI allocation which vested on 31 December 2014.

### 2.5 Executive Minimum Securityholding Policy

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

The below table sets out the beneficial interests in securities held by Executives as at 31 December 2016:

| | TOTAL SECURITIES/ RIGHTS AT 1 JANUARY 2016 | RIGHTS VESTED AT 31 DECEMBER 2016[1] | UNVESTED RIGHTS AT 31 DECEMBER 2016[1],[2] | TOTAL SECURITIES/ RIGHTS AT 31 DECEMBER 2016 |
|---|---|---|---|---|
| Rick Francis | 23,942 | 92,410 | 226,889 | 343,241 |
| Greg Botham[3] | – | 50,299 | 123,318[3] | 173,617 |
| Alexandra Finley | – | 28,230 | 73,693 | 101,923 |

(1) Rights shown at 31 December 2016 include additional Rights in respect of distribution equivalents applicable to the deferral years.

(2) Unvested Rights at 31 December 2016 are scheduled to vest in two further tranches on 31 December 2017 and 2018 respectively, in accordance with the terms of the Deferred STI Plan (subject only to continuity of employment).

(3) The CFO resigned in February 2017. Accordingly, the CFO's unvested rights at 31 December 2016 will lapse.

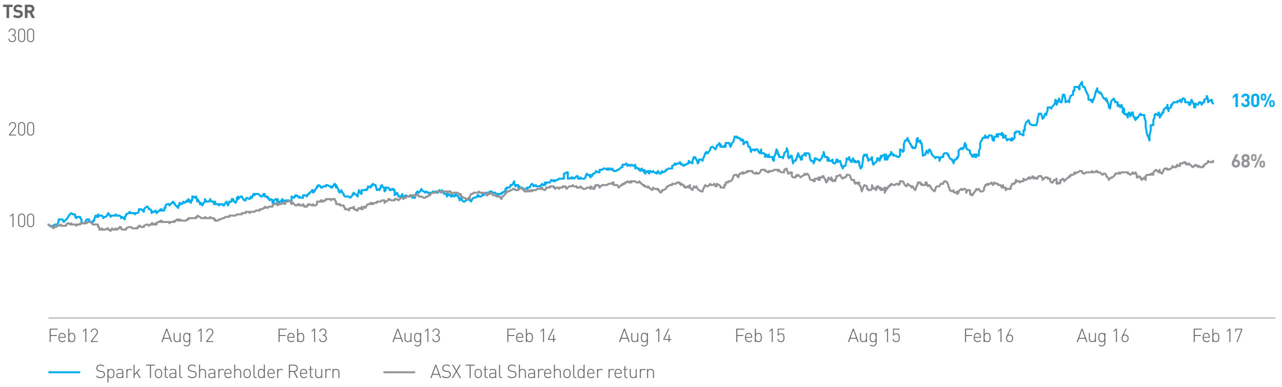
### 2.6 Spark Infrastructure financial performance

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

| | 5 YEAR FINANCIAL PERFORMANCE | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Statutory Profit after tax attributable to Securityholders ($'000) | 81,083 | 88,024 | 128,133 | 128,435 | 173,851 |
| Statutory Profit before Loan Note Interest and tax expense ($'000) | 225,816 | 252,820 | 272,092 | 294,482 | 277,050 |
| Closing Security price at year end ($) | 2.38 | 1.92 | 2.13 | 1.62 | 1.67[1] |
| Distribution per Security (cents) | 14.50 | 12.00 | 11.50 | 11.00 | 10.50 |
| Operating costs ($'000) | 13,545 | 14,196 | 11,315 | 8,195 | 10,855 |
| Look-through Operating Cash flow (cps) | 22.1 | 28.9 | 25.1 | 22.3 | 20.6 |
| Net Debt/Regulatory Asset Base ("RAB") (%) | 74.7 | 73.0 | 77.2 | 78.5 | 79.7 |

(1) The opening security price at the start of 2012 was $1.38

### Spark Infrastructure 5 Year Total Shareholder Returns




Source: Iress and Factset as at 23 February 2017

## 3. KEY MANAGEMENT PERSONNEL

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

For the year ended 31 December 2016, the KMP were:

| KMP | POSITION | TERM AS KMP |
|---|---|---|
| EXECUTIVES | | |
| **Mr Rick Francis** | Managing Director and Chief Executive Officer ("MD") | Full Year |
| **Mr Greg Botham** | Chief Financial Officer ("CFO") | Full Year |
| **Ms Alexandra Finley** | General Counsel / Company Secretary | Full Year |
| INDEPENDENT NON-EXECUTIVE DIRECTORS | | |
| **Dr Douglas McTaggart** | Independent Non-Executive Director and Chair from 20 May 2016, Member of Remuneration and Nomination Committee | Full Year |
| **Mr Brian Scullin** | Chair and Member of Remuneration and Nomination Committee until 20 May 2016 | Part Year |
| **Mr Andrew Fay** | Member of Audit, Risk and Compliance Committee | Full Year |
| **Ms Anne McDonald** | Chair of Audit, Risk and Compliance Committee, Member of Remuneration and Nomination Committee | Full Year |
| **Ms Christine McLoughlin** | Chair of Remuneration and Nomination Committee | Full Year |
| **Ms Karen Penrose** | Member of Audit, Risk and Compliance Committee | Full Year |
| **Dr Keith Turner** | Member of Remuneration and Nomination Committee | Full Year |

## 4. EXECUTIVE REMUNERATION 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.

| Strategic drivers | STI performance objectives | LTI performance objectives | Spark Infrastructure's performance in 2016 | What Executives are paid |
|---|---|---|---|---|
| **Deliver sustainable growth in distributions based on profitable growth in asset base**<br>This forms the basis of the Board's approach to consideration for all matters<br>We will continue to assess opportunities for diversification over time in a disciplined manner | **Total distribution financial measures from investments** | **50% of Award – Relative TSR**<br>Measures the performance of Spark Infrastructure Securities over time, relative to companies in the S&P/ASX 200 index over 4 years<br>**Plus 25% of Award** measured against Standalone Operating Cash Flow over a three-year period (the test period) and vests after a further one-year period at the end of four years<br>**25% of Award** measured against Look-through Operating Cash Flow over a three-year period (the test period) and vests after a further one-year period at the end of four years | Across the period 2014 – 2016 Spark Infrastructure's relative TSR was 83% relative to companies in the S&P/ASX 200 index<br><br>**Key**<br>✓ = exceeded target<br>● = on target<br>✗ = below target | KMP 2016 STI outcome<br>71-76% of STI opportunity achieved<br>50% payable in cash and 50% deferred into Performance Rights<br>KMP 2016 LTI outcome<br>No LTI vesting in 2016<br>100% of Transition Payment vested on 31 December 2016 |
| **Active management of asset portfolio**<br>Actively manage a portfolio of significant interests to provide scope to influence outcomes and drive performance in underlying assets | • **Financial KPIs:**<br>Total look-through OCF/EBITDA financial measures<br>• **Non Financial KPIs:**<br>– Ensure robust governance at both fund level and asset level<br>– Apply industry and regulatory expertise to asset level investment strategy and operations | | **Financial KPIs**<br>**Victoria Power Networks**<br>✓ Distributions<br>✗ Look-through OCF<br>**SA Power Networks**<br>✓ Distributions<br>✓ Look-through OCF<br>**TransGrid**<br>● Distributions<br>✓ EBITDA<br><br>Non Financial<br>6 key measures<br>Individual assessment for each Executive<br>Refer 5.3.1 | |
| **TransGrid performance**<br>Transformation of TransGrid into a commercially focused, private sector business | **Total TransGrid other financial measures** | | **TransGrid**<br>✓ Capex<br>● Credit Rating | |
| **Embrace changing business environment**<br>Technological advancements will provide opportunities for our TransGrid, SA Power Networks and Victoria Power Networks businesses | **Total Spark Infrastructure controllable costs**<br><br>**Unregulated revenue targets (from 2017)** | | ✓ Spark Infrastructure controllable costs | |

The Board is committed to ensuring the Executive remuneration approach is informed by market practice, takes Securityholder views into account, is linked to our business strategy, and operates to attract and retain key talent. Over the past three years, the Board made a number of changes to the Executive remuneration framework in support of these objectives. The changes for 2017 mark the culmination of this period of evolution of the Executive remuneration framework and importantly take into consideration the concerns of Securityholders reflected in the "strike" received against the 2015 Remuneration Report. These changes are summarised in the table below.

| EFFECTIVE DATE | EXECUTIVE REMUNERATION CHANGE |
|---|---|
| 1 January 2014 | • LTI performance period extended from three to four years<br>• Risk adjusted TSR introduced as LTI performance measure with change in vesting scale (percentage of award vesting reduced from 50% to 30% at 51st TSR percentile ranking)<br>• STI opportunity increased for the MD from 60% to 100% of Fixed Remuneration<br>• Deferral of 50% of STI award into 'notional securities' which vest in two equal tranches over 12 and 24 months<br>• Comprehensive review of Executive total remuneration conducted by independent remuneration experts<br>• Variation to MD's employment contract: certain guaranteed bonuses on termination removed and termination payment limited to 12 months' Fixed Remuneration |
| 1 January 2015 | • Introduced a minimum financial performance requirement to the STI whereby the financial component of the STI would only be awarded if Spark Infrastructure achieved its stated distribution guidance of a minimum cps target<br>• Introduced Rights as the award vehicle for both the LTI and deferred STI |
| 1 January 2016 | • LTI opportunity increased as a percentage of Fixed Remuneration (from 50% to 65% for MD)<br>• Increased Fixed Remuneration by only 2% for the MD<br>• Reweighted STI measures to 60% financial, 40% non-financial KPIs (for MD and CFO)<br>• Rebalanced remuneration mix for the CFO (STI reduced from 90% to 80% of Fixed Remuneration, LTI increased from 35% to 50% of Fixed Remuneration) |
| 1 January 2017 | • Introduced an Executive Share Ownership Policy whereby the MD will be required to hold the equivalent of 100% of Fixed Remuneration in securities, and will be required to do so within a three-year period. For other KMP, the requirement will be the equivalent of 50% of Fixed Remuneration in a three-year period<br>• Unregulated revenue will be introduced as a financial KPI to the STI, with a corresponding adjustment in the weighting of the existing financial KPIs<br>• Standalone OCF and Look-through OCF will be introduced as LTI performance measures (weighted at 25% each), in addition to the current risk adjusted TSR measure (weighted at 50%)<br>• There will be no increases to Executive total remuneration opportunity in 2017 |

## 5. EXECUTIVE REMUNERATION POLICY AND OVERVIEW OF INCENTIVE PLANS

This section outlines Spark Infrastructure's executive remuneration policy and detail of the STI and LTI plans.

### 5.1 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 levels are reviewed annually by the Remuneration and Nomination Committee ("RemCo") with reference to the market and Spark Infrastructure's business.

The diagram below provides a summary of the structure of Executive remuneration in 2016.

| EXECUTIVE REMUNERATION FRAMEWORK | | |
|---|---|---|
| **FIXED** | **AT RISK** | |
| **Fixed Remuneration** | **Short term incentive ("STI")** | **Long term incentive ("LTI")** |
| Fixed Remuneration is the base level reward for an Executive to perform their day-to-day role and responsibilities, and comprises cash, superannuation and car leases (but excludes non-monetary items). An Executive's Fixed Remuneration reflects the:<br>• market value of their role;<br>• their skills, experience, and industry knowledge; and<br>• quantum appropriate to attract, reward, motive and retain the individual. | • Determined based on targets set by the Board, including a balance of financial and personal objectives, measured over a 12-month period<br>• Current Year opportunities between 70% and 100% of Fixed Remuneration<br>• Delivered 50% in cash, 50% in Rights<br>• Deferred component: 50% of the Rights are deferred for 12 months and the remaining 50% for 24 months, subject to continued employment<br>• Entitled to distribution equivalent payment on deferred component<br>Refer to section 5.3.1 for further detail | • Delivered in Performance Rights<br>• Current Year opportunities between 30% and 65% of Fixed Remuneration<br>• Subject to a risk adjusted TSR performance target measured over a four year performance period<br>• Entitled to distribution equivalent payment if any Performance Rights vest<br>Refer to section 5.3.3 for further detail |

**TOTAL REMUNERATION**
Benchmarked at market median (i.e. 50th percentile) level for a comparator group of ASX-listed companies of a similar size and operational scope

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 2016 and 2017: Refer to section 5.3 for detail on the structure of the STI and LTI.

