



2019 ANNUAL REPORT

INFRASTRUCTURE FOR THE FUTURE

GROWTH THROUGH ESSENTIAL INFRASTRUCTURE

As the owner of long-life, essential services infrastructure, Spark Infrastructure is building sustainable businesses for the future. We are investing in innovation and technology to bring benefits to Securityholders, customers, our people and the communities where we operate.

FINANCIAL
HIGHLIGHTS

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ABOUT
US

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OUR
STRATEGY

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Annual General Meeting
11:30am, Wednesday, 27 May 2020
Radisson Blu Plaza Hotel
27 O'Connell Street, Sydney, NSW

BOARD OF DIRECTORS

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OUR ASSETS

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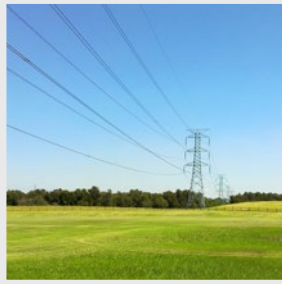
SUSTAINABILITY

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SPARK INFRASTRUCTURE AT A GLANCE



Market Capitalisation
S&P/ASX 100

\$3.7B

Spark Infrastructure is a leading ASX-listed owner of long-life, essential services infrastructure businesses, which are ranked among the most efficient and reliable of their type in Australia. Our businesses focus on efficiencies to deliver affordable, reliable electricity to customers. That enables us to deliver long-term sustainable value to our Securityholders.

With a market capitalisation of approximately \$3.7 billion, Spark Infrastructure has a long track record of delivering strong and stable returns to Securityholders from its investment portfolio of high performing infrastructure businesses. It owns interests in \$18 billion of electricity network assets across Australia. They deliver energy to more than 5.6 million customers in Victoria, South Australia, New South Wales and the Australian Capital Territory and transport energy across the National Electricity Market (NEM) to other states. Our businesses have a workforce of more than 5,300 employees, and their regulated and contracted asset bases exceed \$6.5 billion (proportional).

Our 100%-owned Bomen Solar Farm project, located north of Wagga Wagga in New South Wales, was acquired during 2019. Bomen Solar Farm is now mechanically complete and is expected to start commercial operations in Quarter 2, 2020. It comprises approximately 310,000 bi-facial solar panels and, when fully operational, will produce enough clean solar energy to power 36,000 homes per year.

Regulated and Contracted Asset
Base (proportional)

\$6.5B

\$18B
Total Electricity
Network Assets

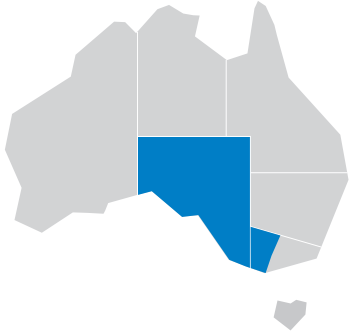
Supplying
5.0M+
homes and
businesses



Over
5,300
employees

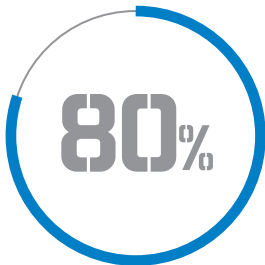
DISTRIBUTION

Victoria Power Networks and SA Power Networks



49%
Spark Infrastructure ownership

\$10.68B
Regulated Asset Base



SA Power Networks is the sole operator of South Australia’s electricity distribution network, supplying around 887,000 residential and commercial customers in all regions and the major population centres.

CitiPower and **Powercor**, together known as **Victoria Power Networks**, operate the distribution networks that supply electricity to around 330,000 customers in Melbourne’s CBD and around 810,000 customers in central and western Victoria.

To read more, see pages 16–21.

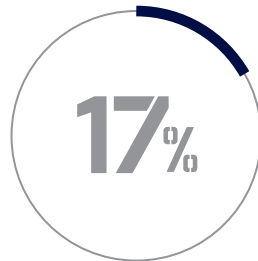
TRANSMISSION

TransGrid



15%
Spark Infrastructure ownership

\$7.13B
Regulated and Contracted Asset Base



TransGrid is the operator of the largest (by energy volume) high-voltage electricity transmission network in the National Electricity Market (NEM). TransGrid delivers 32% of the electricity consumed within the NEM to over 3.6 million homes and businesses across NSW and the ACT.

To read more, see page 22–23.

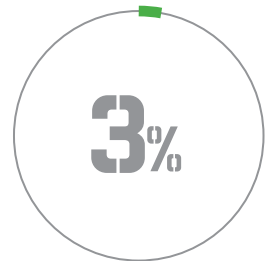
RENEWABLES

Bomen Solar Farm



100%
Spark Infrastructure ownership

\$0.19B
Contracted Asset Base at completion



Bomen Solar Farm is a newly constructed solar farm located near Wagga Wagga in NSW. It comprises approximately 310,000 bi-facial solar panels and when fully operational will produce enough clean solar energy to power 36,000 homes per year.

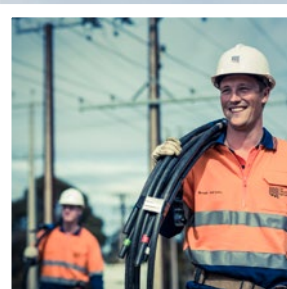
To read more, see page 24–25.



FINANCIAL HIGHLIGHTS

Growth Capital Expenditure

\$368M
^85.8%



Look-through operating cashflow

\$379M
^15.7%



15cPS

FY2019 distributions



FY 2020 Distribution guidance – at least

13.5cps

Regulated and Contracted Asset Base
(Aggregated proportional basis to Spark Infrastructure)

\$6.5B

^6.0%



Contracted Asset Base (100% TransGrid basis)

\$637M

^47.8%

FFO to Net Debt

13.5%

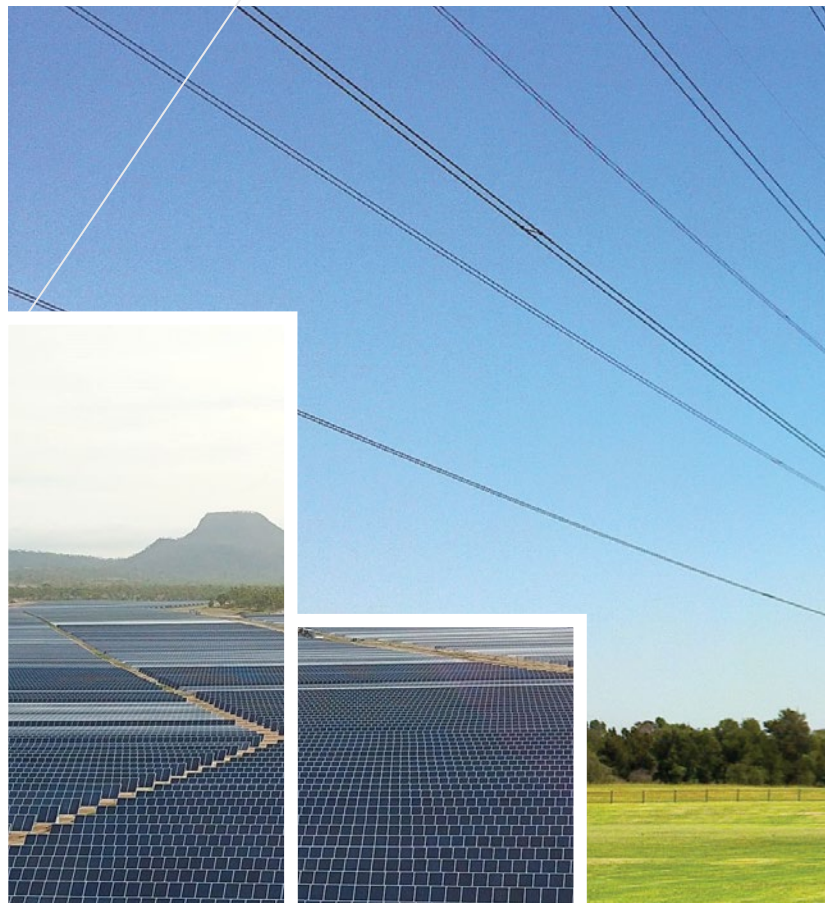
^0.5%

1. Spark Infrastructure look-through basis



CHAIR'S MESSAGE

STRATEGIC GROWTH WITH OPERATIONAL EXCELLENCE



“
Our investments have again been ranked as one of the most efficient networks in Australia, the benefits of which are shared with millions of Australian electricity customers.”

\$18B
of network interests

5.0M
customers serviced
across Australia

Our strategy

Spark Infrastructure's objective is to create long-term, sustainable value by investing in comparatively low risk businesses.

Our three-part strategy of Value Enhance, Value Build and Value Acquire is designed to achieve this by generating long-term capital growth plus distributions.

We aim for a balanced portfolio. Earnings are supported by growth in underlying assets and through sustainable investments in high value, unregulated opportunities.

In 2019, we acquired a 100% interest in the Bomen Solar Farm project, near Wagga Wagga, NSW. This was the first step in the Value Build component of our strategy.

We continue to deliver affordable and reliable electricity to customers through efficient operations.

We will continue to invest in essential services infrastructure. In line with our strategy, we will focus on delivering more value from our existing assets and the opportunities they present. A particular focus will be on growth opportunities from the transition to renewables.

Our portfolio

We own interests in Australia's top performing regulated electricity businesses. They invest in innovation and technology and, year-on-year, outperform and support our investment earnings.

Spark Infrastructure has interests in \$18 billion of networks servicing more than 5.6 million customers in Victoria, South Australia, New South Wales and the Australian Capital Territory, and across the National Electricity Market (NEM) to other states.

Our investments have again been ranked as one of the most efficient networks in Australia, and we pass on savings in electricity prices to millions of Australians. All of this is shared with Securityholders in the outperformance of financial incentives.

We have also completed construction of the 100% owned Bomen Solar Farm, which is expected to commence commercial operations in Quarter 2, 2020.

Growth opportunities

Our network businesses are at the forefront of change, across generation, transmission and distribution as renewable sources are added to the energy mix and coal-fired generation is phased out.

Significant new investment is required to support this transition, including in transmission interconnection and firming technology to ensure resilience and reliability.

The Australian Energy Market Operator's (AEMO) Integrated System Plan (ISP) has looked at the grid and determined the greatest benefit to customers is network interconnection between regions.

Emerging technologies such as electric vehicles and battery storage will also provide opportunities. Batteries are expected to play an increasing role, with investment in utility scale batteries forecast to total \$9 billion to 2050.

Project EnergyConnect, a proposed 900km interconnector running between Wagga Wagga, NSW, Robertson in SA and Red Cliffs in Victoria has been declared critical state significant infrastructure by the NSW Government.

This project will be a significant capital investment for TransGrid. Its 800MW capacity will meet the energy needs of 240,000



households. If approved, this would reduce power bills and allow more renewable power into the system.

Substantial investment will also be required in distribution networks so they are smarter and more adaptable to new technologies, such as micro grids and virtual power plants.

We are well placed to respond to this exciting pipeline of opportunities in front of us and our investment businesses. This represents a shift in focus as we transition to deliver a combination of increasing capital growth and distributions to our Securityholders.

Consistent performance in 2019

The 2019 financial results reflected efficiency and productivity gains. Standalone operating cash flow was down 11.6% to \$256.4 million, driven primarily by tax payments of \$38.7 million.

We were extremely disappointed with the Federal Court decision in February 2019 on the tax treatment of capital contributions for Victoria Power Networks. The Board announced distribution guidance for FY2019 of 15cps to reflect this impact. The decision is on appeal to the Full Federal Court, with an outcome expected in late 2020.

Distributions from our investment businesses were higher. Victoria Power Networks paid \$159.5 million (up 1.7%) and SA Power Networks \$116.2 million (up 0.9%). TransGrid provided distributions of \$36.8 million (up 11.5%). The Dividend Reinvestment Plan was reactivated to assist in the funding of the Bomen Solar Farm, taking effect from the June 2019 half year.

Our businesses continue to lead the industry and evolve their practices across key risk areas of safety, customer satisfaction,

employee engagement and training, the environment, technology and innovation, and regulation. We have robust frameworks to identify and manage risks critical to the creation of long-term, sustainable value.

We were greatly saddened by the effects of the terrible bushfires over recent months. It made demands on a wide range of emergency services, individuals, families, communities, businesses and support agencies including many people from our networks.

Outlook

Significant regulatory changes made in 2019 will impact our network businesses. In particular, the AER's Rate of Return Instrument and the tax allowance for regulatory revenue purposes will reduce regulated rates of return and regulatory tax allowances. SA Power Networks' regulatory period commences on 1 July 2020, while for Victoria Power Networks it is from 1 July 2021 (subject to a six-month transitional period from 1 January 2021). We continue to advocate for fairer outcomes that reflect efficient operations and the provision of investment certainty.