**MD**

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

**CFO**

| Fixed remuneration | Maximum STI | Maximum LTI |
|---|---|---|
| 43% | 35% (50% cash, 50% deferred equity) | 22% (100% equity) |

**GENERAL COUNSEL / COMPANY Secretary**

| Fixed remuneration | Maximum STI | Maximum LTI |
|---|---|---|
| 50% | 35% (50% cash, 50% deferred equity) | 15% (100% equity) |

### 5.2 Potential maximum at-risk remuneration for Executives in 2016

Presented below are the Executive maximum STI and LTI opportunities for 2016 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 REMUNERATION | MAXIMUM LTI OPPORTUNITY % OF FIXED REMUNERATION |
|---|---|---|
| Managing Director | 100% | 65% |
| Chief Financial Officer | 80% | 50% |
| General Counsel and Company Secretary | 70% | 30% |

### 5.3 Incentive plan structure in detail

**KEY CHANGES IN 2016**

As announced in our 2015 Remuneration Report:

- the weighting of financial KPIs increased in the MD's STI from 50% of the total opportunity to 60% to recognise importance of aligning STI outcomes to Spark Infrastructure financial performance. For 2016 awards, a portion (20%) of the financial component of the STI is specifically related to the performance of TransGrid; and
- deferred STI for 2016 was delivered as Rights (rather than cash as was our prior approach), which is intended to increase equity holdings of Executives and create stronger alignment between interests of Executives with Securityholders. In addition, Executives elected to take their deferred STI for 2015 as Rights.

#### 5.3.1 2016 short-term incentives

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

| | |
|---|---|
| What is the purpose of the STI? | To set performance measures that are challenging, provide a link between remuneration and performance and focus on creating sustainable returns for Securityholders.<br><br>To focus Executives on the achievement of results in areas that are expected to impact the performance of Spark Infrastructure in the short term together with annual sustained performance.<br>• To assist in the attraction, reward and retention of high quality employees.<br>• To constrain the potential for unacceptable risk taking.<br><br>To ensure that a significant portion of remuneration is "at risk" with a mix of financial and non-financial performance measures.<br><br>Through deferral, to strengthen the link between Executive remuneration and long-term Securityholder returns. |
| What are Executives' STI opportunities? | The maximum STI opportunity is expressed as a percentage of Fixed Remuneration and is determined with reference to market norms, and each Executive's relative influence on Spark Infrastructure's performance. See section 5.2 for details. |
| Is there a gateway level of performance before any STI may be awarded? | Yes, in order for the financial component of the STI to be awarded, Spark Infrastructure must achieve its Distribution Guidance. In June 2016 Spark Infrastructure announced Distribution Guidance of 14.5 cps for 2016. The Board has declared a 2016 Distribution of 14.5 cps. Accordingly, the financial component of the STI was available for payment subject to the performance hurdles.<br><br>The distribution gateway does not apply to the Non-Financial KPI portion of the STI. |
| What are the performance measures for STI awards? | If the 'gateway' is achieved an Executive's STI award is assessed based on financial KPIs and non-financial KPIs over a 12 month performance period. Non-Financial KPIs may be weighted differently among employees depending on their relative influence in the area. The actual percentage targets for non-financial KPIs are not disclosed, as some may be commercially sensitive. However, proportions for each category are allocated according to relative levels of operational criticality and strategic importance. |

What are the performance measures for STI awards? *continued*

Spark Infrastructure Financial KPIs and Non-Financial KPIs are as follows:

**Financial KPIs**

Total distribution financial measures – Spark Infrastructure objective is to deliver steadily growing distributions to Securityholders over time, based on distributions received from its investments.

Total look-through OCF/EBITDA financial measures – Look-through cash flows demonstrates growth and operational performance of the underlying businesses which produces distributions growth.

Total TransGrid other financial measures – The creation of long-term value accretion from the recent 2015 investment in TransGrid is a key priority.

Total Spark Infrastructure controllable costs – Disciplined management of Spark Infrastructure's costs is an area of continual focus to deliver value for Securityholders.

How this is measured – 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 STI THAT VESTS BASED ON SPARK INFRASTUCTURE FINANCIAL KPIs |
|---|---|
| Below threshold | 0% |
| Target | 70% |
| Exceed stretch target | 100% |

**Non-financial KPIs**

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.

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.

Optimising regulatory outcomes – is critical to the ongoing financial performance of the businesses which comprise Spark Infrastructure's investment portfolio.

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.

People development – 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.

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.

How this is measured – Non-Financial KPIs 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.

The weighting of these Spark Infrastructure financial KPIs and non-financial KPIs for each Executive in 2016 were as follows:

| POSITION | INDIVIDUAL WEIGHTING | | 2016 ACHIEVEMENT |
|---|---|---|---|
| | FINANCIAL KPIs | NON-FINANCIAL KPIs | NON-FINANCIAL KPIs |
| Managing Director | 60% | 40% | 75% |
| Chief Financial Officer | 60% | 40% | 80% |
| General Counsel / Company Secretary | 40% | 60% | 70% |

For a summary of overall 2016 STI outcomes, refer to section 2.1.

| | |
|---|---|
| Over what period are awards measured, and how are they delivered? | Performance is measured over Spark Infrastructure's financial year.<br><br>For Executives:<br>• 50% of any STI award is paid in cash in February following the year of assessment; and<br>• 50% is deferred evenly over the following two years, with half of the deferred portion vesting 12 months later, and the remainder vesting 24 months later (deferral periods).<br><br>The deferred STI component is delivered in the form of Rights at the end of the one-year performance period. At the end of the vesting period (i.e. an additional one or two years continuous service period following the performance period), Rights are automatically exercised and one stapled security is received for every Right that vests.<br><br>A dividend equivalent payment is also made upon vesting, and will be equal to the distributions the Executive would have been entitled to receive had they held the physical securities during the deferral period. |
| How is the deferred STI valued? | 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 relevant VWAP for determination of the 2017 Grant of Rights is $2.26. |

### 5.3.2 Historic STI deferral arrangements

For 2014, deferred STI awards are delivered under a cash-based "phantom" security plan. Executives are granted Notional Reference Securities that match the value of Spark Infrastructure's security price and have an initial value equivalent to the deferred STI outcome at the award date. They are not 'actual' securities and do not carry voting rights.

For deferred STI in 2014, a dividend equivalent payment is also made upon vesting, and will be equal to the distributions the Executive would have been entitled to receive had they held the securities during the deferral period.

For 2015, deferred STI awards were to be delivered under a cash-based "phantom" security plan. However in February 2016, Executives elected to take their deferred STI for 2015 as Rights in line with the arrangements outlined above.

For further detail regarding STI deferral awards 'on-foot' during 2016 (including the number of instruments granted), refer to section 10.1.

### 5.3.3 2016 long-term incentives

**KEY CHANGES IN 2016**

- While there were no changes to the structure of the LTI in 2016, the weighting on LTI increased for the MD and CFO from 20% to 24%, and 15% to 22% of total remuneration respectively

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

| | |
|---|---|
| What is the purpose of the LTI? | To align Executive reward with the long-term interests of Spark Infrastructure and its Securityholders, ensuring creation of sustainable Securityholder returns.<br>• To set performance hurdles that measure performance in terms of risk management as well as returns.<br>• To ensure that a significant portion of remuneration is "at risk". |
| What are the Executives' LTI opportunities? | The maximum LTI opportunity is expressed as a percentage of Fixed Remuneration. See section 5.2 for details. |
| What performance conditions apply to LTI awards? | Grants made in 2016 were subject to a risk adjusted TSR performance measure only, and will be assessed against the constituent companies in the S&P/ASX 200 index at the grant date (i.e. 1 January 2016). |
| Why have we chosen relative TSR? | Relative TSR allows us to measure whether we have achieved our key long-term strategic goals of delivering sustainable growth in distributions and creating Securityholder value.<br><br>The relative (rather than absolute) measurement of TSR provides Spark Infrastructure with a measure of how we are performing in comparison to the market. Where an absolute security price target is used, Executives could be rewarded by a rising market even if Spark Infrastructure performs relatively poorly.<br><br>Constituent companies of the S&P / ASX 200 form the most appropriate comparator group as there are too few companies with equivalent risk and return expectations to Spark Infrastructure. |

| | |
|---|---|
| Why do we adjust for risk in calculating 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's security. 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.<br><br>Traditional TSR does not to 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.<br><br>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.<br><br>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. |
| How is risk adjusted TSR calculated? | 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 its percentile ranking.<br><br>The Board views the constituents of the S&P/ASX 200 index, adjusted for risk, to be the most appropriate comparator group as this group should account for the investment preferences of our investors. |
| How is risk adjusted TSR measured? | 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% and100% |
| At or above the 75th percentile | 100% |

| | |
|---|---|
| | Testing of the award will occur shortly after the end of the performance period. If any LTI awards do not vest on testing, they will immediately lapse.<br><br>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/governance. |
| Over what period is performance assessed? | Risk adjusted TSR is assessed over four years (vesting period). For the additional two cash flow measures to be introduced for the LTI from the 2017 grant, a three-year testing period will apply with vesting at the end of four years. |
| 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 $2.26. |
| Is there any retesting of awards? | There is no retesting of LTI awards. |
| How are awards delivered? | LTI awards are delivered in the form of Rights. Executives receive one stapled 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. |

| | |
|---|---|
| What changes will be made to the LTI in 2017? | Two cash flow measures will apply to the assessment of performance under the LTI from the 2017 grant in addition to risk adjusted TSR. Spark Infrastructure will introduce Standalone OCF and Look-through OCF measures to the awards. The Board believes the inclusion of internal measures (i.e. cash flow measures) and an external measure (i.e. risk adjusted TSR) on the LTI provides the right focus for Executives on delivering long-term Securityholder value.<br><br>Standalone OCF and Look-through OCF were selected as the best measures among alternatives considered by the RemCo, as they:<br>• can be influenced by Executives by actively managing the cost, performance, capital expenditure and debt strategy of our investments;<br>• clearly demonstrate the performance of Spark Infrastructure; and<br>• 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.<br><br>The introduction of the new cash flow measures takes into consideration feedback from Securityholders and is intended to create the right balance between external measures and internal measures within the control of management. It is believed this will 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.<br><br>While the LTI performance period is four years, a three-year testing period for the OCF measures has been determined as appropriate. This allows smoothing of outcomes over the testing period in order to reduce volatility between and across regulatory periods.<br><br>Details of the assessment and vesting of the additional LTI hurdles will be included in the Notice of Meeting for the 2017 AGM as part of the resolution seeking approval for the Grant of Performance Rights to the MD. |

**5.4 Historic LTI arrangements**

Two LTI arrangements were 'on-foot' during 2016:

1. **LTI Transition Payment:** vesting of the LTI Transition Payment was subject to satisfaction of a risk-adjusted TSR hurdle, and occurred on 31 December 2016. Refer to section 2.2 for further detail.
2. **2014 LTI award:** granted as "phantom" equity unlike the 2015 and 2016 awards, which were delivered as Rights. The performance measure applied is the same as the 2015 and 2016 awards (i.e. risk adjusted TSR), as is the period over which it is measured (i.e. four years with vesting to occur on 31 December 2017).

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 2016 (including the number of instruments granted), refer to section 10.2.