Future distributions to Securityholders will align more closely with the five-year regulatory periods of our core network businesses. Upcoming determinations for SA Power Networks and Victoria Power Networks will provide certainty to 2025/2026, but the draft determination for SA Power Networks incorporates these lower rates of return. The Board has reduced its distribution guidance for 2020 to at least 13.5c per security. We expect distributions to be covered by look-through operating cashflows, noting our four-year average pay out ratio of 71%.

Growth opportunities are driving a shift in focus to 'growth plus yield'. Management and the Board will evaluate the impacts of these opportunities, and develop appropriate capital management plans that balance long-term capital growth plus distributions as part of the overall Total Return being delivered to Securityholders.

Board composition and governance

Board succession and renewal requires careful long-term planning. We seek to ensure an appropriate mix of diversity, skills, capabilities and experience, and monitor potential skills gaps.

In 2019, we farewelled Anne McDonald, who had served as an independent director for 10 years. For eight of those years Anne was Chair of the Audit, Risk and Compliance Committee and more recently, served two years as Chair of the Remuneration Committee. She also acted as a Spark Infrastructure representative director on the Victoria Power Networks' Board and as Chair of their Audit Committee. Anne leaves with our deep gratitude and thanks.

We have also welcomed Miles George to the Board. Miles has a wealth of experience, with particular knowledge of renewables and transformation of the energy sector.

I would like to thank my fellow Directors, the management and staff of Spark Infrastructure, and our investment companies, for their commitment and hard work.

Dr Doug McTaggart
Chair

MANAGING DIRECTOR'S MESSAGE

STRONG PERFORMANCE AMID RAPID TRANSFORMATION

\$312.5M

Investment distributions to Spark Infrastructure

▲2.4%

Spark Infrastructure's portfolio of high-quality, long-life infrastructure businesses delivered another solid performance as the transition to a renewable and sustainable energy future proceeded at pace despite policy uncertainty continuing.

Our objective is to invest in comparatively low risk businesses. We aim to optimise existing networks, while leading a sustainable reduction in emissions. This involves renewable generation and complementary smart electricity grid infrastructure. Energy networks remain critical to that transition. Under our stewardship, they increasingly deliver more value-add services to the grid as energy generation, technology and customer preferences evolve. With more than 2.23 million rooftop solar PV connections, and more large-scale renewable generation seeking to connect, we are well placed to benefit.

Grid investment is essential to Australia's energy future. But we must operate under an appropriate rate of return, sufficient to encourage and reward investment. Increasing levels of government and regulatory intervention have resulted in lower returns. Network owners can no longer legitimately challenge decisions of the Australian Energy Regulator (AER). With our investment businesses, we continue to advocate for outcomes that reflect efficient operations so we can provide greater investment certainty.

Our three-part strategy of Value Enhance, Value Build and Value Acquire will instruct us in delivering exceptional performance

from our existing portfolio. It will also provide growth opportunities from the Australian Energy Market Operator's (AEMO's) Integrated System Plan (ISP), in particular for TransGrid.

Financial performance and operational highlights

- Distributions payable to Securityholders in relation to the 2019 year were 15 cents per security (cps), down 1cps on the prior year. This was primarily due to tax payments of \$38.7 million, with \$34.4 million in relation to financial years 2015 to 2018 and \$4.3 million of instalments in relation to 2019.
- Following the decision of the Federal Court in relation to the tax treatment of capital contributions for Victoria Power Networks, these matters have been appealed and are due to be heard in May 2020. A decision is not expected until in late 2020.
- Proportional aggregated EBITDA for 2019 was \$856.6 million, up 3.4% from \$828.4 million in 2018.
- Investment distributions to Spark Infrastructure from its investment businesses increased by 2.4% from \$305.1 million in 2018 to \$312.5 million in 2019.
- Proportional Regulated and Contracted Asset Base (RCAB) grew by 6.0% to \$6,466 million in 2019.

Victoria Power Networks

Victoria Power Networks performed strongly in 2019. Its regulated asset base grew by 3.8% from \$6,109 million to \$6,339 million. EBITDA of \$848.9 million was up \$19.2 million or 2.3% on 2018, assisted by distribution revenue increases of \$36.3 million.

Beon Energy Solutions (Beon) continues to pursue large-scale renewable energy construction contracts. This includes construction of our 100% owned Bomen Solar Farm near Wagga Wagga NSW, following the successful completion of the Karadoc Solar Farm in 2018. Beon's unregulated revenue increased by 43.8% in 2019 to \$239.5 million. Distributions to Spark Infrastructure in 2019 were up 1.7% to \$159.5 million.

SA Power Networks

SA Power Networks again performed strongly in 2019, with RAB up 2.2% from \$4,247 million to \$4,340 million. EBITDA of \$690.7 million was up \$34.6 million or 5.3% on 2018, assisted by a \$27.8 million increase in distribution revenue.

Distributions to Spark Infrastructure in 2019 were up \$1.0 million to \$116.2 million.

TransGrid

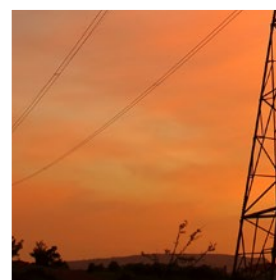
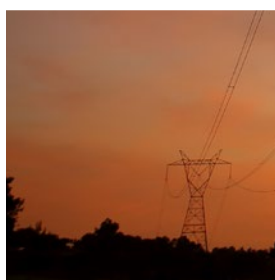
TransGrid continued to be a high performing asset for Spark Infrastructure in 2019. Its RCAB was up 4.4% from \$6,823 million to \$7,126 million primarily due to augmentation projects. EBITDA for 2019 was \$681 million, up \$12.1 million or 1.8% on 2018, assisted by transmission revenue growth of \$20.8 million, operating expense reductions of \$28.5 million and STPIS benefits of \$16.2 million.

Distributions to Spark Infrastructure in 2019 were \$36.8 million, up 11.5%. TransGrid Services also successfully completed its inaugural debt financing in November 2019.

“

Our three-part strategy of Value Enhance, Value Build and Value Acquire focuses us on delivering sustainable distributions and long-term capital growth from our existing portfolio and through other complementary opportunities that may arise from time to time.

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Bushfires

Australia's bushfire crisis has seen devastation across much of the country over recent months. Dedicated crews from our networks worked tirelessly to get critical infrastructure back on-line. We express thanks to all those who responded to the fires.

Bomen Solar Farm

Work advanced significantly in 2019 on the Bomen Solar Farm, near Wagga Wagga in NSW. Bomen Solar Farm is now mechanically complete and is being commissioned and energised across February and March. We expect it to be commercially operational in Quarter 2, 2020.

Growth opportunities

With the NSW Government's Electricity Strategy forecasting that about \$8 billion is required to be invested in the State's electricity system during the next decade, the growth opportunities for our businesses are meaningful. TransGrid's unregulated connections business continued to grow strongly in 2019, and some 2GW of solar and wind connections will produce revenue in future periods. We will closely examine batteries to address a future lack of firming capacity for our existing investment portfolio. AEMO has outlined the significant role that transmission businesses will play in improving regional interconnectivity and providing renewable energy zones to better balance the energy system. It recently released its draft 2020 ISP, confirming nine contingent projects and outlining further developments out to 2030. It identifies priority projects additional to TransGrid's 2018-23 capex allowance of \$1.25 billion. A number of the contingent projects were included in their regulatory determination.

This could lead to TransGrid making significant capital investments, potentially almost doubling its RAB over the next decade. However there are many hurdles yet to overcome before these projects are finally approved.

Project EnergyConnect, a proposed 900km, 330kV interconnector running between Wagga Wagga and Robertson in SA via Buronga, has passed an initial economic cost benefit analysis test for affordable and reliable energy. It would provide 800 regional jobs during construction and 700 ongoing, 800MW of energy and help to enable greater connection of renewables to serve grid transition. TransGrid and ElectraNet are expected to lodge a joint contingent project application with the AER within the next few months. If approved, construction could start by mid-2021 and be fully commissioned by 2023.

The evolution involving our distribution networks, is less advanced but is progressing. In 2019, SA Power Networks was successful in gaining \$1 million funding with Tesla and CSIRO to undertake an advanced Virtual Power Plant (VPP) grid integration project.

Similarly, in Victoria, Beon has recently completed construction of the 112MW Karadoc Solar Farm and 106MW Yatpool Solar Farm, both in Mildura. They have also done an exceptional job in construction of Bomen Solar Farm, which is now in the commissioning stage.

Outlook and Priorities

Spark Infrastructure is a leading ASX-listed owner of long-life essential services infrastructure businesses, ranked among the most efficient and reliable of their type in Australia.

Our three-part strategy will sharpen our focus on efficient operations and growth from our investment portfolio, together with the disciplined pursuit of complementary acquisition opportunities.

We can, in the first instance, fund a lot of this growth through a combination of debt and equity using our Distribution Reinvestment Plan (DRP). These funding options are the most cost effective and equitable means, and recognise the flexibility needed to support our investment horizon.

I would like to offer my thanks to the thousands of people working at Victoria Power Networks, SA Power Networks and TransGrid who have helped deliver our solid performance in 2019. Together with our Board, we look forward to continuing to deliver long-term, sustainable value to Securityholders, during 2020 and beyond.

Rick Francis
Managing Director

INVESTING IN

ESSENTIAL SERVICES
INFRASTRUCTURE

Spark Infrastructure's strategic focus, operational excellence and the quality of our investment portfolio and our high performing management teams have enabled us to deliver another strong year of performance.

Our three-part strategy of Value Enhance, Value Build and Value Acquire enables us to manage our existing businesses for optimum performance and returns. We can capitalise on their organic growth opportunities while simultaneously evaluating opportunities to grow and diversify our total investment portfolio through disciplined acquisitions. This includes building on Bomen Solar Farm as a future business platform in renewable energy and new technologies.

Long-term value is delivered by Spark Infrastructure through seven areas of focus:

- Customer and community
- Health, safety and wellbeing
- Workforce
- Environment
- Resilient assets
- Technology and innovation
- Financial management

These areas of focus are underpinned by a commitment to strong governance and risk management and are directed by our deep understanding and advocacy in the regulatory environment in which our businesses operate. We leverage the skills and expertise of our people and partners as we seek to expand our portfolio into unregulated opportunities.

OUR
VISION

Is to create long-term sustainable value for Securityholders through capital growth and distributions from our portfolio of high-quality, long-life essential services infrastructure businesses.

OUR
STRATEGY

VALUE ENHANCE

Managing our portfolio for performance and organic growth through efficient investment.

This is underpinned by rigorous governance and risk management where we harness our resources. We are able to deliver performance excellence and invest efficiently to capitalise on growth opportunities thanks to our people, by prioritising health and safety, using technology and innovation and through strong financial management.

VALUE BUILD

Developing adjacent business platforms.

By identifying opportunities in adjacent market sectors, we leverage the experience of partners and capitalise on emerging technology and innovation and customer driven transformation occurring across the industry.

VALUE ACQUIRE

Growing through disciplined acquisitions.

We continue to seek out and evaluate opportunities to grow and diversify our portfolio through brownfield acquisitions, primarily focussing on markets where we have existing interests with observable growth opportunities.



OUR RISK AND GOVERNANCE APPROACH

ASSET OPPORTUNITY SET



ELECTRICITY NETWORKS



ELECTRICITY STORAGE



RENEWABLE ENERGY



GAS NETWORKS/
GAS STORAGE



WATER NETWORKS/
WATER TREATMENT

EXTERNAL INFLUENCES

- Risk Management and Governance
- Industry Regulation
- Financial markets
- Environment - weather events and natural disasters

OUR OBJECTIVES



SECURITYHOLDERS

Delivering long-term sustainable value through investment in essential services infrastructure



CUSTOMERS AND COMMUNITY

Delivering safe, reliable and affordable electricity solutions through efficient investment



OUR PEOPLE, HEALTH AND SAFETY

Providing safe and rewarding workplaces for our people



INNOVATION AND TECHNOLOGY

Delivering an energy system for the future



ENVIRONMENT

Protecting the environment in which we operate and facilitating the transition to a low carbon emissions future

OUR OUTCOMES



STABLE CASH FLOWS



STRONG FINANCIAL PERFORMANCE



AFFORDABILITY



RELIABILITY

AFFORDABLE AND RELIABLE ENERGY SOLUTIONS



EFFICIENCY



UTILISATION



SAFETY

LEADERS IN EFFICIENCY, UTILISATION AND SAFETY



STRONG COST DISCIPLINE



STABLE SECURE AND RESILIENT



EMERGING ENVIRONMENT



Spark Infrastructure is committed to energy system stability, reliability and minimising costs to customers. Investment in our network businesses is critical to a successful transition to the new energy future, facilitating the entry of low-cost generation and reducing costs to customers.



Our objective is to continue to optimise the performance of our existing network businesses while leading the sustainable reduction in emissions through investing in renewable generation and complementary and smart electricity grid infrastructure.



Significant new network investment is required in the overall energy system as it transitions from large coal fired generators, which provide system stability, to widely dispersed intermittent renewable generation, which requires the support of firming technology to ensure system resilience and reliability. The Australian Electricity Market Commission (AEMC) expects that, by 2030, 6,000MW of generation will close and be replaced by 22,000MW of intermittent renewable generation and 6,000MW of storage.



AEMO recently delivered its Draft 2020 Integrated System Plan (ISP) outlining the significant role transmission networks and, in particular, TransGrid will play in delivering greater regional interconnectivity and renewable energy zones to better balance the energy system. The ISP calls for nine major new transmission projects in the near term, which could lead to significant capital investments over the next decade.



Our network businesses are increasingly delivering more value-added services to the grid as energy generation, technology and customer preferences evolve. Our strategy enables us to capitalise on these growth opportunities in our distribution and transmission networks, renewables and adjacent sectors, investing in infrastructure for the future.

CASE STUDY



PROJECT ENERGYCONNECT

Project EnergyConnect is a proposed 900km interconnector running between Wagga Wagga in NSW and Robertson in South Australia via Buronga with a spur line to Red Cliffs in Victoria. PEC has been declared critical state significant infrastructure by the NSW government and is expected to provide 800 regional jobs during construction with 700 ongoing. The AER recently approved the RIT-T. TransGrid and ElectraNet are expected to soon lodge a contingent project application. If approved by the AER, TransGrid will build, own and operate the line from Wagga Wagga to the South Australian border. PEC is estimated to provide 800MW (equivalent to providing energy to 240,000 households) of two-way capacity between South Australia and NSW and will enable future renewable projects to connect to the grid.

LONG-TERM VISION TO 2040



Priority grid projects
Committed



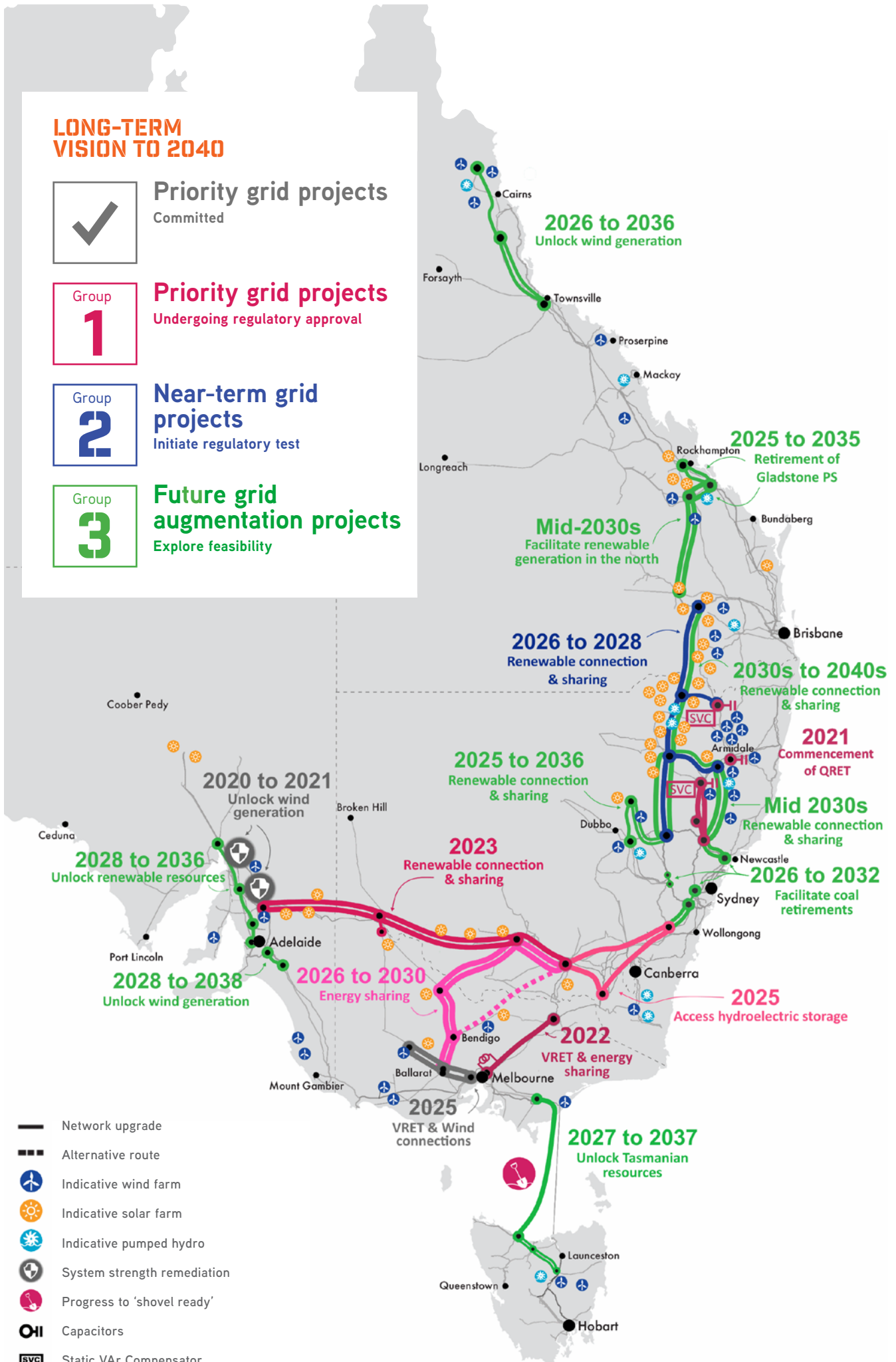
Priority grid projects
Undergoing regulatory approval



Near-term grid projects
Initiate regulatory test



Future grid augmentation projects
Explore feasibility



- Network upgrade
- Alternative route
- Indicative wind farm
- Indicative solar farm
- Indicative pumped hydro
- System strength remediation
- Progress to 'shovel ready'
- Capacitors
- Static VAR Compensator

Source: AEMO Draft 2020 Integrated System Plan.

ASSET

OUR ASSETS



Spark Infrastructure's core values of respect, integrity, excellence, collaboration, accountability, growth, innovation and sustainability permeate everything we do.

Our aim is to deliver long-term total returns through capital growth and distributions to Securityholders by creating a balanced portfolio of high quality, long-life infrastructure businesses.

Regulated returns from our investment businesses underpin our revenues. Value is then created through efficient performance of the businesses, capturing higher margin unregulated returns, and by optimising our capital structure and disciplined allocation of capital.

Our regulated investment businesses provide cash flow certainty during their five-year regulatory periods. We are about to enter the next regulatory periods for our core assets – on 1 July 2020 for SA Power Networks and 1 July 2021 for Victoria Power Networks. While these upcoming price determinations will incorporate the lower Rate of Return Instrument outcomes from the AER, they provide revenue certainty through to 2025 and 2026 respectively. Victoria Power Networks will be subject to the new rate of return from 1 January 2021 as it transitions to a 30 June regulatory period. TransGrid's regulatory period runs through to 2023 and is not subject to the new rate of return.

GROWTH OPPORTUNITIES

Spark Infrastructure owns Australia's top performing regulated electricity networks.

These networks continue to invest in innovation and technology through their unregulated businesses and, year-on-year, demonstrate their ability to outperform and support our investment earnings.

The Australian Energy Regulator's 2019 benchmarking confirms SA Power Networks as the most productive distribution network in the NEM on a state-wide basis. CitiPower remains ranked at number one for total productivity, with SA Power Networks ranked third. CitiPower also ranked number one for opex productivity, with Powercor ranked second. TransGrid continues to improve, ranking second in opex productivity and remaining third amongst its transmission peers for total productivity.

Our investment businesses continue to seek upside through efficiencies and pursuing new technologies to reduce cost and increase the scope of services.

Our aim is to deliver long-term total returns through capital growth and distributions to Securityholders.

UNREGULATED BUSINESSES DELIVERING GROWTH

BEON

Beon Energy Solutions, owned by Victoria Power Networks is a leader in the deployment of large-scale renewable energy and infrastructure projects, with extensive expertise in design, construction and maintenance. Beon partners with clients to reduce costs and project timelines, leading to faster commissioning without compromising safety and quality. Beon uses its technical expertise and agility to provide energy solutions for renewables, utilities and infrastructure, business solutions, and residential development across Australia. Beon is committed to safety, performance and reliability coupled with a desire to drive and embrace change. Beon saw continued growth in new solar projects, such as Bomen Solar Farm, in 2019, with unregulated revenue increasing by 43.8%.

ENERVEN

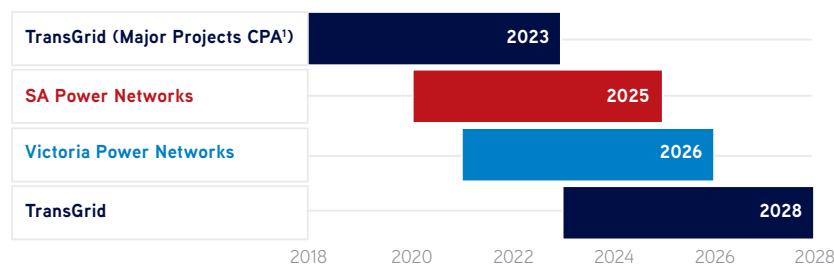
Enerven has vast experience in renewable energy technologies, including PV solar and energy storage, smart lighting, Virtual Power Plants (VPP), embedded networks and microgrids. Enerven has a proven track record in quality, service delivery, safety and environmental sustainability. Enerven develops solutions enabling customers and communities to choose, create and adapt how they connect with, make, store and use energy. Enerven provides solutions from transmission and substation design and maintenance, to large scale solar to battery installations or micro-grids for new housing developments. In 2019, Enerven generated new business opportunities, such as commercial solar installations for SA Water with unregulated revenue increasing by 42.9%.

TRANSGRID NEW CONNECTIONS

TransGrid's unregulated business provides connections for renewable generation and other services for customers. TransGrid's unregulated business experienced significant growth in 2019, connecting wind and solar energy projects and line modification to support Western Sydney Airport. TransGrid has a strong project pipeline of opportunities with 23 projects in development at June 2019.

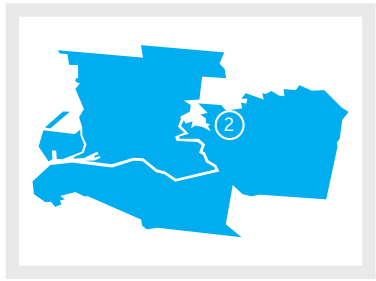
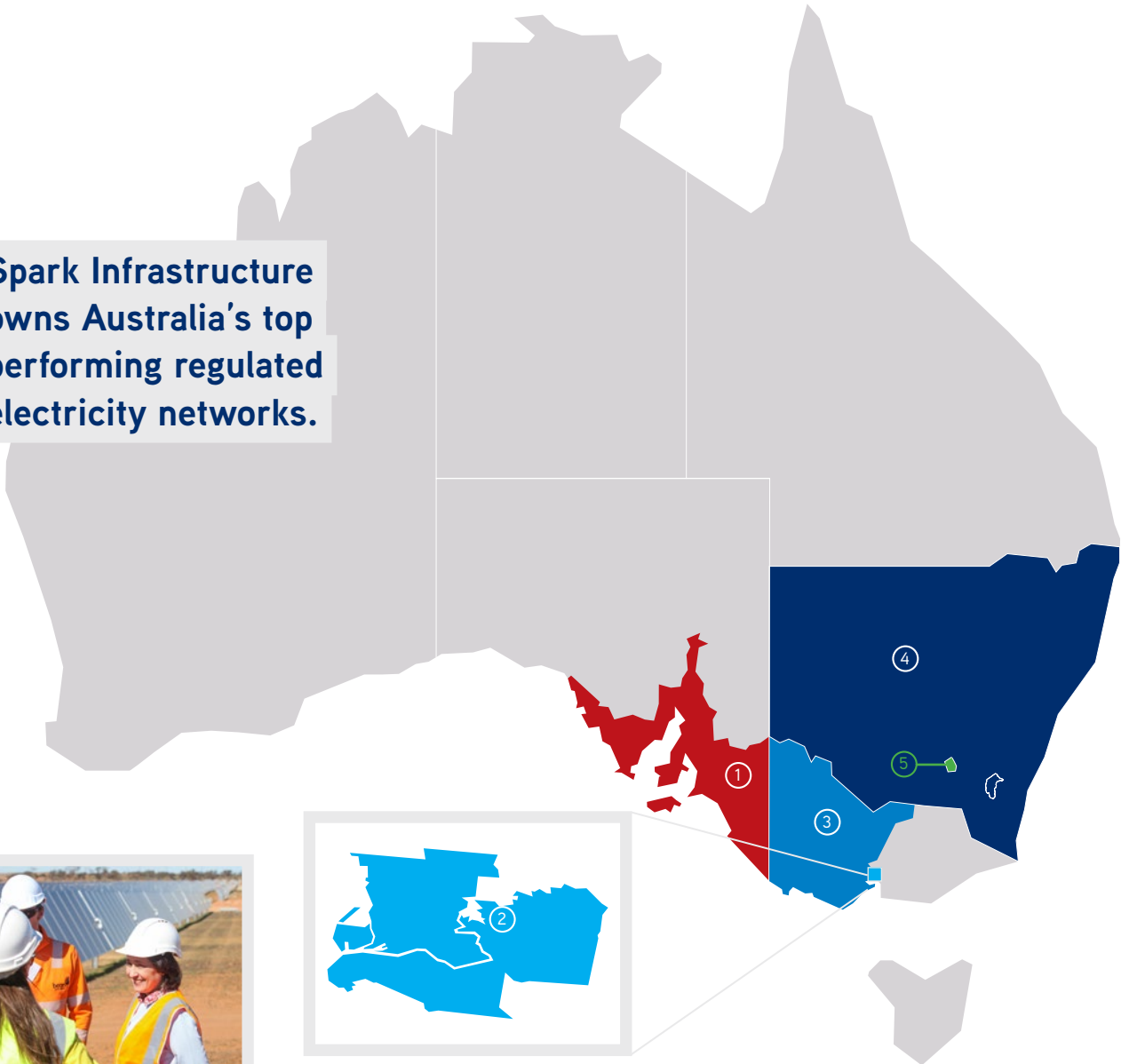
REGULATORY RESETS