**5.5 STI and LTI common features: Clawback, treatment of awards on cessation of employment and hedging**

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

| | |
|---|---|
| Can awards be reduced? | Clawback arrangements remain in place for Executives and the STI and/or LTI may be forfeited if an Executive:<br>• has personally acted fraudulently or dishonestly;<br>• has breached his or her material obligations to Spark Infrastructure; or<br>• receives remuneration as a result of the fraud, dishonesty or breach of obligation of another person.<br><br>Spark Infrastructure's clawback policy may be accessed at: www.sparkinfrastructure.com/about/governance. |

| | |
|---|---|
| What if an Executive ceases to be employed by Spark Infrastructure? | The treatment of Rights on termination of employment will vary based on assessment by the Board of the circumstances of termination.<br><br>If an Executive ceases employment with Spark Infrastructure prior to the end of the performance or deferral period by reason of resignation or termination for cause, all unvested Rights automatically lapse.<br><br>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.<br><br>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 actual 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.<br><br>This leaver provision enhances Spark Infrastructure's risk management by:<br>• encouraging retention;<br>• allowing discovery of any factors that could contribute to financial restatement that may result in forfeiture of reward;<br>• 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;<br>• encouraging the establishment and maintenance of a sound management legacy; and<br>• maintaining Securityholder alignment for a longer period. |
| Can Executives hedge their awards? | Executives are not permitted to hedge any equity grants. |

## 6. EXECUTIVE STATUTORY REMUNERATION (FOR THE YEARS ENDED 31 DECEMBER 2016 AND 31 DECEMBER 2015)

The following table shows the statutory total remuneration required to be disclosed for Executives in 2016 and 2015. These disclosures are calculated in accordance with the accounting standards and will therefore differ from the information presented in the 2016 actual remuneration received table in section 2.4 as the equity in this section is based on the amount expensed by the company over the vesting period, rather than the amount delivered to the Executive in the year.

| | | SHORT-TERM BENEFITS | | | POST-EMPLOYMENT | BENEFITS BASED ON SECURITIES | | | |
|---|---|---|---|---|---|---|---|---|---|
| | YEAR | CASH SALARY ($) | STI – CASH ($) | NON-MONETARY BENEFITS[1] ($) | SUPER-ANNUATION ($) | STI – RIGHTS[2] ($) | LTI ($) | LTI TRANSITION PAYMENT ($) | TOTAL ($) |
| Rick Francis | 2016 | 792,000 | 382,615 | 23,160 | 25,000 | 270,774 | 403,919 | 210,000 | 2,107,468 |
| | 2015 | 775,709 | 601,010 | 18,442 | 25,000 | – | 52,318 | 210,000 | 1,682,479 |
| Greg Botham | 2016 | 520,538 | 206,170 | 6,500 | 19,462 | 148,479 | 171,024 | 108,000 | 1,180,173 |
| | 2015 | 463,663 | 324,398 | 5,730 | 19,046 | – | 15,236 | 108,000 | 936,073 |
| Alexandra Finley | 2016 | 390,538 | 124,679 | 10,647 | 19,462 | 85,556 | 99,482 | 59,430 | 789,794 |
| | 2015 | 350,483 | 180,215 | 8,929 | 19,046 | – | 10,037 | 59,430 | 628,140 |
| TOTAL | 2016 | 1,703,076 | 713,464 | 40,307 | 63,924 | 504,809 | 674,425 | 377,430 | 4,077,435 |
| | 2015 | 1,589,855 | 1,105,623 | 33,101 | 63,092 | – | 77,591 | 377,430 | 3,246,692 |

(1) Non-monetary benefits include life and income protection insurances and any other incidental benefits.
(2) Represents the component of the STI which is deferred in Rights. During 2016 Executives elected to take their deferred STI for 2015 as Rights.

## 7. EMPLOYMENT CONTRACT KEY TERMS

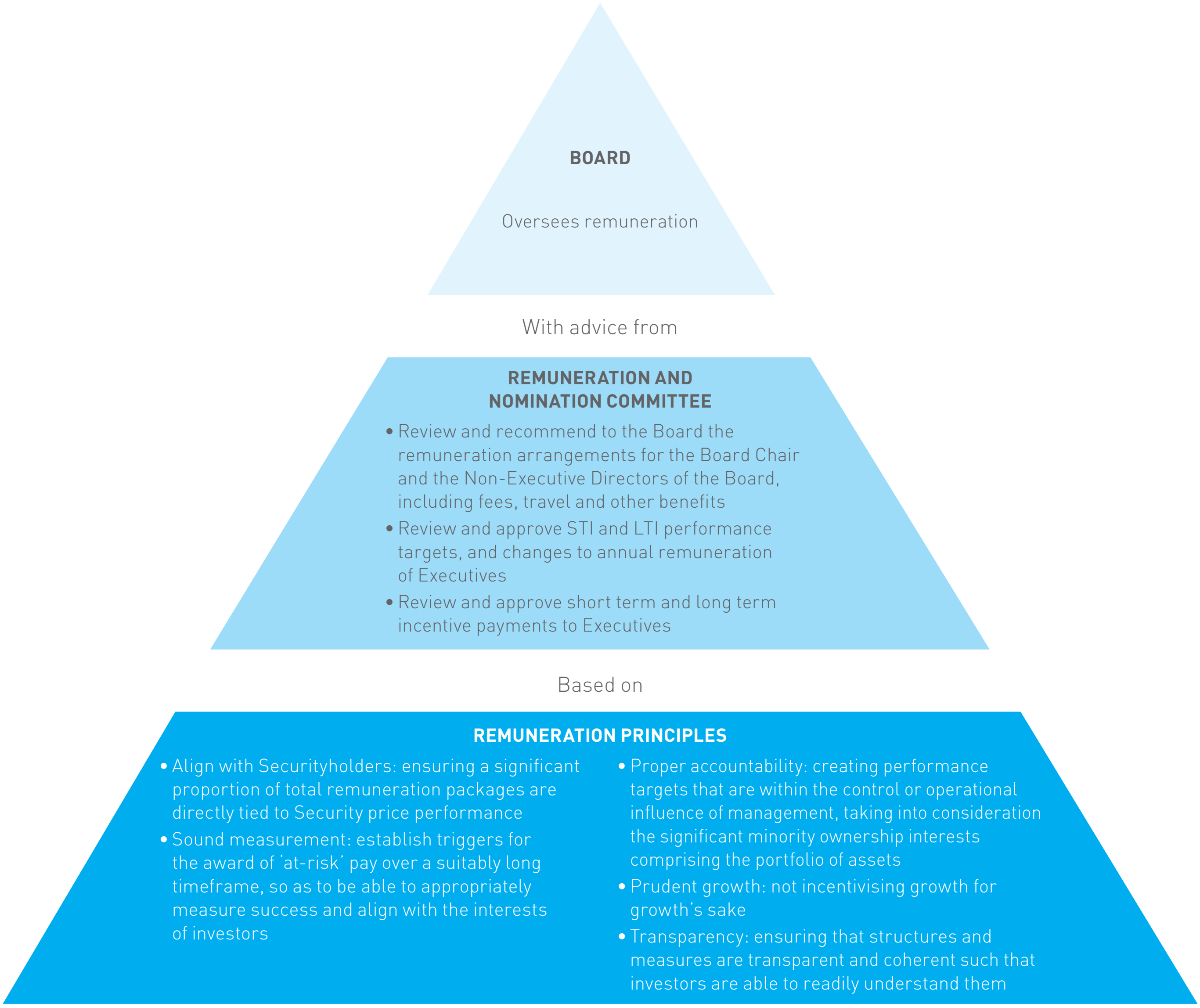
Each Executive, including the MD, has a formal employment agreement. These employment agreements are of a continuing nature and have no fixed term of service. There were no changes to the employment agreements for the Executives in 2016.

The key terms of the employment agreements for the MD and other Executives 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. REMUNERATION GOVERNANCE

The Board, RemCo, external advisors and management work together closely 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 remuneration decision making framework.




The composition of the RemCo is set out on page 22 of this Annual Report. Further information on the RemCo's role, responsibilities and membership can be viewed at www.sparkinfrastructure.com/about/governance.

### 8.1 Use of remuneration advisors

The RemCo appointed Ernst & Young ("EY") as its external remuneration advisor during 2016. EY provided both information on current market practice and independent input into key remuneration decisions.

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 2016, EY provided the RemCo with:

- Market remuneration information; and
- Assistance with the development of changes to the remuneration framework.

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

### 8.2 Security Trading Policy

Spark Infrastructure Securities Trading Policy applies to all KMP. The policy 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/governance.

## 9. NON-EXECUTIVE DIRECTOR FEES

### 9.1 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 fees for Executives, fees for NEDs are fixed and not linked to performance. However, all current 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 for 2016. The "bundling" of fees replaces the historic fee arrangement whereby the Board Chair received separate Board Chair and committee fees, and is consistent with market practice;
- 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
- In addition, NEDs may be appointed to special purpose committees established from time to time (e.g. the Due Diligence Committee was established in 2015 for the purposes of the TransGrid transaction and associated equity raise).

In exceptional circumstances (such as in the case of the TransGrid transaction), 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. These special purpose committee membership fees are determined by the Board.

### 9.2 Schedule of fees

The schedule of fees for NEDs during 2016 is set out in the table below.

| ROLE | 2016 AND 2017 FEE[1] ($) | 2015 FEE ($) |
|---|---|---|
| Board Chair | 296,750[2] | 268,000 |
| Non-Executive Director | 127,000 | 122,000 |
| Audit, Risk and Compliance Committee Chair | 39,000 | 37,500 |
| Audit, Risk and Compliance Committee member | 19,500 | 19,000 |
| Nomination and Remuneration Committee Chair | 33,500 | 32,000 |
| Nomination and Remuneration Committee member | 16,750 | 16,000 |

(1) In 2015 the Board determined to increase NED fees (with effect from 1 January 2016) by approximately 4% to maintain alignment with market standards. NED fees will not increase in 2017.

(2) The Board Chair fee is inclusive of fees for committee membership and will be presented as one figure going forward. The "bundling" of fees recognises the legacy fee arrangement whereby the Board Chair previously received separate Board and committee fees.

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 for 2017 from 2016.

### 9.3 Actual Remuneration of Spark Infrastructure NEDs

The annual fees payable to NEDs (inclusive of statutory superannuation) for 2016 and 2015 were:

| | | SHORT-TERM BENEFITS | POST-EMPLOYMENT | |
|---|---|---|---|---|
| | YEAR | CASH SALARY AND FEES ($) | SUPER-ANNUATION CONTRI-BUTION[1] ($) | TOTAL ($) |
| **Current Non-Executive Directors** | | | | |
| Douglas McTaggart[2] | 2016 | 213,612 | 16,837 | 230,449 |
| | 2015 | 6,661 | 633 | 7,294 |
| Andrew Fay[3] | 2016 | 133,790 | 12,710 | 146,500 |
| | 2015 | 166,758 | 15,842 | 182,600 |
| Anne McDonald | 2016 | 166,895 | 15,855 | 182,750 |
| | 2015 | 160,274 | 15,226 | 175,500 |
| Christine McLoughlin | 2016 | 146,575 | 13,925 | 160,500 |
| | 2015 | 134,551 | 12,782 | 147,333 |
| Karen Penrose[3] | 2016 | 133,790 | 12,710 | 146,500 |
| | 2015 | 166,758 | 15,842 | 182,600 |
| Keith Turner[3] | 2016 | 143,750 | – | 143,750 |
| | 2015 | 150,800 | – | 150,800 |
| **Retired Non-Executive Directors** | | | | |
| Brian Scullin[2] | 2016 | 106,484 | 8,354 | 114,838 |
| | 2015 | 271,621 | 19,046 | 290,667 |
| Cheryl Bart[2] | 2016 | – | – | – |
| | 2015 | 50,587 | 4,806 | 55,393 |
| TOTAL | 2016 | 1,044,896 | 80,391 | 1,125,287 |
| | 2015 | 1,108,010 | 84,177 | 1,192,187 |

(1) Contributions to personal superannuation on behalf of NEDs are deducted from their overall fee entitlements.
(2) Dr McTaggart was appointed on 11 December 2015 and appointed Chair on 20 May 2016, Mr Scullin retired on 20 May 2016 and Ms Bart retired on 22 May 2015. The amounts included for Dr McTaggart, Mr Scullin and Ms Bart represent payments made or payable relating to the period during which they were NEDs.
(3) 2015 fees for Mr Fay and Ms Penrose are inclusive of the $3,200 per meeting payment received as members of the Due Diligence Committee.

#### Investment Portfolio Board Fees

A number of NEDs are also directors on the Boards of Spark Infrastructure's asset businesses: SA Power Networks, Victoria Power Networks and TransGrid (the "Investment Portfolio Boards") and are entitled to receive fees separate to those paid for their role as NEDs of Spark Infrastructure.

Set out below are details regarding Investment Portfolio Board fees for the relevant Spark Infrastructure NEDs in 2016:

*TransGrid*

Keith Turner – Non-Executive Director ($90,000) and Chair of TransGrid Environmental Health and Safety Committee ($7,500)

*SA Power Networks*

Andrew Fay – Non-Executive Director ($75,000), Chair of Audit Committee ($15,000), Member of Risk Management and Compliance Committee ($10,000) and Member of Remuneration Committee ($10,000)

Keith Turner – Non-Executive Director ($75,000)

*Victoria Power Networks*

Anne McDonald – Non-Executive Director ($75,000), Chair of Audit Committee ($15,000), Member of Risk Management and Compliance Committee ($10,000)

Andrew Fay – Non-Executive Director ($75,000) and Member of Remuneration Committee ($10,000)

Keith Turner – Non-Executive Director ($75,000)

Dr Turner will retire from the Spark Board in 2017 after a tenure of eight years, but will remain as an independent nominee director of the Boards of TransGrid, SA Power Networks and Victoria Power Networks.