High level of cash flow certainty to 2025/2026 for our distribution businesses



1. Revenue will be adjusted in the current regulatory period to incorporate the AER's decisions on contingent project applications (CPA).

Spark Infrastructure owns Australia's top performing regulated electricity networks.



INVESTING IN THE NEXT GENERATION

① SA POWER NETWORKS

SA Power Networks operates South Australia's electricity distribution network covering 178,000 sq km and consisting of 89,000 km of power lines. SA Power Networks invests in the next generation through training and development, recruiting 652 apprentices and graduates since 2004.

② CITIPOWER

CitiPower operates a 157 sq km distribution network in Melbourne's CBD and inner suburbs with 7,500 km of power lines. CitiPower and Powercor together are known as Victoria Power Networks. Victoria Power Networks' 2019 apprenticeship intake included 16% women and 4% from an indigenous background.

③ POWERCOR

Powercor operates Victoria's largest electricity distribution network with more than half a million poles and 89,000 km of power lines. CitiPower and Powercor together are known as Victoria Power Networks. Victoria Power Networks' Women in Power network is active across the business including hosting learning and development lunches.

④ TRANSGRID

TransGrid is the operator of the high voltage electricity transmission network connecting generators, distributors and major end users in New South Wales and the Australian Capital Territory across 13,000 km of transmission lines. TransGrid is critical to the development of the NEM, supporting the least cost transition to a low emission, renewable future. TransGrid supports indigenous students to pursue a career in STEM and promotes Women in Engineering and IT scholarship programs.

⑤ BOMEN SOLAR FARM

The Bomen Solar Farm project was acquired in 2019. Construction by our associate, Beon was mechanically complete in January 2020. Bomen Solar Farm will be commissioned and energised through to March and is expected to commence commercial operations in Quarter 2, 2020. During construction, Bomen Solar Farm employed 181 workers, 75% who were local and 15% with an indigenous background.

ASSET

SA POWER NETWORKS

**887,126**
Customers**89,222KM**
Network lines**2,963MW**
Peak demand

SA Power Networks distributes electricity to homes and businesses across South Australia through its network of poles and wires.

SA Power Networks has a history of ranking as the most efficient electricity distributor on a state-by-state basis in the National Electricity Market, and has the second lowest state-by-state distribution charges per residential customer.

Services include maintaining and building a reliable distribution network, responding to outages including those caused by extreme weather, and ensuring community safety from electric shock and bushfires. The average customer pays about \$10 per week for these services. In real terms, customers pay the same amount as they did in 1999, due to efficiency of the business. This means SA Power Networks' share of the residential bill has fallen from 50% in 1999 to about 30% in 2019.



2019 ACHIEVEMENTS

SA Power Networks received the following recognitions:

Digital Utility Awards 2019 – Energy – Digital Utility of the Year

Digital Utility Awards 2019 – SA Power Networks My Workday project – Best Use of New Technology

Australian Institute of Project Managers SA 2019 Awards – Corporate Portfolio Management Office SA Power Networks – 2019 Project of the Year – Australian Institute of Project Managers SA

Australian Institute of Project Managers SA 2019 Awards – Corporate Portfolio Management Office SA Power Networks – Best Organisation/Change Management Project – Australian Institute of Project Managers SA

Australian Institute of Project Managers SA 2019 Awards – Valuing and Visibility SA Power Networks – Best ICT/Telecommunications Project – Australian Institute of Project Managers SA

2020 PRIORITIES

In addition to an unwavering commitment to safety, SA Power Networks' top priorities are to:

Implement the Billing & Customer Relationship Management (CRM) Program

Deliver the Powering Ahead Program

Achieve the final 2020–2025 Regulatory Determination

Implement the Scheduling and Mobility Program

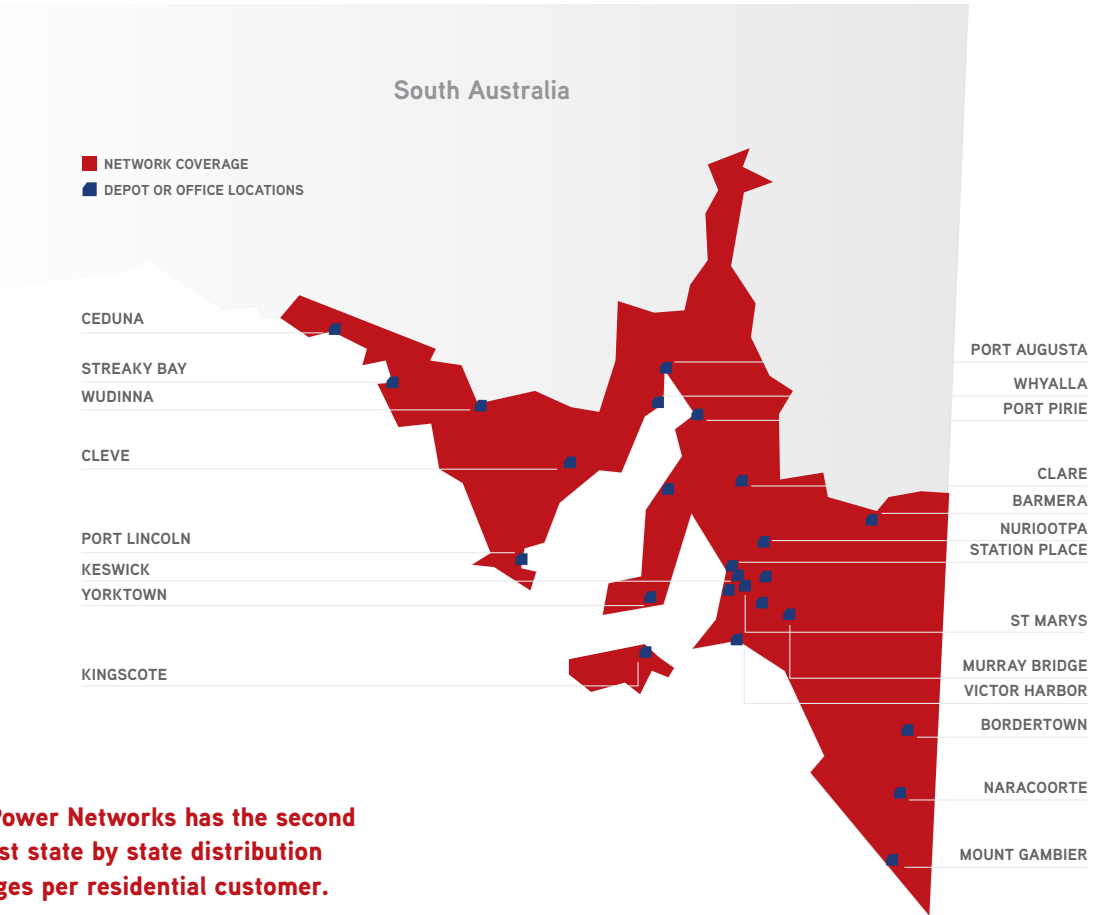
Payroll System replacement

Implement the Outage Management System (OMS)

Enerven's delivery of the SA Water Zero Cost Energy Future Project

Distributed energy transition enablement

**\$4.3B**
Regulated Asset Base**99.97%**
Network availability**2,196**
Employees



SA Power Networks has the second lowest state by state distribution charges per residential customer.

CASE STUDY

SA POWER NETWORKS

In 2019, SA Power Networks engaged with customers through three agricultural Field Days, three Council events, one regional Show and the Royal Adelaide Show.

South East Field Days, March 15 to 16
Customer Interactions: 250–300 per day

Touch a Truck Marion, April 16
Customer Interactions: An estimated 10,000 people

Children and parents attend this Council led event where emergency services and utilities (among others) showcase their trucks and equipment. Children can sit in and touch the trucks and find out about the work SA Power Networks do.

Touch a Truck City of Onkaparinga, April 26
Customer Interactions: An estimated 8,000 people

Royal Adelaide Show, August 30 to September 8
Customer Interactions: 3,000 plastic helmets given away and almost 1,500 photos printed out

Riverland Field Days, September 13 to 14
Customer Interactions: 300–400 visitors per day

Yorke Peninsula Field Days, September 24 to 26
Customer Interactions: 200–300 visitors per day

Touch a Truck Tea Tree Gully, October 11
Customer Interactions: An estimated 5,000–10,000 people

Clare Show, October 19
Customer Interactions: An estimated 200–300 people



ASSET

CITIPOWER

CITIPOWER AND
POWERCOR MAKE
UP VICTORIA POWER
NETWORKS

CitiPower and Powercor (collectively known as Victoria Power Networks) are Victoria's largest electricity suppliers, delivering electricity to over 1.1 million residential households and commercial customers across Victoria.



2019 ACHIEVEMENTS

CitiPower and Powercor are committed to minimising their environmental impact in addition to managing factors such as hazardous substances. The businesses also focus on key areas including material and resource efficiency and recycling and waste.

As population densities in inner city areas rise, noise abatement at the Balaclava Zone Substation has become the subject of an Environment Protection Authority Victoria notice. A plan for compliance by January 2020 is being implemented.

Reduced carbon through the use of Downer's Low CO₂ Asphalt (LCA) is a key initiative to ensure a sustainable, cost effective and high performing asphalt solution within the critical, Waratah Place Security of Supply project. The innovation in this product is demonstrated in the incorporation of various recycled product streams such as recycled toner cartridges, recycled glass and used tyres. As a result, this next generation asphalt will produce at least a 30% reduction in CO₂e emissions when compared to conventional AC10 virgin products.

Delivering customer outcomes through robotics with 8 processes automated in 2019.

2020 PRIORITIES

Safety: Focus on High Risk Controls and Human Factors Management to continue to drive safer network operating practices. Improve the accessibility of and adherence to work practices and continue to build safety leadership capability and focus on hazard and near miss reporting.

Customer: Rollout of our updated Customer Services Strategy and associated internal customer services restructure to support a multi-year focus to ensure holistic customer ownership across the business while driving efficient end-to-end processes.

Cost effective: Ongoing operational reviews across all teams to streamline processes and reduce cost of service delivery.

Regulatory Reset: Submission of Regulatory Proposal for 2021–2026 and continuing engagement with the Australian Energy Regulator and interested stakeholders.



334,001
Customers



7,521km
Network lines



1,432MW
Peak demand

In 2019, CitiPower had 99.99% availability and met peak demand of 1,432MW.

The AER has once again ranked CitiPower number one in terms of total productivity and number one in terms of opex productivity in its benchmarking report for 2019.

Distribution costs for CitiPower and Powercor, together known as Victoria Power Networks, comprise just 23% of a customer bill compared to almost 50% in other Australian states.



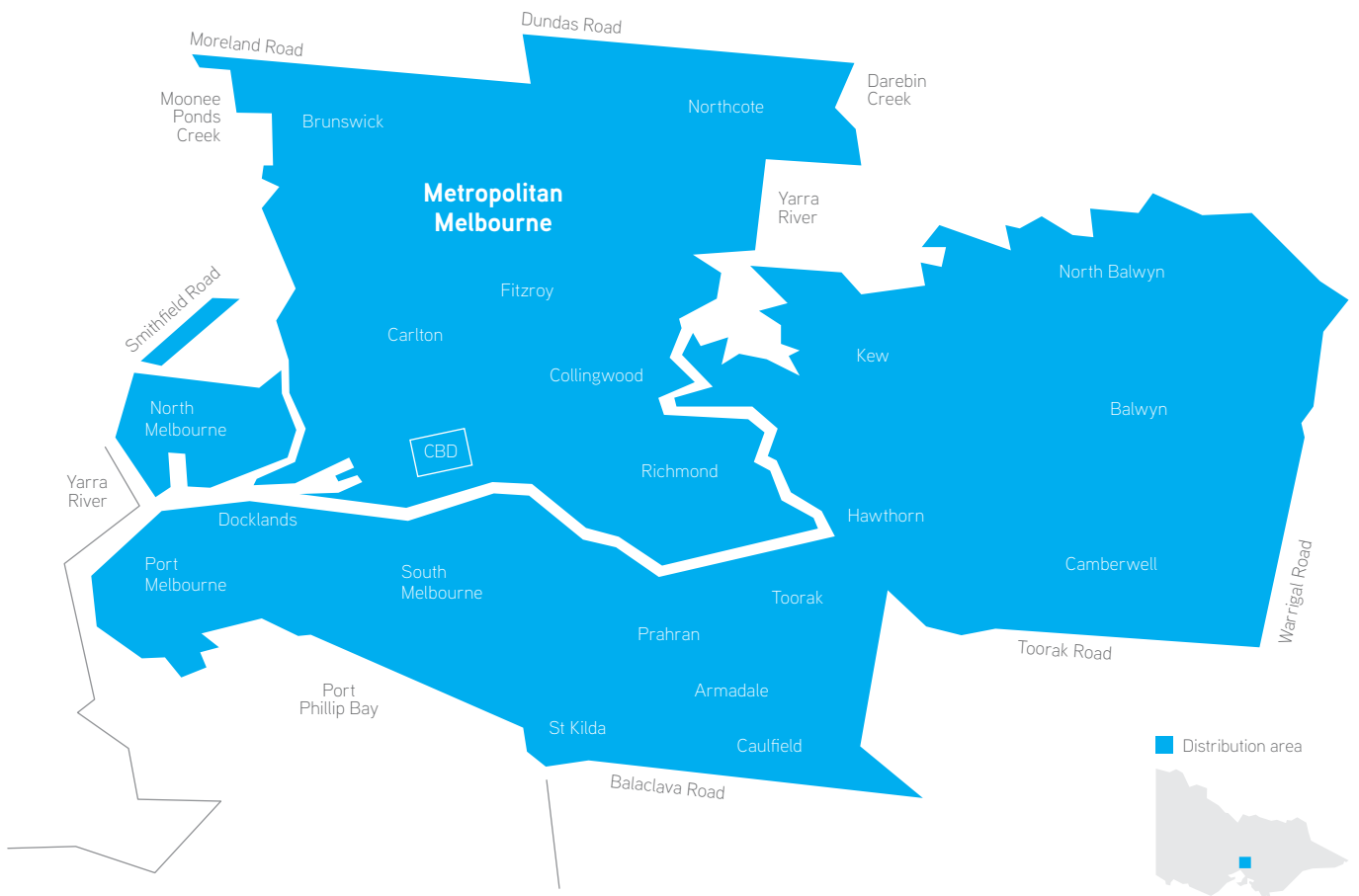
\$1,980M
Regulated Asset Base



99.99%
Network availability



2,019
Employees
Combined CitiPower and Powercor



The AER has once again ranked CitiPower number one in terms of total productivity in its benchmarking report for 2019.

CASE STUDY



VICTORIA POWER NETWORKS

Victoria Power Networks received a response rate of 89% in their employee engagement survey which was on average 17% better than global utilities benchmarks. Key outcomes include:

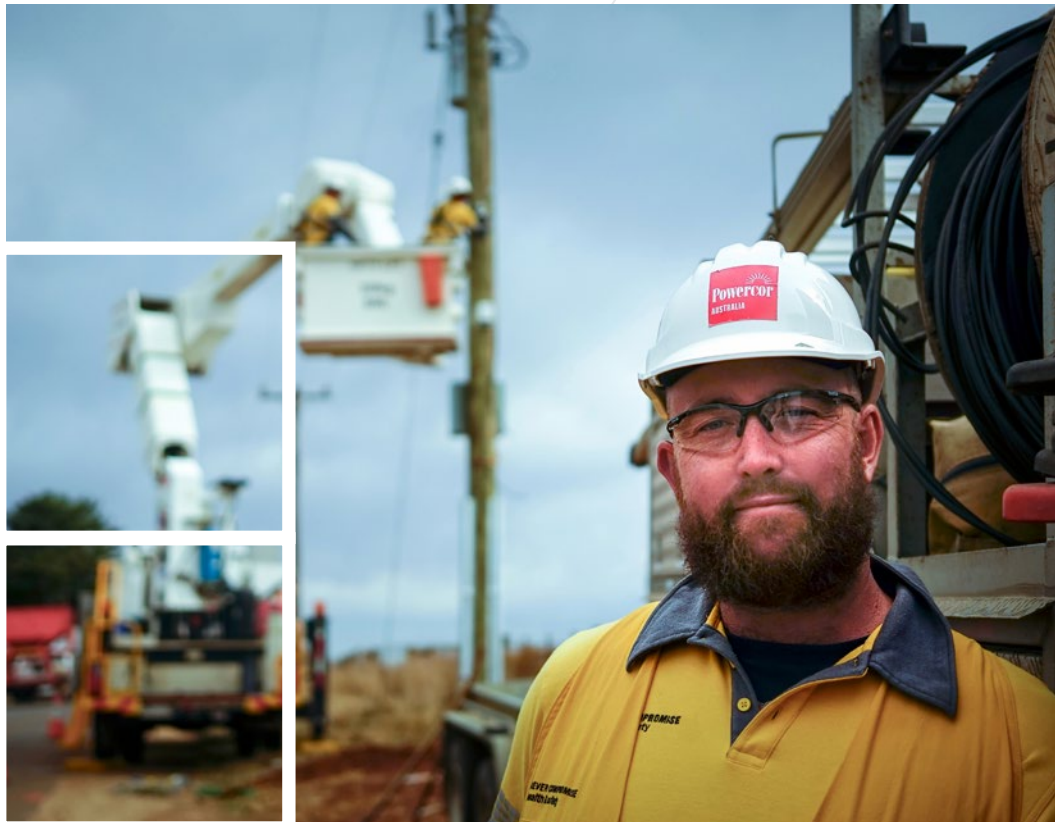
- 74% say they can see a clear link between their work and the business' strategic pillars (65%: 2018)
- 92% say the business provides a health and safety work environment
- Engagement score of 82% exceeds global utilities benchmark by 23%
- Customer centricity score of 82% shows the focus on "what we need to do to continue delivering customer outcomes".

ASSET

POWERCOR

CITIPOWER AND
POWERCOR MAKE
UP VICTORIA POWER
NETWORKS

The Powercor and CitiPower distribution networks (collectively known as Victoria Power Networks) are the most reliable in Victoria and stretch from central Melbourne, west to the borders of South Australia, and north to New South Wales.



2019 ACHIEVEMENTS

CitiPower and Powercor are committed to minimising their environmental impact in addition to managing factors such as hazardous substances. The businesses also focus on key areas including material and resource efficiency, and recycling and waste.

Oil spills from transformers represent one of the highest environmental risks for the network businesses. Ensuring effective controls to mitigate against soil and stormwater pollution has been a focus in 2019. The HSE team sought assistance from employees to report oil spills from assets into Cintellate as an environmental incident for old or new spills. The reporting enables the HSE team to help resolve oil spill issues by identifying quick fixes, such as replacing leaking distribution transformers or placing absorbent materials below the leaks or putting plans in place to repair or replace equipment in Zone Substations. By doing the right thing we are reducing our impact on the environment and ensuring we remain compliant with environmental legislation.

The 106MW Yatpool Solar Farm which is under construction has created over 190 regional jobs as part of an innovative training and employment program. It builds on a successful model developed on the nearby 112MW Karadoc Solar Farm constructed in 2018.

2020 PRIORITIES

Safety: Focus on High Risk Controls and Human Factors Management to continue to drive safer network operating practices. Improve the accessibility of and adherence to work practices and continue to build safety leadership capability and focus on hazard and near miss reporting.

Customer: Rollout of our updated Customer Services Strategy and associated internal customer services restructure to support a multi-year focus to ensure holistic customer ownership across the business while driving efficient end-to-end processes.

Cost effective: Ongoing operational reviews across all teams to streamline processes and reduce cost of service delivery.

Regulatory Reset: Submission of Regulatory Proposal for 2021–2026 and continuing engagement with the Australian Energy Regulator and interested stakeholders.



830,915
Customers



89,103KM
Network lines



2,232MW
Peak demand



In 2019, Powercor had 99.96% availability and met peak demand of 2,232MW.

The AER's productivity benchmarking for 2019 ranked Powercor number two in terms of opex productivity. Network reliability has also improved by almost 40% since 1995.



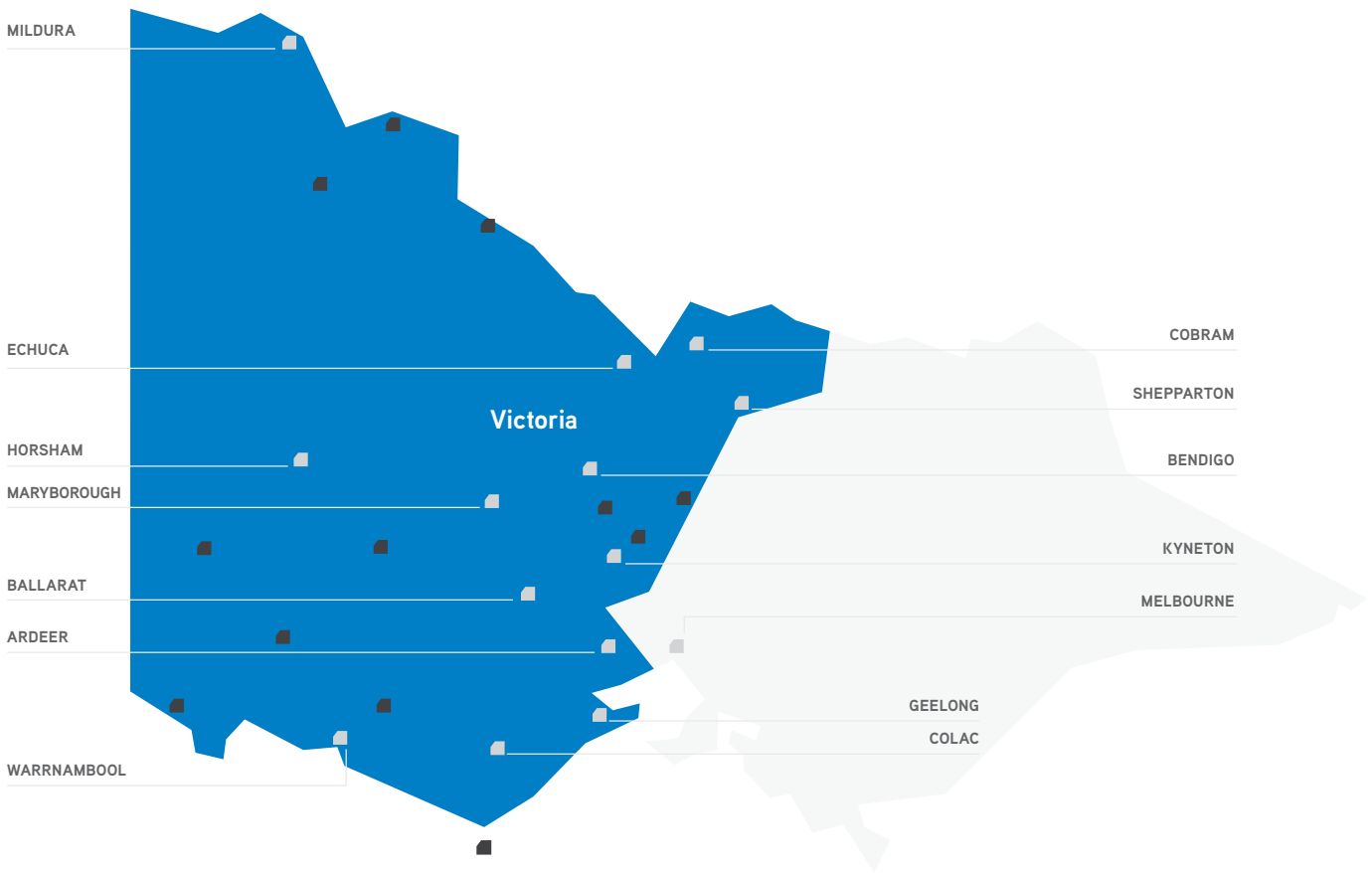
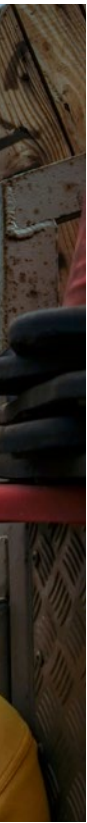
\$4,359M
Regulated Asset Base



99.96%
Network availability



2,019
Employees
Combined CitiPower and Powercor



Powercor is one of the highest reliability performing rural electricity networks in Australia.