Directors on the Investment Portfolio Boards 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 the Investment Portfolio Boards are to compensate for those separate additional responsibilities.

NED representation on these Boards reflects Spark Infrastructure's role in overseeing and controlling the governance of its asset businesses, and facilitates a two way flow of information and expertise. This is important to Spark Infrastructure as a key strategic driver is the active management and governance of our asset businesses. NED representation on the Investment Portfolio Boards helps ensure Spark Infrastructure:

- maintains its portfolio of concentrated significant minority interests, and the ability to influence outcomes and drive performance;
- continues to have an active role in driving performance from the asset level management teams; and
- has an experienced team of executives with deep knowledge of the regulation of network assets in Australia and demonstrated expertise in improving productivity and cost efficiency.

In 2016, Investment Portfolio Board director fees were determined and paid for by SA Power Networks and Victoria Power Networks to the relevant Spark Infrastructure NEDs. Note the Spark Infrastructure MD and CFO were both directors on the SA Power Networks and Victoria Power Networks boards in 2016. However, fees for their services were paid to Spark Infrastructure.

TransGrid compensates Spark Infrastructure for services provided to the TransGrid board, which Spark Infrastructure distributes to the Spark Infrastructure NEDs who are also TransGrid board members, with any residual remaining with Spark Infrastructure. The MD was also a TransGrid board member, but did not receive any fees in respect of this position in 2016.

For the avoidance of doubt, director fees for Investment Portfolio Boards do not form part of the aggregate fee limit for Spark Infrastructure.

## 10. ADDITIONAL REQUIRED DISCLOSURES

### 10.1 Deferred STI

STI deferral was first applied to STI awards granted in 2014, and has continued to be applied to STI awards in 2015 and 2016. For 2014 STI awards, the deferred component is to be delivered in the form of 'Notional Reference Securities' under the cash-based "phantom" security plan. For 2015 and 2016 STI awards, the deferred component will be delivered in the form of Rights. Refer to 2014 and 2015 Remuneration Reports and section 5.3.1 for detail regarding deferred STI.

Shown below are the number of instruments received under the deferred STI arrangement for 2014, 2015 and 2016, the year in which the instruments may vest, and the expense recognised.

| AT 31 DECEMBER 2016 | GRANT DATE | REFERENCE YEAR | NUMBER OF RIGHTS / REFERENCE SECURITIES GRANTED (NO.) | OPENING VWAP AT GRANT DATE ($) | AMOUNT PAYABLE / FAIR VALUE ($) | DEFERRED STI EXPENSE IN 2016 ($) | VESTING DATE |
|---|---|---|---|---|---|---|---|
| Rick Francis | 1 January 2015 | 2014 | 70,622 | 1.97 | 177,261 | 78,691 | 31 December 2016 |
| | 1 January 2016 | 2015 | 87,292 | 1.92 | 167,601 | 86,483 | 31 December 2016 |
| | 1 January 2016 | 2015 | 87,292 | 1.92 | 111,734 | 57,656 | 31 December 2017 |
| | 1 January 2017 | 2016 | 67,240 | 2.26 | 75,981 | 75,981 | 31 December 2017 |
| | 1 January 2017 | 2016 | 67,240 | 2.26 | 50,654 | 50,654 | 31 December 2018 |
| **Total** | | | **379,686** | | **583,231** | **349,465** | |
| Greg Botham[1] | 1 January 2015 | 2014 | 36,914 | 1.97 | 92,654 | 41,146 | 31 December 2016 |
| | 1 January 2016 | 2015 | 47,513 | 1.92 | 91,225 | 47,831 | 31 December 2016 |
| | 1 January 2016 | 2015 | 47,513[1] | 1.92 | 60,817 | 31,888 | 31 December 2017 |
| | 1 January 2017 | 2016 | 36,510[1] | 2.26 | 41,256 | 41,256 | 31 December 2017 |
| | 1 January 2017 | 2016 | 36,510[1] | 2.26 | 27,504 | 27,504 | 31 December 2018 |
| **Total** | | | **204,960** | | **313,456** | **189,625** | |
| Alexandra Finley | 1 January 2015 | 2014 | 19,684 | 1.97 | 49,407 | 21,933 | 31 December 2016 |
| | 1 January 2016 | 2015 | 26,667 | 1.92 | 51,201 | 25,647 | 31 December 2016 |
| | 1 January 2016 | 2015 | 26,667 | 1.92 | 34,134 | 17,098 | 31 December 2017 |
| | 1 January 2017 | 2016 | 22,731 | 2.26 | 25,687 | 25,687 | 31 December 2017 |
| | 1 January 2017 | 2016 | 22,731 | 2.26 | 17,124 | 17,124 | 31 December 2018 |
| **Total** | | | **118,480** | | **177,553** | **107,489** | |

(1) The CFO resigned in February 2017. Accordingly, the CFO's unvested rights at 31 December 2016 will lapse.

### 10.2 Long Term Incentives

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 performance condition is 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.

| 2016 | GRANT DATE | NUMBER OF RIGHTS / REFERENCE SECURITIES GRANTED (NO.) | OPENING VWAP / FAIR VALUE AT GRANT DATE ($) | NOTIONAL TSR ACHIEVEMENT (%) | CLOSING VWAP ($) | AMOUNT PAYABLE / FAIR VALUE ($) | LTI EXPENSE IN 2016 ($) | VESTING DATE |
|---|---|---|---|---|---|---|---|---|
| Rick Francis | 1 January 2014[1] | 220,126 | 1.59 | 100% | 2.26 | 577,280 | 244,671 | 31 December 2017 |
| | 1 January 2015[2] | 198,985 | 1.70 | N/A | N/A | 338,275 | 84,569 | 31 December 2018 |
| | 1 January 2016[2] | 276,589 | 1.08 | N/A | N/A | 298,716 | 74,679 | 31 December 2019 |
| **TOTAL** | | | | | | | **403,919** | |
| Greg Botham[3] | 1 January 2014[1] | 88,050[3] | 1.59 | 100% | 2.26 | 230,911 | 97,868 | 31 December 2017 |
| | 1 January 2015[2] | 82,792[3] | 1.70 | N/A | N/A | 140,746 | 35,187 | 31 December 2018 |
| | 1 January 2016[2] | 140,625[3] | 1.08 | N/A | N/A | 151,875 | 37,969 | 31 December 2019 |
| **TOTAL** | | | | | | | **171,024** | |
| Alexandra Finley | 1 January 2014[1] | 53,396 | 1.59 | 100% | 2.26 | 140,031 | 59,350 | 31 December 2017 |
| | 1 January 2015[2] | 53,729 | 1.70 | N/A | N/A | 91,339 | 22,835 | 31 December 2018 |
| | 1 January 2016[2] | 64,063 | 1.08 | N/A | N/A | 69,188 | 17,297 | 31 December 2019 |
| **TOTAL** | | | | | | | **99,482** | |

(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) The CFO resigned in February 2017. Accordingly, all of the CFO's unvested LTI Rights will lapse.

### 10.3 Movements in Rights during 2016

The movement in the number of Rights for Executives during the year is set out below.

| | BALANCE AT 1 JANUARY 2016 (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[2] (NO.) | BALANCE AT 31 DECEMBER 2016 (NO.) |
|---|---|---|---|---|---|---|---|---|---|
| Rick Francis | 198,985 | 451,173 | 578,051 | – | – | – | – | – | 650,158 |
| Greg Botham | 82,792 | 235,651 | 303,917 | – | – | – | – | – | 318,443 |
| Alexandra Finley | 53,729 | 117,397 | 154,522 | – | – | – | – | – | 171,126 |
| **TOTAL** | **335,506** | **804,221** | **1,036,490** | **–** | **–** | **–** | **–** | **–** | **1,139,727** |

(1) The fair value of LTI Rights granted to Executives on 1 January 2016 is set out in the table at 10.2 and the fair value of STI Rights is set out in the table at 10.1.

(2) Executives receive 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.

### 10.4 Equity instrument disclosures relating to Executives

The table below details the Spark Infrastructure stapled securities in which Executives held relevant interests in 2016.

| 2016 | OPENING BALANCE 1 JANUARY 2016 (NO.) | NET MOVEMENT ACQUIRED / (DISPOSED) (NO.) | CLOSING BALANCE 31 DECEMBER 2016 (NO.) |
|---|---|---|---|
| Rick Francis | 23,942 | – | 23,942 |
| Greg Botham | – | – | – |
| Alexandra Finley | – | – | – |

From 2017, the MD will be required to hold the equivalent of 100% of Fixed Remuneration in Securities, and will be required to do so within a three-year period. For other KMP, the requirement will be 50% of Fixed Remuneration in Securities, and will be required to do so within a three-year period. The Table at Section 2.5 shows the beneficial interests in securities held by Executives as at 31 December 2016.

### 10.5 Equity instrument disclosures relating to Non-Executive Directors

The relevant interest of each NED of Spark Infrastructure for the Financial Year is as follows:

| 2016 | OPENING BALANCE 1 JANUARY 2016 (NO.) | NET MOVEMENT ACQUIRED / (DISPOSED) (NO.) | CLOSING BALANCE 31 DECEMBER 2016 (NO.) |
|---|---|---|---|
| Douglas McTaggart | 50,000 | 70,000 | 120,000 |
| Andrew Fay | 68,590 | 120,000 | 188,590 |
| Anne McDonald | 61,000 | – | 61,000 |
| Christine McLoughlin | 51,766 | 15,000 | 66,766 |
| Karen Penrose | 38,824 | 11,176 | 50,000 |
| Keith Turner | 75,706 | – | 75,706 |

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. It is intended that this Securityholding requirement will apply throughout tenure of directorship.

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

**R Francis**
Managing Director

Sydney

# AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Spark Infrastructure RE Limited
as responsible entity of Spark Infrastructure Trust
Level 25, 259 George St
SYDNEY NSW 2000

27 February 2017

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 2016, 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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants

# DIRECTORS' DECLARATION

27 February 2017

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
27 February 2017

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the Financial Year Ended 31 December 2016

| | NOTES | YEAR ENDED 31 DEC 2016 $'000 | YEAR ENDED 31 DEC 2015 $'000 |
|---|---|---|---|
| Income from associates: | | | |
| – Share of equity profits | 6 (c) | 145,290 | 161,465 |
| – Interest income | 3 (a) | 91,623 | 81,512 |
| | | 236,913 | 242,977 |
| Gain on derivative contracts | | 5,772 | 24,295 |
| Other income – interest | | 1,230 | 3,333 |
| | | 243,915 | 270,605 |
| Interest expense – other | 3 (b) | (4,554) | (3,589) |
| General and administrative expenses | 3 (c) | (13,545) | (14,196) |
| **Profit before Income Tax and Loan Note Interest** | | 225,816 | 252,820 |
| Interest expense – Loan Notes | | (118,582) | (111,034) |
| **Profit before Income Tax Attributable to Securityholders** | | 107,234 | 141,786 |
| Income tax expense | 4 (a) | (26,151) | (53,762) |
| **Net Profit after Income Tax Attributable to Securityholders** | | 81,083 | 88,024 |
| OTHER COMPREHENSIVE INCOME: | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| – Share of associates' actuarial gain on defined benefit plans | 13 | 5,891 | 33,435 |
| Items that may be reclassified subsequently to profit or loss: | | | |
| – Share of associates' (loss)/gain on hedges | 12 | (2,050) | 17,763 |
| Income tax expense related to components of other comprehensive income | | (700) | (16,575) |
| Other comprehensive income for the Financial Year | | 3,141 | 34,623 |
| **Total Comprehensive Income for the Financial Year Attributable to Securityholders** | | 84,224 | 122,647 |
| EARNINGS PER SECURITY | | | |
| Weighted average number of stapled securities (No'000) | 15 | 1,682,011 | 1,478,695 |
| Profit before income tax and Loan Note interest ($'000) | | 225,816 | 252,820 |
| Basic earnings per security before income tax and Loan Note interest (cents) | 15 | 13.43¢ | 17.10¢ |
| Earnings used to calculate earnings per security ($'000) | | 81,083 | 88,024 |
| Basic earnings per security based on net profit attributable to Securityholders (cents) | 15 | 4.82¢ | 5.95¢ |