- DISTRIBUTION AREA
- LOCAL SERVICE AGENTS
- LOCATIONS

CASE STUDY



VICTORIA POWER NETWORKS

In September, employees from CitiPower and Powercor achieved their annual target of 2,000 volunteer hours for 2019. This included support for community-based programs such as Food Truck, Landcare and the Red Cross Blood Bank. Ensuring the good health and safety of our communities speaks to the heart of our businesses and that's why Powercor has committed to a new five-year partnership with Lorne Surf Life Saving Club, sponsoring two key events – the Lorne Pier to Pub and the Lorne Mountain to Surf run held the day before the swim. The Powercor Lorne Pier to Pub is the largest open water swim in the world and attracts thousands of competitors. Powercor also supported Australia's longest running and most prestigious road race, the Melbourne to Warrnambool Cycling Classic for a three-year term. After the sustainability of the race was threatened, Powercor became the naming rights sponsor in partnering with Cycling Victoria.

ASSET
TRANSGRID



3.0M+
Homes and
businesses supplied



13,155KM
Network lines

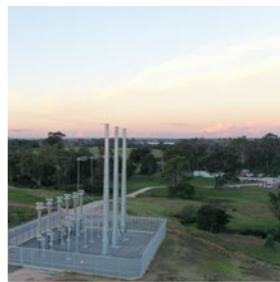
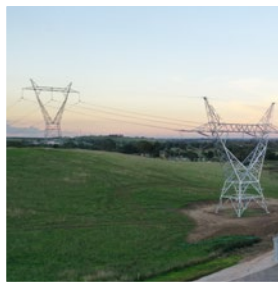


13,821MW
Peak demand

+

TransGrid's network connects NSW to Queensland and Victoria and forms the backbone of the NEM.

It consists of 110 bulk supply substations and over 13,000 km of high voltage transmission lines, underground cables and interconnectors.



2019 ACHIEVEMENTS

Signatory to the Energy Charter
Employed 13 new graduates and seven new apprentices
Embedded first Reconciliation Action Plan (Reflect) with work progressing on the second stage (Innovate)
Explored innovation initiatives including the use of 'SmartWires' technology, batteries and drones
Three new generation connections under commissioning
Western Sydney Airport line modification
Increased Gender Diversity to 22%
Hosted two Indigenous interns from Career Trackers
Developed a Network Climate Change Adoption Strategy

2020 PRIORITIES

ISP projects – Project EnergyConnect, QNI, VNI, HomeLink and VNI West
Growth in renewable connections
Enterprise Bargain Agreement
Efficient operating model
Innovation incubator
Early engagement and preparation for the 2023-2028 Revenue Reset
Continual engagement with regulators and policy makers



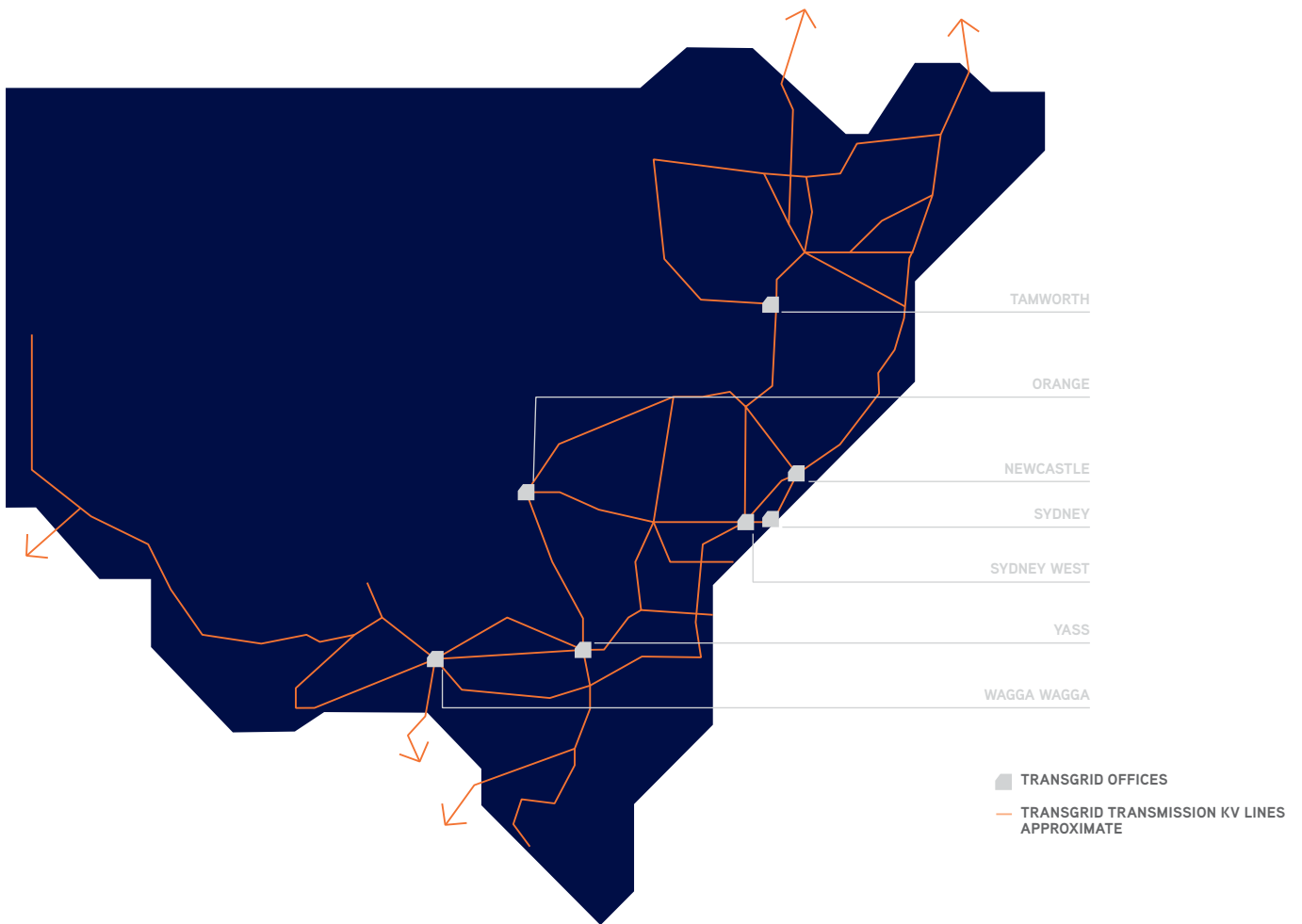
\$7,126M
Regulated and
Contracted Asset Base



99.9999%
Network reliability



1,090
Employees



In 2019, TransGrid explored a number of innovation initiatives including the use of 'Smart Wires' technology, batteries and drones.

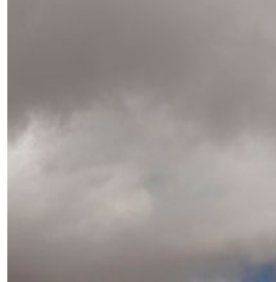
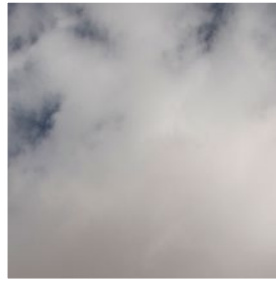
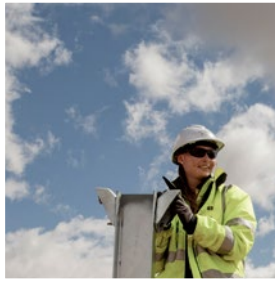
CASE STUDY



TRANSGRID

TransGrid manages the resilience of its network by using a structured risk assessment approach. For network safety, bushfire and reliability, that involves the use of Formal Safety Assessments. They identify credible hazards, review and implement all reasonable good-practice controls and monitor implementation and effectiveness through continuous review and controls. Key to the implementation of these controls is the Asset Management System, which is certified to ISO 55001. Emerging future risks, such as a potential change to extreme weather events, are assessed as part of longer-term strategy development. In addition, TransGrid deploys a Business Continuity Management Framework to assess and control the risks of broader business interruption, corporate IT system failure and other threats.

ASSET

BOMEN
SOLAR FARM

~120MW DC
~100MW AC
Capacity



~28%
Capacity factor



BEON
EPC + O&M



Spark Infrastructure's acquisition of Bomen Solar Farm represents a logical and prudent first step in delivering our Value Build strategy providing access to growth opportunities in renewables and creation of a renewable energy platform. Construction is on time and on budget with commercial operations expected to commence in Quarter 2, 2020.

KEY MILESTONES

RES appointed as asset manager

Beon appointed as operations and maintenance provider

Funded from existing cash and undrawn facilities

When operating expected to generate average annual revenue of approximately \$13.5 million for the first five years

Financial close, April 2019

Mobilisation to site, June 2019

Civil works, November 2019

HV works, January 2020

Mechanical installation complete, January 2020

Energisation and commissioning February/March 2020

Commercial operation, Quarter 2, 2020



RES
Asset Manager



BEON
O&M



310,000
Bi facial Jinko Panels



SMA
Inverters



TRANSGRID
TNSP



NEXTRACKER
Tracking technology



PPAs
~95%
 contracted for the
 first five years

~82%
 contracted for the
 first 10 years

PPA COUNTERPARTIES

10 YEARS
 Westpac

5, 7 & 10 YEARS
 Flow Power

CASE STUDY



BOMEN SOLAR FARM

Bomen Solar Farm has Power Purchase Agreements (PPAs) with Westpac for 10 years and with Flow Power for a range of contract tenures of 5, 7 and 10 years. This provides a stable and predictable revenue stream which is approximately 95% contracted for the first five years and approximately 82% contracted for the first ten years. When operating, Bomen Solar Farm is expected to generate average annual revenue of approximately \$13.5 million for the first five years.

Under these PPA's

Westpac will purchase just over a quarter of Bomen Solar Farm's output for ten years as part of its commitment to source the equivalent of 100% of its global electricity consumption through renewable sources by 2025.

Flow Power will deliver low-cost solar power to its business customers for up to ten years. Flow Power is an electricity retailer transforming the way Australian businesses buy their electricity.

OUR APPROACH TO SUSTAINABILITY




Spark Infrastructure is focused on growth and investing in infrastructure to continue delivering sustainable long-term total returns to investors. We will leverage our competitive advantages, knowledge, capabilities and experience to deliver sustainable and balanced growth.

Our approach	28	Environment	36
Governance	29	Regulation and Resilient Assets	38
Customers and Community	30	Technology and Innovation	40
Health, Safety and Wellbeing	32	Financial Management	42
Workforce	34		

KEY FOCUS AREAS	ISSUES WE MANAGE	RESPONSES AND OPPORTUNITIES
Customer and the community 	<ul style="list-style-type: none"> › Affordable, reliable energy solutions › Community safety › Community impacts › Reputation and meeting community expectations 	<ul style="list-style-type: none"> › Extensive customer and stakeholder engagement › Strong commitment to modernising networks while reducing prices for customers › Local employment opportunities and supporting local economy › Community partnership programs
Health, safety and wellbeing 	<ul style="list-style-type: none"> › Injury and accidents › Workplace relations › Employee wellbeing 	<ul style="list-style-type: none"> › Strong commitment to workplace safety, targeted initiatives, training and incident reporting › Diversity and inclusion › Programs supporting employee wellbeing and health
Workforce 	<ul style="list-style-type: none"> › People and talent management › Engaged and diverse workforce 	<ul style="list-style-type: none"> › Developing workplace capabilities, training, succession planning and appropriate remuneration policies › Employee engagement surveys › Diversity initiatives and strong commitment to equal opportunity workplace
Environment 	<ul style="list-style-type: none"> › Bushfires and vegetation management › Environmental damage and pollution 	<ul style="list-style-type: none"> › Strong focus on vegetation management processes › Environmental risk management policies, procedures and reviews › Effective use of technology › Bushfire response programs
Regulation and Resilient Assets 	<ul style="list-style-type: none"> › Regulatory landscape › Regulatory reviews and changes to law › Business interruption › Network reliability, interruptions, loss of supply or sabotage › IT systems and cyber security › Extreme weather events 	<ul style="list-style-type: none"> › Ongoing effective engagement ahead of and during regulatory periods › Influencing and advocating › Government relations and industry associations › Engagement with industry/government bodies for best practice › Disaster recovery plans › Emergency and crisis training and plans › Insurance for third-party damage
Technology and innovation 	<ul style="list-style-type: none"> › Increased penetration of solar PV and batteries › Increased interconnectivity for inter-regional transmission › Increased distributed energy resources (DER) › Increased utility-scale renewable energy (wind, solar and storage) › Increased penetration of electric vehicles 	<ul style="list-style-type: none"> › Increasingly managing two-way electricity flows on low-voltage network › ISP projects (PEC, QNI, VNI and HumeLink) › SA Power Networks undertaking Distribution System Operator (DSO) trials with Simply Energy, GreenSync, AGL and Tesla › Victoria Power Networks battery trials › Bomen Solar Farm energisation
Financial management 	<ul style="list-style-type: none"> › Delivering return objectives › Treasury risk management › Robust project management › Disciplined capital management 	<ul style="list-style-type: none"> › Business and tax planning › Sustainable and prudent capital allocation and capital management plan › Strong focus on project and contract management capability

UNDER-PINNED BY

Corporate Governance and compliance 	<ul style="list-style-type: none"> › Operating licence requirements › Relevant laws, regulatory requirements and reporting 	<ul style="list-style-type: none"> › Rigorous corporate governance structures › Code of conduct › Anti-corruption measures/whistleblower protection › Robust reporting practices ensuring resolution of incidents › Risk management and assurance program › Procurement practices/modern slavery
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SUSTAINABILITY

OUR
APPROACH

Our ownership of long-life, high performing essential services infrastructure businesses enables us to ensure sustainable policies and practices are adopted through robust governance, risk management and operational performance oversight.

In doing so, we meet customer and community expectations, ensure the health and safety of our workforce and the community, provide development opportunities for our people, protect the environment, harness innovation and technology to grow our businesses, unlock opportunities to build and reinforce resilient assets and exercise financial discipline to support distributions for our Securityholders.

A key enabler is our detailed and deep understanding of the regulatory framework in which our businesses operate. Our advocacy ensures that appropriate regulatory returns are available, reflecting efficient operation of our businesses to provide greater certainty for future investment.



CASE STUDY



BOMEN SOLAR FARM

Reflecting our three-part strategy of Value Enhance, Value Build and Value Acquire, we are focused on the growth opportunities being created by the transition to a clean energy future.

Evidence of our commitment to invest in Australia's renewable future was demonstrated in our acquisition of the 120MW_{DC}/100MW_{AC} Bomen Solar Farm project. Bomen Solar Farm is strategically located in a strong part of the grid, 10 km north-east of Wagga Wagga and close to TransGrid's Wagga North substation where it connects into the transmission network. It is a logical first step in diversifying our exposure to regulated assets and to access growth in adjacent essential services infrastructure.

With Bomen Solar Farm, we were also looking to deliver sustainable value to the local community, from employment to delivering positive social and biodiversity outcomes. Local jobs were provided for a broad cross section of the community, including training and development.

Bomen Solar Farm purchased supplies and services from over 50 local businesses including fencing, haulage and the on-site food truck, providing positive outcomes for the local economy and social wellbeing for the community.

In partnership with Westpac we established a local community fund which will spend one million dollars over 10 years supporting improved educational outcomes for local youth and biodiversity programs.

In addition, ground cover for the site will be planted to support sheep grazing plus hives will be established to support the local native bee population.

With Beon and labour hire company Chandler Macleod, we established an industry first 'Women in Solar' initiative that has given 12 local women four weeks of pre-employment training at Wagga Wagga TAFE and employment on construction of the farm.

SUSTAINABILITY GOVERNANCE

Spark Infrastructure’s corporate governance framework is integral to our strategy of Value Enhance, Value Build and Value Acquire and creates long-term sustainable value for Securityholders.

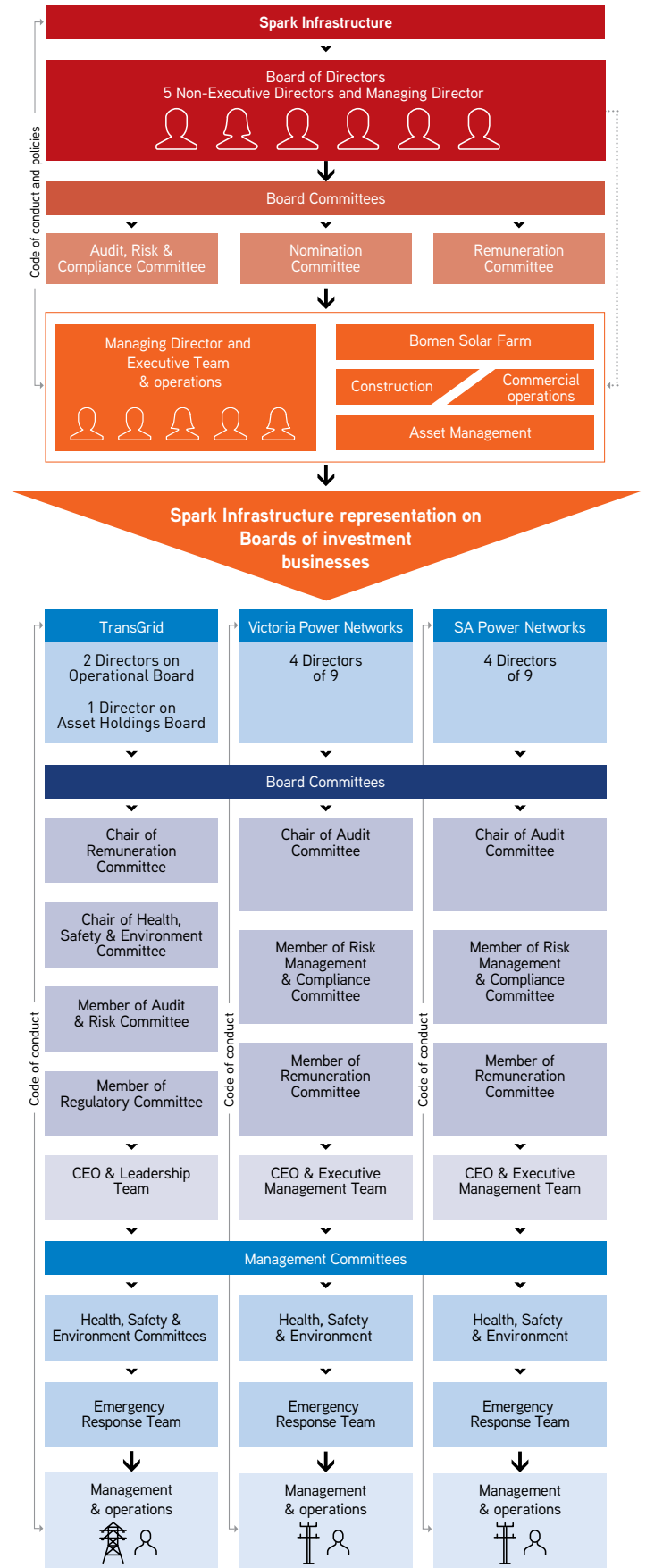
The Board is responsible for Spark Infrastructure’s corporate governance, including its policies and charters. A governance framework has been established of prudent and effective controls that enable risk to be assessed and managed. In 2019 the Board again reviewed its corporate governance framework. Our Corporate Governance Statement is available on the Spark Infrastructure website at: www.sparkinfrastructure.com/.

The Board aims to have a broad and diverse membership, with a view to Directors bringing different perspectives to Board discussions. The Directors bring a broad range of expertise, skills and experience relevant to the activities of Spark Infrastructure. With our acquisition of Bomen Solar Farm as part of our Value Build strategy, Miles George has joined the Board bringing extensive experience in renewables. For details of the skills, experience and qualifications of the Directors refer to page 44 of the Annual Report.

Spark Infrastructure believes that a diverse Board and management team allows it to be more innovative, flexible and to be more responsive to the needs of Securityholders and all stakeholders. Diversity generally, including gender diversity, is an ongoing focus for Spark Infrastructure and is evident in the representation of women across the organisation.

Spark Infrastructure is committed to high standards of ethics and conduct. Our Code of Conduct outlines the responsibilities of our people, including health and safety, environment, customer and community, innovation and technology. Our Code of Conduct underpins our core values of respect, integrity, excellence, collaboration, accountability, growth, innovation and sustainability.

Effective management of risk is essential to good corporate governance. Our risk appetite statement informs the execution of our strategy and guides our decisions on investment and the pursuit of business development opportunities as we seek to create long-term sustainable value for Securityholders. Spark Infrastructure’s commitment to sustainability is driven by our Board. Through our wholly owned Bomen Solar Farm or via our participation on the boards and committees of our investment businesses and active engagement with their management teams, Spark Infrastructure exercises effective and meaningful oversight of business operations. This includes management of environmental, customer and community, regulatory, health and safety, emerging technology, financial and governance risks.



SUSTAINABILITY

CUSTOMERS AND
COMMUNITY

Customers want reliable, safe and affordable electricity supply. Owning some of the most efficient networks in the country means benefits can be passed on to customers and the community. Meeting reliability standards and excellence in customer service is a key focus. Our businesses regularly engage with and survey customers and key stakeholders to gain greater insight into how services can be improved.

With our investment businesses, we have an important role in the communities in which we operate by ensuring a security of supply that is delivered safely, cost effectively and reliably to customers. Stakeholder engagement is a key focus and is considered in everything we do. Our businesses manage a diverse set of stakeholders including customers, communities, agencies, regulators, state governments and the Federal Government. We seek to build strong relationships to engage effectively across all these stakeholder groups.

With our investment businesses, as a significant employer, we have an important role in supporting the social and economic wellbeing of those communities. Through our community engagement programs and partnerships, we aim to build strong, deeper connections within our communities.

CASE STUDY

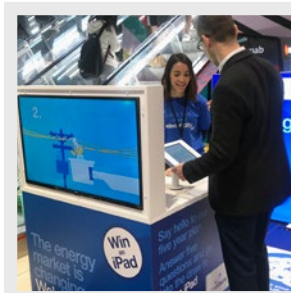


TRANSGRID

TransGrid has implemented BeSafeKids, a program that educates children about electrical safety. The program is designed to inform youngsters about the importance of safety around common electrical items and TransGrid's assets. BeSafeKids is targeted at communities where we are actively working or have assets nearby. BeSafeKids covers a range of areas including:

- Staying safe around TransGrid's assets
- History of electricity
- Brief overview of TransGrid, including our commitment to the environment.

The BeSafeKids program is free, and can be presented to individual classrooms or the whole school.



“By understanding our customers’ objectives and developing shared goals, we can identify mutually beneficial opportunities and create a positive customer experience. During 2019, we continued to strengthen our customer relationship by engaging with our customers regularly. Engagement included face to face meetings, digital interactions and regular events such as project and industry forums. Overall we increased the number of customer engagements to 420 compared to 200 in the prior year.”

– TransGrid



CASE STUDY

SA POWER NETWORKS

SA Power Networks is committed to engaging and collaborating with customers to drive better outcomes for customers, the business and the community. There are several consultative groups that ensure the interests of customers are considered and provide a platform for ongoing, meaningful engagement.

These include:

- **Customer Consultative Panel** – established in 2009 as a forum to ensure the customer voice is considered in decision making. The CCP consists of a broad range of stakeholders with an interest in shaping decision making.
- **Arborist Reference Group** – established in 2014 to work with SA Power Networks to deliver a range of strategic initiatives and improvements to vegetation management near powerlines.
- **Community Reference Group** – established in 2017 to provide a forum for discussion on issues facing particular groups within the community, particularly vulnerable customers.
- **LGA Working Group (vegetation management)** – established in 2014 with a group of representative councils to work with SA Power Networks to deliver a range of improvements to vegetation management near powerlines.
- **Connections Working Group** – established in August 2019 to work with electrical contractors and energy consultants to improve customer experience in the connections process.
- **Public Lighting Working Group** – established in December 2018 to provide a representative group for councils to work with the LGA and SA Power Networks on public lighting matters and seek input from councils and stakeholders on the transition from negotiated distribution services to alternative control services.
- **Tariffs Working Group** – established in October 2019 to work with customers on residential and business network tariffs.
- **DER Integration Working Group** – a group established for Resnet focussed on DER Integration and future energy transition.