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

Notes to the financial statements are included on pages 44 – 66.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

| | NOTES | 31 DEC 2016 $'000 | 31 DEC 2015 $'000 |
|---|---|---|---|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 22 (a) | 100,985 | 18,284 |
| Receivables from associates | 5 | 8,512 | 10,578 |
| Other financial assets | | – | 1,748 |
| Other current assets | | 2,154 | 811 |
| **Total Current Assets** | | 111,651 | 31,421 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 126 | 147 |
| Investments in associates: | | | |
| – Investments accounted for using the equity method | 6 (d) | 2,494,712 | 2,495,256 |
| – Loans to associates | 7 | 680,627 | 745,601 |
| – Loan notes to associates | 8 | 237,444 | 237,444 |
| Other financial assets | | – | 214,369 |
| **Total Non-Current Assets** | | 3,412,909 | 3,692,817 |
| **Total Assets** | | 3,524,560 | 3,724,238 |
| CURRENT LIABILITIES | | | |
| Payables | | 3,448 | 6,822 |
| Loan Note interest payable to Securityholders | | 59,711 | 59,711 |
| **Total Current Liabilities** | | 63,159 | 66,533 |
| NON-CURRENT LIABILITIES | | | |
| Payables | | 1,226 | 1,907 |
| Loan Notes attributable to Securityholders | 9 | 1,061,724 | 1,061,704 |
| Interest bearing liabilities | 10 | – | 203,422 |
| Deferred tax liabilities | 4 (c) | 261,167 | 234,317 |
| **Total Non-Current Liabilities** | | 1,324,117 | 1,501,350 |
| **Total Liabilities** | | 1,387,276 | 1,567,883 |
| **Net Assets** | | 2,137,284 | 2,156,355 |
| EQUITY | | | |
| Equity attributable to Parent Entity | | | |
| – Issued capital | 11 | 1,199,119 | 1,303,404 |
| – Reserves | 12 | (18,231) | (17,404) |
| – Retained earnings | 13 | 956,396 | 870,355 |
| **Total Equity** | | 2,137,284 | 2,156,355 |
| TOTAL EQUITY ATTRIBUTABLE TO SECURITYHOLDERS IS AS FOLLOWS: | | | |
| **Total Equity** | | 2,137,284 | 2,156,355 |
| **Loan Notes attributable to Securityholders** | | 1,061,724 | 1,061,704 |
| **Total Equity and Loan Notes** | | 3,199,008 | 3,218,059 |

Notes to the financial statements are included on pages 44 – 66.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the Financial Year Ended 31 December 2016

| | NOTES | ISSUED CAPITAL $'000 | RESERVES $'000 | RETAINED EARNINGS $'000 | TOTAL $'000 |
|---|---|---|---|---|---|
| **2015** | | | | | |
| Balance at 1 January 2015 | | 1,115,263 | (28,622) | 758,927 | 1,845,568 |
| Net profit for the Financial Year | | – | – | 88,024 | 88,024 |
| Other comprehensive income for the year, net of income tax | 12,13 | – | 11,218 | 23,404 | 34,622 |
| **Total comprehensive income for the Financial Year** | | – | 11,218 | 111,428 | 122,646 |
| Capital distributions | 11 | (68,919) | – | – | (68,919) |
| Contributions of equity (net of issue costs) | 11 | 257,060 | – | – | 257,060 |
| Balance at 31 December 2015 | | 1,303,404 | (17,404) | 870,355 | 2,156,355 |
| **2016** | | | | | |
| Balance at 1 January 2016 | | 1,303,404 | (17,404) | 870,355 | 2,156,355 |
| Net profit for the Financial Year | | – | – | 81,083 | 81,083 |
| Other comprehensive income for the year, net of income tax | 12,13 | – | (1,817) | 4,958 | 3,141 |
| **Total comprehensive income for the Financial Year** | | – | (1,817) | 86,041 | 84,224 |
| Recognition of share-based payments | 12 | – | 990 | – | 990 |
| Capital distributions | 11 | (104,285) | – | – | (104,285) |
| Balance at 31 December 2016 | | 1,199,119 | (18,231) | 956,396 | 2,137,284 |

Notes to the financial statements are included on pages 44 – 66.

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the Financial Year Ended 31 December 2016

| | NOTES | YEAR ENDED 31 DEC 2016 $'000 | YEAR ENDED 31 DEC 2015 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Distributions from associates – preferred partnership capital | 2 | 69,826 | 69,635 |
| Distributions from associates – other | 2 | 79,848 | 44,590 |
| Interest received from associates | 2 | 93,689 | 82,228 |
| Distributions from derivative contracts | | 22,952 | 32,535 |
| Finance costs paid on derivative contracts | | (7,743) | (10,062) |
| Interest received – other | | 1,061 | 3,794 |
| Interest paid – other | | (4,375) | (2,680) |
| Other expenses | | (14,608) | (12,690) |
| **Net Cash Inflow Related to Operating Activities** | 22 (c) | 240,650 | 207,350 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | – | (31) |
| Repayment of borrowings by associates | 2 | 64,974 | – |
| Proceeds from divestment of derivative contracts | | 210,708 | – |
| Transaction costs paid on derivative contracts | | (4,031) | (3,841) |
| Loan notes advanced to NSW Electricity Networks Operations Holdings Trust | | – | (237,444) |
| Subscription for units in NSW Electricity Networks Assets Holdings Trust | | – | (344,498) |
| Subscription for units in NSW Electricity Networks Operations Holdings Trust | | – | (153,342) |
| **Net Cash Inflow/(Outflow) Related to Investing Activities** | | 271,651 | (739,156) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of stapled securities | | – | 405,424 |
| Payment of issue costs | | (1,733) | (10,868) |
| Drawdown of external borrowings | | 15,000 | 205,000 |
| Repayment of external borrowings | | (220,000) | – |
| Payment of external borrowing costs | | – | (1,604) |
| Distributions to Securityholders: | | | |
| – Loan Note interest | | (118,582) | (103,378) |
| – Capital distributions | | (104,285) | (68,919) |
| **Net Cash (Outflow)/Inflow Related to Financing Activities** | | (429,600) | 425,655 |
| **Net Increase/(Decrease) in Cash and Cash Equivalents for the Current Year** | | 82,701 | (106,151) |
| Cash and cash equivalents at beginning of the Current Year | | 18,284 | 124,435 |
| **Cash and Cash Equivalents at end of the Current Year** | 22 (a) | 100,985 | 18,284 |

Notes to the financial statements are included on pages 44 – 66.

# NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2016

## 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 24, 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 27 February 2017.

### New and revised standards and interpretations

**Standards and Interpretations affecting amounts reported in the Current 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 2015–1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle | Amends a number of pronouncements as a result of the IASB's 2012–2014 annual improvements cycle.<br><br>Key amendments include:<br>AASB 5 – Change in methods of disposal;<br>AASB 7 – Servicing contracts and applicability of the amendments to AASB 7 to condensed interim financial statements;<br>AASB 119 – Discount rate: regional market issue; and<br>AASB 134 – Disclosure of information 'elsewhere in the interim financial report'. |
| AASB 2015–2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 | Amends AASB 101 *Presentation of Financial Statements* to provide clarification regarding the disclosure requirements in AASB 101. Includes narrow-focus amendments to address concerns about existing presentation and disclosure requirements and to ensure entities are able to use judgements when applying a Standard in determining what information to disclose in their financial statements. |
| AASB 2015–3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 *Materiality* | Completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn. |

**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 |
|---|---|---|
| AASB 2016–1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses | 1 January 2017 | 31 December 2017 |
| AASB 2016–2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 | 1 January 2017 | 31 December 2017 |
| AASB 2016–5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions | 1 January 2018 | 31 December 2018 |
| AASB 9 *Financial Instruments* (December 2014), AASB 2014–7 'Amendments to Australian Accounting Standards arising from AASB 9' (December 2014) | 1 January 2018 | 31 December 2018 |
| AASB 15 *Revenue from Contracts with Customers* and AASB 2014–5 'Amendments to Australian Accounting Standards arising from AASB 15' | 1 January 2018 | 31 December 2018 |
| AASB 16 *Leases* | 1 January 2019 | 31 December 2019 |

The Directors anticipate that the above standards and interpretations will not have a direct material impact on the financial report of the Group in the year of initial application.

**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 2016. 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.

## 1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

### (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.

*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.

*Cash Settled Long Term and Deferred Incentives*

For long term and deferred 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 the 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 the 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.

## 1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

### (k) Income Tax continued

*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.

### (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 the 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 gain control of the cash contribution or asset. Fair value is based on the regulatory return expected to be derived from the regulatory asset base ("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, CitiPower and Powercor in Victoria (combined businesses referred to as Victoria Power Networks) and SA Power Networks in South Australia.

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.

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/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).

- *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 (the "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 would be 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 would be 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*.

The Directors consider the Australian Competition Tribunal's upholding of the AER's Final Determination for SA Power Networks as a potential indicator of impairment. Accordingly, fair value less costs to sell calculations were used to assess Spark Infrastructure's investment in SA Power Networks to confirm that its carrying value did do not exceed its recoverable value.

The Directors are satisfied that there is no indication that either Victoria Power Networks or TransGrid have suffered an impairment loss.

- *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.

## 1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

### (q) Critical Accounting Estimates and Judgements continued

- *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 forseeable future. As at 31 December 2016 (2015: 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.

## 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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015[(1)] $'000 | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 |
| **SEGMENT CASHFLOWS** | | | | | | | | | | |
| Distributions from associates – preferred partnership capital | – | – | 69,826 | 69,635 | – | – | – | – | 69,826 | 69,635 |
| Distributions from associates – other | – | – | 49,490 | 44,590 | 30,358 | – | – | – | 79,848 | 44,590 |
| Interest received from associates | 79,577 | 82,228 | – | – | 14,112 | – | – | – | 93,689 | 82,228 |
| Repayment of borrowings by associates[(2)] | 64,974 | – | – | – | – | – | – | – | 64,974 | – |
| Net cashflow from derivative contracts | – | – | – | – | – | – | 15,209 | 22,473 | 15,209 | 22,473 |
| **Total Segment Cashflows** | 144,551 | 82,228 | 119,316 | 114,225 | 44,470 | – | 15,209 | 22,473 | 323,546 | 218,926 |
| Net interest (paid)/received | | | | | | | | | (3,314) | 1,114 |
| Corporate costs | | | | | | | | | (14,608) | (12,690) |
| **Total Operating Cashflows[(2)]** | | | | | | | | | 305,624 | 207,350 |

(1) TransGrid results reflect the period from acquisition on 16 December 2015 – 31 December 2015.

(2) Victoria Power Network distributions for 2016 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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015[1] $'000 | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 |
| **SEGMENT REVENUE** | | | | | | | | | | |
| Share of equity accounted profits | 43,774 | 16,154 | 98,171 | 146,141 | 3,345 | (830) | – | – | 145,290 | 161,465 |
| Interest income – associates | 78,125 | 80,898 | – | – | 13,498 | 614 | – | – | 91,623 | 81,512 |
| Gain on derivative contracts | – | – | – | – | – | – | 5,772 | 24,295 | 5,772 | 24,295 |
| Segment revenue | 121,899 | 97,052 | 98,171 | 146,141 | 16,843 | (216) | 5,772 | 24,295 | 242,685 | 267,272 |
| Interest revenue | | | | | | | | | 1,230 | 3,333 |
| **Total Revenue** | | | | | | | | | 243,915 | 270,605 |
| **SEGMENT RESULTS** | | | | | | | | | | |
| Segment contribution | 121,899 | 97,052 | 98,171 | 146,141 | 16,843 | (216) | 5,772 | 24,295 | 242,685 | 267,272 |
| Net interest expense | | | | | | | | | (3,324) | (256) |
| Corporate costs | | | | | | | | | (13,545) | (14,196) |
| Profit for the year before Loan Note interest and income tax expense | | | | | | | | | 225,816 | 252,820 |
| Interest on Loan Notes | | | | | | | | | (118,582) | (111,034) |
| Income tax expense | | | | | | | | | (26,151) | (53,762) |
| **Net Profit attributable to Securityholders** | | | | | | | | | 81,083 | 88,024 |

(1) TransGrid results reflect the period from acquisition on 16 December 2015 – 31 December 2015.

| | VICTORIA POWER NETWORKS | | SA POWER NETWORKS | | TRANSGRID | | OTHER | | TOTAL | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 |
| **SEGMENT ASSETS** | | | | | | | | | | |
| Investments accounted for using the equity method | 420,285 | 369,917 | 1,606,976 | 1,632,382 | 467,451 | 492,957 | – | – | 2,494,712 | 2,495,256 |
| Loans to associates | 680,627 | 745,601 | – | – | – | – | – | – | 680,627 | 745,601 |
| Loan notes to associates | – | – | – | – | 237,444 | 237,444 | – | – | 237,444 | 237,444 |
| Receivables from associates | 8,512 | 9,964 | – | – | – | 614 | – | – | 8,512 | 10,578 |
| Other financial assets | – | – | – | – | – | – | – | 216,117 | – | 216,117 |
| **Total Segment Assets** | 1,109,424 | 1,125,482 | 1,606,976 | 1,632,382 | 704,895 | 731,015 | – | 216,117 | 3,421,295 | 3,704,996 |
| **UNALLOCATED ASSETS** | | | | | | | | | | |
| Cash and cash equivalents | | | | | | | | | 100,985 | 18,284 |
| Other current assets | | | | | | | | | 2,154 | 811 |
| Property, plant and equipment | | | | | | | | | 126 | 147 |
| **Total Assets** | | | | | | | | | 3,524,560 | 3,724,238 |
| **UNALLOCATED LIABILITIES** | | | | | | | | | | |
| Loan Notes attributable to Securityholders | | | | | | | | | 1,061,724 | 1,061,704 |
| Interest bearing liabilities | | | | | | | | | – | 203,422 |
| Other liabilities | | | | | | | | | 64,385 | 68,440 |
| Deferred tax liabilities | | | | | | | | | 261,167 | 234,317 |
| **Total Liabilities** | | | | | | | | | 1,387,276 | 1,567,883 |

## 3. PROFIT FOR THE FINANCIAL YEAR

| | YEAR ENDED 31 DEC 2016 $'000 | YEAR ENDED 31 DEC 2015 $'000 |
|---|---|---|
| **(a) Income** | | |
| Income from associates: | | |
| – Share of equity accounted profits | 145,290 | 161,465 |
| – Interest income | 91,623 | 81,512 |
| | 236,913 | 242,977 |
| **(b) Expenses** | | |
| Interest expense – other: | | |
| – Interest costs and other associated costs of senior debt | 4,554 | 3,589 |
| **(c) General and Administrative Expenses** | | |
| Staff costs – salaries and short term benefits | 2,980 | 2,600 |
| Staff costs – post employment benefits | 161 | 142 |
| Staff costs – incentives | 2,700 | 1,466 |
| Total staff costs | 5,841 | 4,208 |
| Directors' fees – short term benefits | 1,045 | 1,108 |
| Directors' fees – post employment benefits | 80 | 84 |
| Depreciation | 62 | 71 |
| Costs associated with investing activities | 2,193 | 5,334 |
| Other expenses | 4,324 | 3,391 |
| | 13,545 | 14,196 |

## 4. INCOME TAXES

| | YEAR ENDED 31 DEC 2016 $'000 | YEAR ENDED 31 DEC 2015 $'000 |
|---|---|---|
| CURRENT TAX | | |
| Current tax expense in respect of the Current Year | (241) | (28,789) |
| Adjustments recognised in relation to current tax in prior years[1] | (104,168) | – |
| | (104,409) | (28,789) |
| DEFERRED TAX | | |
| Deferred tax expense recognised in the Current Year | (25,910) | (24,973) |
| Adjustments recognised in relation to deferred tax in prior years[1] | 104,168 | – |
| | 78,258 | (24,973) |
| **Total income tax expense relating to continuing operations** | (26,151) | (53,762) |

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

| | | |
|---|---|---|
| **(a) Income Tax Recognised in the Statement of Profit or Loss and Other Comprehensive Income** | | |
| Profit before tax for continuing operations | 107,234 | 141,786 |
| Income tax expense calculated at 30% (2015: 30%) | (32,170) | (42,536) |
| Add/(deduct): | | |
| Effect of expenses that are not deductible in determining taxable profit | (180) | (167) |
| Losses written off on Australian Tax Office ("ATO") settlement of SA Power Networks and Victoria Power Networks financing matters | – | (24,655) |
| Effect of Prior Year adjustments in SA Power Networks tax base | 7,081 | 10,733 |
| Tax effect on operating results of the Trusts | (882) | 2,863 |
| **Total Current Year income tax expense** | (26,151) | (53,762) |

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.

| | YEAR ENDED 31 DEC 2016 $'000 | YEAR ENDED 31 DEC 2015 $'000 |
|---|---|---|
| **(b) Income Tax Recognised Directly in Equity** | | |
| Share of associates' reserves | (700) | (16,575) |
| **Income tax expense** | (700) | (16,575) |
| **(c) Deferred Tax Balances** | | |
| TEMPORARY DIFFERENCES | | |
| Timing differences – other | (2,313) | 2,180 |
| Investment in associates | (410,881) | (280,929) |
| | (413,194) | (278,749) |
| UNUSED TAX LOSSES | | |
| Tax losses | 152,027 | 44,432 |
| | (261,167) | (234,317) |

**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 21.

**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 audit.

Victoria Power Networks Pty Ltd

(a) 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;

(b) 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 2010;

(c) 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 2010;

(d) 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 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.

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 2016 $'000 | 31 DEC 2015 $'000 |
|---|---|---|
| Victoria Power Networks | 8,512 | 9,964 |
| NSW Electricity Networks Operations | – | 614 |
| | 8,512 | 10,578 |

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

| | | OWNERSHIP INTEREST (%) | | |
|---|---|---|---|---|
| NAME OF ENTITY | PRINCIPAL ACTIVITY | 2016 | 2015 | COUNTRY OF INCORPOR-ATION/ FORMATION |
| 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 operating business in New South Wales | 15.01 | 15.01 | Australia |

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

| | 31 DEC 2016 $'000 | 31 DEC 2016 $'000 | 31 DEC 2016 $'000 | 31 DEC 2016 $'000 | 31 DEC 2015 $'000 | 31 DEC 2015 $'000 | 31 DEC 2015 $'000 | 31 DEC 2015 $'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 | 260,237 | 382,831 | 82,783 | 128,429 | 423,474 | 484,026 | 72,130 | 52,440 |
| Non-current assets | 7,853,983 | 6,264,979 | 7,578,985 | 2,696,904 | 7,624,530 | 6,125,120 | 7,665,330 | 2,716,490 |
| Total assets | 8,114,220 | 6,647,810 | 7,661,768 | 2,825,333 | 8,048,004 | 6,609,146 | 7,737,460 | 2,768,930 |
| Current liabilities | 1,772,020 | 868,489 | 57,306 | 158,046 | 1,756,334 | 1,096,064 | 50,020 | 125,160 |
| Non-current liabilities | 4,991,418 | 3,438,674 | 5,552,205 | 1,610,624 | 5,142,560 | 3,208,264 | 5,421,690 | 1,629,410 |
| Total liabilities | 6,763,438 | 4,307,163 | 5,609,511 | 1,768,670 | 6,898,894 | 4,304,328 | 5,471,710 | 1,754,570 |
| Net assets | 1,350,782 | 2,340,647 | 2,052,257 | 1,056,663 | 1,149,110 | 2,304,818 | 2,265,750 | 1,014,360 |

(1) Together referred to as TransGrid.

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

| | YEAR ENDED 31 DEC 2016 $'000 | YEAR ENDED 31 DEC 2016 $'000 | YEAR ENDED 31 DEC 2016 $'000 | YEAR ENDED 31 DEC 2016 $'000 | YEAR ENDED 31 DEC 2015 $'000 | YEAR ENDED 31 DEC 2015 $'000 | 16 DAY PERIOD TO 31 DEC 2015 $'000 | 16 DAY PERIOD TO 31 DEC 2015 $'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) | 1,008,341 | 739,669 | – | 796,405 | 1,053,977 | 831,531 | – | – |
| Revenue – semi-regulated and unregulated | 171,887 | 247,135 | 510,563 | 77,220 | 136,857 | 228,627 | – | – |
| Customer contributions and gifted assets | 116,799 | 79,573 | – | – | 117,222 | 80,587 | – | – |
| Operating revenue | 1,297,027 | 1,066,377 | 510,563 | 873,625 | 1,308,056 | 1,140,745 | 21,770 | 38,910 |
| Revenue – transmission (pass-through) | 278,390 | 251,562 | – | – | 358,174 | 260,193 | – | – |
| | 1,575,417 | 1,317,939 | 510,563 | 873,625 | 1,666,230 | 1,400,938 | 21,770 | 38,910 |
| Expenses | (1,031,744) | (851,028) | (535,815) | (810,198) | (1,093,090) | (847,195) | (24,130) | (46,170) |
| Expenses – transmission (pass-through) | (278,390) | (251,562) | – | – | (358,174) | (260,193) | – | – |
| Profit/(loss) before income tax | 265,283 | 215,349 | (25,252) | 63,427 | 214,966 | 293,550 | (2,360) | (7,260) |
| Income tax expense | (77,443) | – | – | – | (103,461) | – | – | – |
| Net profit/(loss) | 187,840 | 215,349 | (25,252) | 63,427 | 111,505 | 293,550 | (2,360) | (7,260) |
| Other comprehensive income: | | | | | | | | |
| Gain/(loss) on hedges | 22,372 | (17,246) | (8,552) | 69 | 67,538 | (2,756) | (27,000) | – |
| Actuarial (loss)/gain on defined benefit plans | (3,146) | 8,549 | – | 18,525 | 35,058 | 43,994 | – | – |
| Income tax expense related to components of other comprehensive income | (5,768) | – | – | – | (30,779) | – | – | – |
| Other comprehensive income/(loss) for the Financial Year | 13,458 | (8,697) | (8,552) | 18,594 | 71,817 | 41,238 | (27,000) | – |
| Total comprehensive income/(loss) for the Financial Year | 201,298 | 206,652 | (33,804) | 82,021 | 183,322 | 334,788 | (29,360) | (7,260) |

## 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 2016 $'000 | YEAR ENDED 31 DEC 2015 $'000 |
|---|---|---|
| Victoria Power Networks net profit | 92,041 | 54,637 |
| SA Power Networks net profit | 105,521 | 143,840 |
| NSW Electricity Networks Assets net loss | (3,790) | (354) |
| NSW Electricity Networks Operations net profit/(loss) | 9,520 | (1,090) |
| Adjustment in respect of customer contributions and gifted assets[a] | (79,053) | (79,695) |
| Adjustment in respect of regulated revenue cap[b] | (1,770) | – |
| Additional adjustments to share of equity profits[c] | 22,821 | 44,127 |
| | 145,290 | 161,465 |

a 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 SA Power Networks and Victoria 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.

b Amounts in excess of/under the regulated revenue cap are deferred/accrued by SA Power Networks and Victoria Power Networks but not by TransGrid. Spark Infrastructure makes adjustments to its share of TransGrid's equity accounted profits in order to reflect that these amounts will be returned to/recovered from electricity consumers in future periods.

c 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 results of operations from SA Power Networks. Additional adjustments made to share of equity profits includes additional depreciation/amortisation of fair value uplift of assets on acquisition of SA Power Networks and Victoria Power Networks.

### (d) Movement in Carrying Amounts

| | YEAR ENDED 31 DEC 2016 $'000 | YEAR ENDED 31 DEC 2015 $'000 |
|---|---|---|
| Carrying amount at beginning of the Current Year | 2,495,256 | 1,898,979 |
| Subscription of units in NSW Electricity Networks Assets | – | 344,498 |
| Subscription of units in NSW Electricity Networks Operations | – | 153,342 |
| Share of profits after income tax | 145,290 | 161,465 |
| Preferred partnership distribution received – SA Power Networks | (69,826) | (69,635) |
| Distributions received – SA Power Networks | (49,490) | (44,590) |
| Distributions received – NSW Electricity Networks Assets | (26,973) | – |
| Distributions received – NSW Electricity Networks Operations | (3,385) | – |
| Share of associates' comprehensive income recognised directly in equity | 3,840 | 51,197 |
| Carrying amount at end of the Current Year | 2,494,712 | 2,495,256 |

### (e) Contingent Liabilities

Spark Infrastructure's share of contingent liabilities are provided in Note 17.

## 7. LOANS TO ASSOCIATES – INTEREST BEARING

| | 31 DEC 2016 $'000 | 31 DEC 2015 $'000 |
|---|---|---|
| Victoria Power Networks | 680,627 | 745,601 |

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 $64,974,000 was repaid by the borrower to Spark Infrastructure during 2016 (2015: nil).

## 8. LOAN NOTES TO ASSOCIATES – INTEREST BEARING

| | 31 DEC 2016 $'000 | 31 DEC 2015 $'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 2016 $'000 | 31 DEC 2015 $'000 |
|---|---|---|
| Balance at beginning of the Financial Year | 1,061,704 | 925,841 |
| Issue of Loan Notes under Entitlement Offer[a] | – | 140,173 |
| Issue costs associated with Loan Notes | – | (4,330) |
| Write back of deferred discount[b] | 20 | 20 |
| Balance at end of the Financial Year | 1,061,724 | 1,061,704 |

a Under the institutional tranche of the Entitlement Offer on 7 December 2015 and the retail tranche of the Entitlement Offer on 22 December 2015 additional securities were raised at a price of $1.88 per security of which $0.65 per security was allocated to Loan Notes.

b 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. INTEREST BEARING LIABILITIES

| | 31 DEC 2016 $'000 | 31 DEC 2015 $'000 |
|---|---|---|
| Bilateral corporate debt facilities | – | 205,000 |
| Unamortised costs | – | (1,578) |
| | – | 203,422 |

On 13 November 2015, Spark Infrastructure entered into 3 and 5-year bilateral debt facilities of $225,000,000 and $25,000,000 respectively, replacing its previous corporate debt facilities. Spark Infrastructure pays an average margin of 112 basis points above the applicable bank bill swap rate on amounts drawn from these facilities. The facilities are unsecured and mature on the 13 November 2018 and 13 November 2020.

## 11. ISSUED CAPITAL

| | 31 DEC 2016 $'000 | 31 DEC 2015 $'000 |
|---|---|---|
| Balance at beginning of the Financial Year | 1,303,404 | 1,115,263 |
| Issue of new securities under Entitlement Offer[a] | – | 265,251 |
| Issue costs | – | (8,191) |
| Contributions of equity (net of issue costs) | – | 257,060 |
| Capital distributions[b] | (104,285) | (68,919) |
| Balance at end of the Financial Year | 1,199,119 | 1,303,404 |

a Under the institutional tranche of the Entitlement Offer on 7 December 2015 and the retail tranche of the Entitlement Offer on 22 December 2015 additional securities were raised at a price of $1.88 per security of which $1.23 per security was allocated to Issued Capital.

b Capital distributions of 3.75 cps on 15 September 2016 (2.50 cps on 15 September 2015) and 2.45 cps on 15 March 2016 (2.20 cps on 13 March 2015) were paid to Securityholders during the year – refer Note 16.

| FULLY PAID STAPLED SECURITIES | 31 DEC 2016 NO.'000 | 31 DEC 2015 NO.'000 |
|---|---|---|
| Balance at the beginning of the Financial Year | 1,682,011 | 1,466,360 |
| Issue of new securities under Entitlement Offer | – | 215,651 |
| Balance at the end of the Financial Year | 1,682,011 | 1,682,011 |

## 12. RESERVES

| | YEAR ENDED 31 DEC 2016 $'000 | YEAR ENDED 31 DEC 2015 $'000 |
|---|---|---|
| Balance at beginning of the Financial Year | (17,404) | (28,622) |
| Share of associates' gains on hedges[a] | (2,050) | 17,763 |
| Related tax benefit/(expense) | 233 | (6,545) |
| Recognition of share-based payments | 990 | – |
| Balance at end of the Financial Year | (18,231) | (17,404) |

a The hedging reserve represents hedging gains and losses recognised on the effective portion of the cashflow 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.

## 13. RETAINED EARNINGS

| | YEAR ENDED 31 DEC 2016 $'000 | YEAR ENDED 31 DEC 2015 $'000 |
|---|---|---|
| Balance at beginning of the Financial Year | 870,355 | 758,927 |
| Net profit after tax for the Financial Year | 81,083 | 88,024 |
| Share of associates' actuarial gain recognised directly in retained earnings[a] | 5,891 | 33,435 |
| Related tax expense | (933) | (10,031) |
| Balance at end of the Financial Year | 956,396 | 870,355 |

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

## 14. REMUNERATION OF EXTERNAL AUDITOR

| | YEAR ENDED 31 DEC 2016 $ | YEAR ENDED 31 DEC 2015 $ |
|---|---|---|
| Audit and review of the financial reports | 268,500 | 258,500 |
| Tax advice | 306,500 | 248,000 |
| Other accounting services | – | 291,051 |
| | 575,000 | 797,551 |

The auditor of Spark Infrastructure is Deloitte Touche Tohmatsu.

## 15. EARNINGS PER SECURITY ("EPS")

| | YEAR ENDED 31 DEC 2016 $'000 | YEAR ENDED 31 DEC 2015 $'000 |
|---|---|---|
| Profit before income tax and Loan Note interest | 225,816 | 252,820 |
| Weighted average number of securities (No'000) | 1,682,011 | 1,478,695 |
| Basic earnings per security before income tax and Loan Note interest (cents) | 13.43¢ | 17.10¢ |
| Earnings used to calculate EPS | 81,083 | 88,024 |
| Basic earnings per security based on net profit attributable to Securityholders (cents) | 4.82¢ | 5.95¢ |

Basic EPS is the same as diluted EPS.

## 16. DISTRIBUTION PAID AND PAYABLE

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | CENTS PER SECURITY | TOTAL $'000 | CENTS PER SECURITY | TOTAL $'000 |
| **DISTRIBUTION PAID:** | | | | |
| Interim distribution in respect of year ended 31 December 2016 paid on 15 September 2016 (2015: 15 September 2015): | | | | |
| Interest on Loan Notes | 3.50 | 58,870 | 3.50 | 51,323 |
| Capital Distribution | 3.75 | 63,075 | 2.50 | 36,659 |
| | 7.25 | 121,945 | 6.00 | 87,982 |
| **DISTRIBUTION PAYABLE/PROPOSED:** | | | | |
| Final distribution in respect of the year ended 31 December 2016 payable on 15 March 2017 (2015: 15 March 2016): | | | | |
| Interest on Loan Notes | 3.55 | 59,711 | 3.55 | 59,712 |
| Capital Distribution | 3.70 | 62,234 | 2.45 | 41,209 |
| | 7.25 | 121,945 | 6.00 | 100,921 |
| Total paid and payable | 14.50 | 243,890 | 12.00 | 188,903 |

## 17. CONTINGENCIES

| | 31 DEC 2016 $'000 | 31 DEC 2015 $'000 |
|---|---|---|
| Share of associates' contingent liabilities | 44,743 | 26,632 |

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.

## 18. 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 2016 $ | YEAR ENDED 31 DEC 2015 $ |
|---|---|---|
| Salary and Fees | 2,747,974 | 2,647,738 |
| Total STI Expense | 1,218,273 | 1,105,623 |
| Non-monetary Expense | 40,308 | 83,228 |
| Superannuation Expense | 144,314 | 147,269 |
| LTI Expense | 674,424 | 77,591 |
| LTI Transition Expense | 377,430 | 377,430 |
| Total Expense | 5,202,722 | 4,438,879 |

## 19. RELATED PARTY DISCLOSURES

### (a) Directors

Details of the Directors remuneration are disclosed in Note 18.

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

| 2016 | OPENING BALANCE 1 JANUARY 2016 (NO.) | NET MOVEMENT ACQUIRED/ (DISPOSED) (NO.) | CLOSING BALANCE 31 DECEMBER 2016 (NO.) |
|---|---|---|---|
| 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.

The relevant interest of each Director of Spark Infrastructure in respect of the Prior Year was as follows:

| 2015 | OPENING BALANCE 1 JANUARY 2015 (NO.) | NET MOVEMENT ACQUIRED/ (DISPOSED) (NO.) | CLOSING BALANCE 31 DECEMBER 2015 (NO.) |
|---|---|---|---|
| Mr Brian Scullin | 10,000 | 67,648 | 77,648 |
| Mr Rick Francis | 18,500 | 5,442 | 23,942 |
| Mr Andrew Fay | 53,000 | 15,590 | 68,590 |
| Ms Anne McDonald | 48,500 | 12,500 | 61,000 |
| Ms Christine McLoughlin | 30,000 | 21,766 | 51,766 |
| Dr Douglas McTaggart[1] | – | 50,000 | 50,000 |
| Ms Karen Penrose | 25,000 | 13,824 | 38,824 |
| Dr Keith Turner | 58,500 | 17,206 | 75,706 |
| Ms Cheryl Bart, AO[2] | 160,714 | – | – |

(1) Dr McTaggart was appointed to the Board on 11 December 2015.
(2) Ms Bart retired from the Board on 22 May 2015.

### (b) Group Executives

Details of the Group Executives remuneration are disclosed in Note 18.

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

| 2016 | OPENING BALANCE 1 JANUARY 2016 (NO.) | NET MOVEMENT ACQUIRED/ (DISPOSED) (NO.) | CLOSING BALANCE 31 DECEMBER 2016 (NO.) |
|---|---|---|---|
| Mr Rick Francis | 23,942 | – | 23,942 |
| Mr Greg Botham | – | – | – |
| Ms Alexandra Finley | – | – | – |

| 2015 | OPENING BALANCE 1 JANUARY 2015 (NO.) | NET MOVEMENT ACQUIRED/ (DISPOSED) (NO.) | CLOSING BALANCE 31 DECEMBER 2015 (NO.) |
|---|---|---|---|
| Mr Rick Francis | 18,500 | 5,442 | 23,942 |
| Mr Greg Botham | – | – | – |
| Ms Alexandra Finley | – | – | – |

### (c) Responsible Entity

The responsible entity of the Trust is Spark RE.

### (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 18. Securityholding details are disclosed in Note 19(a) and Note 19(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 21. 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.

## 20. 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.

## 21. CONTROLLED ENTITIES

| ENTITY | COUNTRY OF INCORPORATION | 2016 EQUITY HOLDINGS (%) | 2015 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.

## 22. NOTES TO THE STATEMENT OF CASH FLOWS

### (a) Reconciliation of Cash and Cash Equivalents

| | 31 DEC 2016 $'000 | 31 DEC 2015 $'000 |
|---|---|---|
| Cash on hand and at bank | 10,974 | 8,273 |
| Cash at bank held for Australian Financial Services Licensing purposes | 5,000 | 5,000 |
| Cash on deposit | 85,011 | 5,011 |
| **Cash and Cash Equivalents** | 100,985 | 18,284 |

For the purposes of the Statement of Cashflows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments.

### (b) Committed Financing Facilities

| | 31 DEC 2016 $'000 | 31 DEC 2015 $'000 |
|---|---|---|
| Syndicated unsecured bank loan facilities: | | |
| – Amount used | – | 205,000 |
| – Amount unused | 250,000 | 45,000 |
| | 250,000 | 250,000 |

Committed Finance Facility maturities are:

- November 2018: $100,000,000 3-year revolving facility with Commonwealth Bank of Australia
- November 2018: $100,000,000 3-year revolving facility with Westpac Banking Corporation
- November 2018: $25,000,000 3-year revolving facility with The Bank of Tokyo-Mitsubishi UFJ, Ltd ("BTMU")
- November 2020: $25,000,000 5-year revolving facility with BTMU

### (c) Reconciliation of Profit for the Financial Year to Net Cash Inflows Related to Operating Activities

| | YEAR ENDED 31 DEC 2016 $'000 | YEAR ENDED 31 DEC 2015 $'000 |
|---|---|---|
| Net profit after tax | 81,083 | 88,024 |
| Add back / (subtract): | | |
| Loan Note interest expense | 118,582 | 111,034 |
| Income tax expense | 26,151 | 53,762 |
| Non-cash interest expense | 10 | 1,370 |
| Non-cash depreciation expense | 62 | 71 |
| Share of profit/(loss) of associates (less dividends/distributions) | 4,384 | (47,240) |
| Gain/(loss) on derivative contracts (less distributions) | 9,437 | (1,822) |
| Changes in net assets and liabilities: | | |
| Decrease in current receivables | 4,315 | 864 |
| (Decrease)/increase in current payables | (3,374) | 2,949 |
| Unpaid equity issue costs | – | (1,662) |
| Net cash inflow related to operating activities | 240,650 | 207,350 |

### (d) Bank Guarantee Facility

A bank guarantee of $420,000 equivalent to 12 months' rent and share of outgoings plus GST has been provided to the landlord in respect of Spark Infrastructure's office lease.

## 23. 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.

Spark Infrastructure's activities expose it primarily to interest rate risks which are principally managed through the use of interest rate swap contracts. There is no foreign currency exposure at the Spark Infrastructure level.

### (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 22), 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 2016 was $3,199,008,000 (2015: $3,218,059,000) comprising $1,061,724,000 (2015: $1,061,704,000) in Loan Notes and $2,137,284,000 (2015: $2,156,355,000) 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 a minority 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.

## 23. FINANCIAL INSTRUMENTS CONTINUED

### (d) Categories of Financial Instruments

| | 31 DEC 2016 $'000 | 31 DEC 2015 $'000 |
|---|---|---|
| FINANCIAL ASSETS | | |
| Cash and cash equivalents | 100,985 | 18,284 |
| Receivables from associates | 8,512 | 10,578 |
| Other financial assets | – | 216,117 |
| Loans to associates | 680,627 | 745,601 |
| Loan notes to associates | 237,444 | 237,444 |
| FINANCIAL LIABILITIES | | |
| Payables | 4,674 | 8,729 |
| Loan Note interest payable | 59,711 | 59,711 |
| Loans at amortised cost | – | 203,422 |
| Loan Notes at amortised cost | 1,061,724 | 1,061,704 |

### (e) Financial Market Risk

The principal financial market risks that Spark Infrastructure is exposed to is interest rate risk. Note 23(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 2016 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 2016, any movement in interest rates would have no impact on the Group's profit for the year ended 31 December 2016. For the Prior Year, if interest rates had been 100 basis points higher/lower and all other variables held constant, the Group's profit for the year ended 31 December 2015 would have decreased/increased by $3,548,000.

### (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.

**(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 22.

**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.

| 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.

| 2015 | 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 | – | 4,126 | 2,533 | 162 | 1,875 | 33 | 8,729 |
| Interest bearing liabilities | 2.62 | – | 1,416 | 4,927 | 219,621 | – | 225,964 |
| Loan Notes attributable to Securityholders[a] | 10.85 | – | 59,711 | 58,870 | 474,327 | 11,172,758 | 11,765,666 |
| Total | | 4,126 | 63,660 | 63,959 | 695,823 | 11,172,791 | 12,000,359 |

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 2016 was $0.65 per Loan Note (31 December 2015: $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.

## 24. 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 2016 $'000 | 31 DEC 2015 $'000 |
|---|---|---|
| FINANCIAL POSITION | | |
| Current assets | 124,345 | 126,893 |
| Non-current assets | 2,085,365 | 2,383,358 |
| **Total Assets** | 2,209,710 | 2,510,251 |
| Current liabilities | 59,715 | 53,266 |
| Non-current liabilities | 880,618 | 1,092,285 |
| **Total liabilities** | 940,333 | 1,145,551 |
| **Net Assets** | 1,269,377 | 1,364,700 |
| EQUITY | | |
| Issued capital | 1,199,107 | 1,303,392 |
| Retained earnings | 70,270 | 61,308 |
| **Total Equity** | 1,269,377 | 1,364,700 |

| | YEAR ENDED 31 DEC 2016 $'000 | YEAR ENDED 31 DEC 2015 $'000 |
|---|---|---|
| FINANCIAL PERFORMANCE | | |
| Net profit for the year | 8,962 | 11,039 |
| Other comprehensive income | – | – |
| Total comprehensive income for the Financial Year | 8,962 | 11,039 |

### (b) Guarantees entered into by the Parent Entity

The Parent Entity has provided financial guarantees in respect of Financing Facilities as disclosed in Note 22(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 2016, the Parent Entity had no contractual commitments (2015: nil).

## 25. ADDITIONAL INFORMATION

The registered office of business of the Trust is as follows:

Level 25, 259 George Street
Sydney NSW 2000
Australia

Deloitte.

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 2016, 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 2016 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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| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|---|
| **Carrying Value of Investments accounted for using the equity method**<br><br>As at 31 December 2016 the Group's Consolidated Statement of Financial Position includes 'Investments accounted for using the equity method' amounting to $2,495 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 2016.<br><br>A potential indicator of impairment relating to the investment in SA Power Networks was identified. Accordingly, Spark prepared a fair value less cost to sell impairment model relating to the investment in SA Power Networks.<br><br>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 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.<br><br>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 discount rate, the RAB multiple, the distributions and the EBITDA multiples for unregulated activities. Refer to Note 1(q) 'Critical Accounting Estimates and Judgements'. | In conjunction with Deloitte valuation specialists, our procedures included but were not limited to:<br>• understanding the process for the preparation and review of the impairment model;<br>• evaluating the discounted cash flow model developed to assess the recoverable value of the investment in SA Power Networks, including critically assessing the following key assumptions:<br>  o discount rate;<br>  o RAB multiple;<br>  o distributions;<br>  o EBITDA multiples for unregulated activities<br>with reference to external data where relevant;<br>• performing sensitivity analysis on a number of assumptions, including the discount rate and the appropriate terminal value based on RAB multiples for regulated activities;<br>• on a sample basis testing the mathematical accuracy of the discounted cash flow model; and<br>• evaluating the adequacy of disclosures in the financial report.<br><br>We concur with the assessment that the carrying value of the investment does not exceed its recoverable value. |

**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, the other information also includes the following documents which will be included in the annual report (but does not include the financial report and our auditor's report thereon): the additional ASX Disclosures and the Shareholder Information which are 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 additional ASX Disclosures and the Shareholder Information, 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.

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- 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.

- 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 13 to 37 of the Directors' Report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of Spark Infrastructure Trust and its Consolidated Entities, for the year ended 31 December 2016, has been prepared in accordance with section 300A of the *Corporations Act 2001*.

*Responsibilities*

The Directors of the Company have voluntarily presented the Remuneration Report which has been prepared in accordance with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants
Sydney, 27 February 2017

# FIVE YEAR SUMMARY OF PERFORMANCE

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| **SPARK INFRASTRUCTURE KEY METRICS** | | | | | |
| Distribution Per Security | 14.5 | 12.0 | 11.5 | 11.0 | 10.5 |
| Standalone Operating Cashflow[1] | 305.6 | 207.4 | 206.9 | 189.3 | 178.4 |
| Look-through Operating Cashflow | 371.5 | 426.8 | 353.6 | 310.3 | 294.5 |
| Distributions Received from Associates | 308.3 | 196.5 | 206.3 | 203.2 | 199.3 |
| **SPARK INFRASTRUCTURE INCOME STATEMENT** | | | | | |
| Total Income | 243.9 | 270.6 | 288.7 | 311.0 | 299.8 |
| Profit before Loan Note Interest | 225.8 | 252.8 | 272.1 | 294.4 | 277.1 |
| Profit after Tax Attributable to Securityholders | 81.1 | 88.0 | 128.1 | 128.4 | 173.9 |
| **SPARK INFRASTRUCTURE BALANCE SHEET** | | | | | |
| Total Assets | 3,524.6 | 3,724.2 | 3,019.8 | 2,646.8 | 2,438.7 |
| Total Liabilities | 1,387.3 | 1,567.9 | 1,174.2 | 1,013.9 | 965.2 |
| Total Equity | 2,137.3 | 2,156.4 | 1,845.6 | 1,632.9 | 1,473.5 |
| **VICTORIA POWER NETWORKS KEY METRICS** | | | | | |
| Total Revenue | 1,297.0 | 1,308.1 | 1,174.7 | 1,154.5 | 1,005.0 |
| EBITDA | 900.9 | 939.9 | 805.6 | 759.0 | 667.9 |
| Net Capital Expenditure | 406.6 | 466.3 | 506.0 | 534.4 | 533.1 |
| RAB[2] | 5,734 | 5,547 | 5,167 | 4,932 | 4,573 |
| Net Debt to RAB | 72.4% | 73.8% | 79.5% | 80.3% | 80.5% |
| Hedge - Net (% to Senior Debt) | 97.7% | 93.6% | 95.6% | 95.2% | 96.0% |
| No. of Customers ('000's) | 1,108 | 1,094 | 1,081 | 1,072 | 1,058 |
| **SA POWER NETWORKS KEY METRICS** | | | | | |
| Total Revenue | 1,066.4 | 1,140.7 | 1,187.3 | 1,132.7 | 1,109.2 |
| EBITDA | 639.8 | 756.8 | 830.5 | 820.4 | 807.7 |
| Net Capital Expenditure | 285.7 | 315.5 | 363.8 | 348.5 | 331.6 |
| RAB[2] | 3,953 | 3,929 | 3,862 | 3,686 | 3,509 |
| Net Debt to RAB | 71.4% | 71.9% | 74.2% | 76.2% | 78.6% |
| Hedge - Net (% to Senior Debt) | 100.0% | 85.0% | 96.0% | 102.4% | 102.6% |
| No. of Customers ('000's) | 856 | 852 | 847 | 840 | 835 |
| **TRANSGRID KEY METRICS[3]** | | | | | |
| Total Revenue | 888.9 | | | | |
| EBITDA | 685.4 | | | | |
| Net Capital Expenditure | 206.4 | | | | |
| RAB[2] | 6,284 | | | | |
| Net Debt to RAB | 88.4% | | | | |
| Hedge - Net (% to Senior Debt) | 75.6% | | | | |

(1) Includes repayment of shareholder loans
(2) RAB values are estimates
(3) 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

# 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 UP person who is not both a QIB and a QP.

# SHAREHOLDER INFORMATION

Spark Infrastructure Group

Fully paid stapled securities (total) as at 22 Mar 2017

## TOP HOLDERS SNAPSHOT – UNGROUPED

| RANK | NAME | UNITS | % OF UNITS |
|---|---|---|---|
| 1. | HSBC CUSTODY NOMINEES | 650,739,707 | 38.688% |
| 2. | J P MORGAN NOMINEES AUSTRALIA | 189,083,091 | 11.241% |
| 3. | CITICORP NOMINEES PTY LIMITED | 156,735,280 | 9.318% |
| 4. | NATIONAL NOMINEES LIMITED | 86,673,914 | 5.153% |
| 5. | BNP PARIBAS NOMINEES PTY LTD | 71,928,690 | 4.276% |
| 6. | RBC INVESTOR SERVICES | 53,837,538 | 3.201% |
| 7. | BNP PARIBAS NOMS PTY LTD | 21,410,155 | 1.273% |
| 8. | CITICORP NOMINEES PTY LIMITED | 17,900,649 | 1.064% |
| 9. | CUSTODIAL SERVICES LIMITED | 12,939,009 | 0.769% |
| 10. | BNP PARIBAS NOMS (NZ) LTD | 11,178,806 | 0.665% |
| 11. | HSBC CUSTODY NOMINEES | 10,788,717 | 0.641% |
| 12. | RBC INVESTOR SERVICES | 10,069,129 | 0.599% |
| 13. | IOOF INVESTMENT MANAGEMENT | 7,164,975 | 0.426% |
| 14. | RBC INVESTOR SERVICES | 6,990,283 | 0.416% |
| 15. | PRUDENTIAL NOMINEES PTY LTD | 6,400,000 | 0.380% |
| 16. | NATIONAL EXCHANGE PTY LTD | 6,250,000 | 0.372% |
| 17. | NAVIGATOR AUSTRALIA LTD | 4,971,404 | 0.296% |
| 18. | ARGO INVESTMENTS LIMITED | 4,868,363 | 0.289% |
| 19. | SANDHURST TRUSTEES LTD | 3,450,000 | 0.205% |
| 20. | AVANTEOS INVESTMENTS LIMITED | 3,180,752 | 0.189% |
| Total Securities of Top 20 Holdings | | 1,336,560,462 | 79.462% |
| **Total of Securities** | | **1,682,010,978** | |

## SUBSTANTIAL HOLDERS

Substantial Holders as at 22 Mar 2017

| NAME OF HOLDER | % OF ISSUED CAPITAL |
|---|---|
| Legg Mason | 12.9 |
| Lazard Asset Management | 11.7 |
| Investors Mutual | 5.0 |

Spark Infrastructure Group

Analysis of Holdings as at 22 Mar 2017

## RANGE OF UNITS SNAPSHOT

| HOLDINGS RANGE | HOLDERS | TOTAL UNITS | % OF ISSUED CAPITAL |
|---|---|---|---|
| 1–1,000 | 1,242 | 614,183 | 0.037 |
| 1,001–5,000 | 5,156 | 16,147,104 | 0.960 |
| 5,001–10,000 | 4,757 | 35,937,040 | 2.137 |
| 10,001–100,000 | 7,856 | 197,574,434 | 11.746 |
| 100,001–99,999,999,999 | 307 | 1,431,738,217 | 85.121 |
| **Total** | **19,318** | **1,682,010,978** | **100.000** |

## UNMARKETABLE PARCELS

| TOTAL SECURITIES | UMP SECURITIES | UMP HOLDERS | UMP% |
|---|---|---|---|
| 1,682,010,978 | 7,451 | 342 | 0.00044298% |

# CORPORATE CONTACT DETAILS


## Registered Office
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**Company Secretary**
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## Security Registry
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