SUSTAINABILITY

HEALTH, SAFETY AND WELLBEING

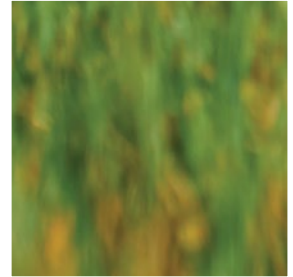
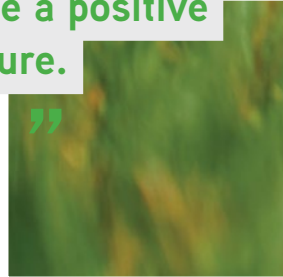
Our businesses focus on maintaining safe working environments through strong, safety-first leadership and culture.

This is supported by training programs, comprehensive reporting, investigation of incidents, and continuous improvement. Our businesses have comprehensive structures for managing and mitigating Work Health and Safety (WHS) related risks. Across our businesses we promote a positive safety culture in which employees are encouraged to actively manage their own safety and the safety of others.

Safety performance indicators are measured to understand whether processes and behaviours are effective in minimising safety incidents and serious harm. The businesses track Lost Time Injury Frequency Rate (LTIFR) and Total Recordable Injury Frequency Rate (TRIFR) for employees and contractors. They also track serious consequence-based injury, or major incidents that are capable of causing or have caused serious or fatal harm under various measures. All incidents, injuries and near misses must be reported in accordance with incident management procedures to ensure appropriate action can be taken to prevent reoccurrence and ensure a safe and healthy work environment.



“ Across our businesses we promote a positive safety culture. ”



CASE STUDY



SA POWER NETWORKS

At SA Power Networks, Enablon, the online risk and incident management system is making significant inroads in improving the efficiency and effectiveness of reporting incidents, hazards and near misses across the organisation. Since implementation, there has been a 30–40% increase in incident reporting which can be attributed to improved accessibility and remote access to the system. Information including photos can be entered via the app on a mobile device within minutes, and GPS functionality allows the user to record the exact location of an incident, hazard or near miss.



CASE STUDY

TRANSGRID

TransGrid has moved to understand the severity of Lost Time Injuries (LTIs) with the use of the SafeWork NSW guidelines. This analysis shows that a majority of LTIs are of a minor nature. TransGrid ensures its assets are maintained and operated safely by following strict guidelines and implementing robust processes to protect the safety of employees and customers. TransGrid also engages with contractors and the relevant authorities to safely manage works in and around its assets.



VICTORIA POWER NETWORKS

The focus of the health and wellbeing program is to educate and promote optimal physical and mental wellbeing for each employee. This is best achieved when workers and managers collaborate to promote the health and safety of the workforce. Through educational and targeted programs, Victoria Power Networks aims to improve the physical and mental health of employees, which is expected to lead to a reduction in injuries and illness by addressing the health risks within the workplace and the communities in which we live and operate.

SUSTAINABILITY WORKFORCE



CASE STUDY



VICTORIA POWER NETWORKS

Victoria Power Networks created the Women in Electrical Engineering scholarship to attract women to the field of electrical engineering. Three scholarships are awarded, with recipients receiving support in their final two years of study, an assigned mentor from within their business and 12 weeks of vacation work experience before their final year of study. The program now funds and supports six female students studying at Monash University, Melbourne University and RMIT. Both RMIT scholarship recipients are on permanent Australian humanitarian visas – Chaza Chahoud is from Syria and moved to Australia almost three years ago and her fellow scholarship recipient is from Iran.



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Across our businesses we are investing in the development of our people, including technical skills training, leadership training, mentoring and career development.

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Our people are integral to the effective and efficient performance of our businesses, which enables us to deliver on our objective of creating long-term sustainable value for Securityholders.

The safety and reliability of our networks is critical to ensure we maintain our social licence to operate. Across our businesses we are investing in the development of our people, including technical skills training, leadership training, mentoring and career development to ensure our people can undertake their work and develop their careers. Their capability and behaviours are critical to our success as we invest to build our businesses.

Spark Infrastructure, with our businesses, are equal opportunity employers committed to promoting diverse, engaged and inclusive workplaces and offering career development opportunities for our people. We are committed to delivering a strong inclusive culture that enables all employees to thrive and be successful. We also support flexibility so our people can achieve a balance between work and personal lives. All of our businesses use employee surveys to assess the level of employee engagement and alignment with strategic priorities. Employee engagement surveys also provide honest feedback so that we can continually improve our operations and management of our people. Survey outcomes directly shape people initiatives prioritised for the following year.

SUSTAINABILITY

ENVIRONMENT



Our vision is to be a key enabler in the transition to a low carbon energy system and economy.

Our businesses have implemented comprehensive structures for managing environmental impacts and risk. They maintain robust Environmental Management Systems (EMS) in line with the international standard ISO 14001. Key focus areas include the management of hazardous substances, native vegetation and recycling waste.

We recognise that business and industry play a crucial role in helping Australia become more environmentally sustainable and competitive. To support this, we are implementing initiatives and systems to reduce our environmental impacts and risks through improved environmental management practices and the efficient use of natural resources.

Climate related impacts and Australia's transition to a low emission future affect our customers, operations and supply chains. We take a risk based approach to climate change, evaluating exposure to climate related risks and opportunities. Climate related risks are integrated within our risk identification, assessment, and management processes.

In particular, our businesses continuously assess the potential financial impacts related to extreme weather events.

CASE STUDY



BOMEN SOLAR FARM

Spark Infrastructure, in partnership with Westpac, have set up the largest ever community fund for a solar project in Australia. The fund will invest a million dollars over ten years on youth support programs and environmental projects. The beneficiaries of the fund will be confirmed in 2020 but is anticipated to include a major tree planting program to support the preservation of the endangered Superb and Swift Parrots.

We are also supporting local biodiversity in how we manage the site to achieve positive environmental outcomes. Ground cover has been selected to support both sheep grazing and the local native bee population.



CASE STUDY



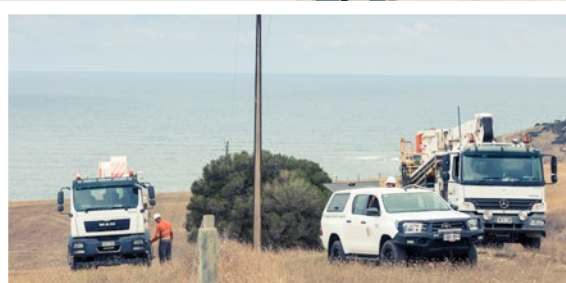
VICTORIA POWER NETWORKS

CitiPower and Powercor are continually pursuing bushfire risk reduction best practice through new technology trials and adoption:

- High voltage cover conductor (LoSAG) in the Powercor Network – 5 km trial installation.
- Early fault detection trial monitors disturbances along single wire earth return (SWER) overhead conductors and aims to trigger an inspection response prior to a defect condition manifesting into a permanent fault.
- Light Detection and Ranging (LiDAR) is used to conduct annual vegetation inspection program. This technology is more accurate than ground based visual inspection, and assists with accurate assessment of vegetation growth and optimises intervention cycles to prevent encroachment on to the minimum clearance space.

SA POWER NETWORKS

South Australia is making rapid headway in converting street lighting to LEDs. Nearly 40% of the more than 200,000 streetlights managed by SA Power Networks have been converted to LEDs amid a changeover agreed between the business and many councils across the state. Each new LED cuts energy costs and greenhouse emissions by about 80%. South Australian councils which have worked with SA Power Networks to adopt LED lighting include: Playford, Campbelltown, Charles Sturt, Mitcham, Marion, Onkaparinga, Burnside, Unley and City of Holdfast Bay in the metropolitan area; and regional councils including Kingston South East, Port Augusta, Peterborough, Light Regional Council, Kimba and Cowell.



SUSTAINABILITY

REGULATION AND RESILIENT ASSETS

The energy industry is undergoing significant transformation. As coal generation is retired, well located, high quality, utility scale solar and wind projects with good grid access provides better returns.

Storage technology is becoming better and cheaper, and batteries are expected to play a significant role providing system resilience through firming and by creating their own demand source.

We engage and advocate for outcomes that support returns required whilst delivering lower costs to customers.

There have been a number of important regulatory developments that affect our investment businesses during 2019.

2019 REGULATORY DEVELOPMENTS

AEMO

2020 Draft Integrated System Plan (ISP) – a roadmap for Australia’s power system that maximises market benefits

ESB

Converting ISP into action (proposed rule changes) – streamline regulatory processes, adds weight to scope, timing and benefits of ISP projects

AER

Rate of Return Instrument (RORI) – sets out approach to estimate rate of return, return on debt, return on equity and value of imputation credits

AEMC

Regulation framework for stand-alone power systems – allow customers to benefit from new technology that lowers costs of providing regulated services

AEMC

Coordination of Generation and Transmission Investment (COGATI) Access and Charging – better coordinate generation and transmission investment to improve the efficiency of dispatch and location of generators, provide certainty to support new investment and improve planning information

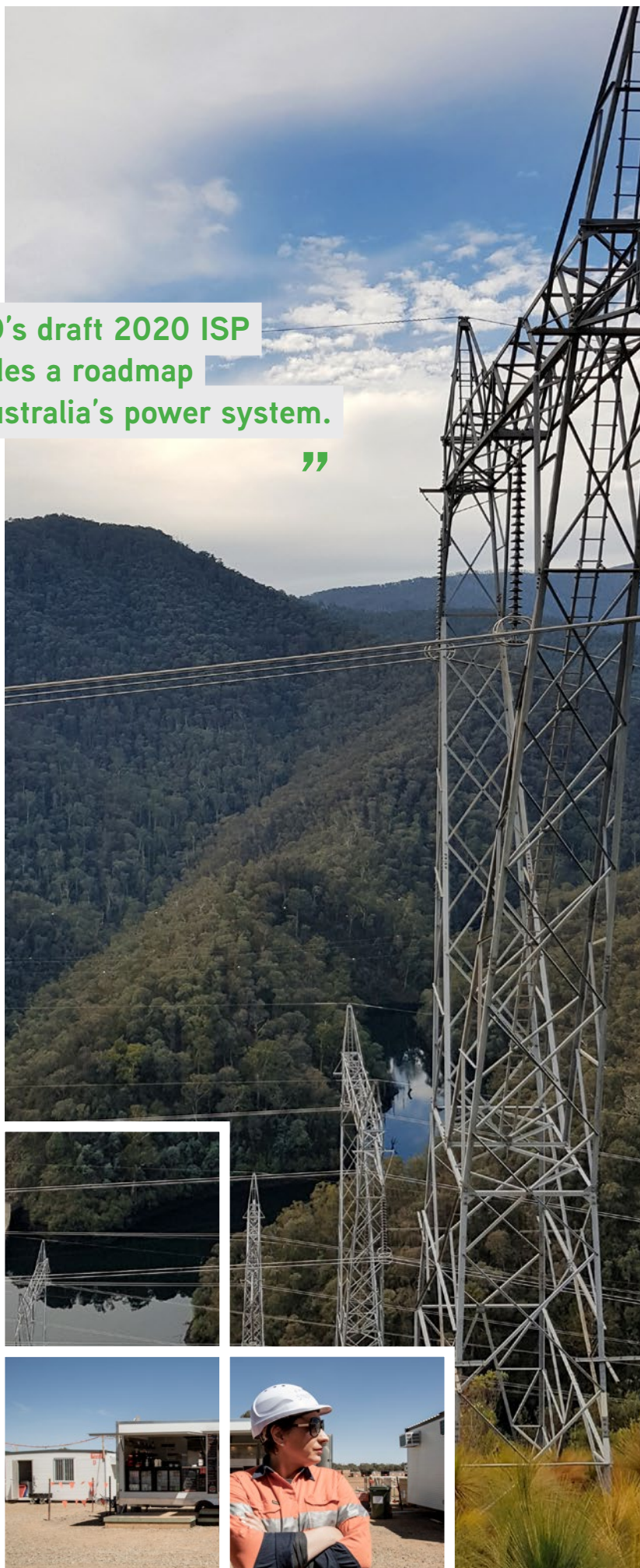
ESB

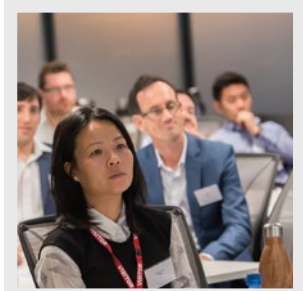
Post 2025 Market Design for the NEM – develop long-term, fit for purpose market framework to enable provision of full range of services to customers necessary to deliver a secure reliable and lower emissions electricity system at least cost

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AEMO’s draft 2020 ISP provides a roadmap for Australia’s power system.

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CASE STUDY

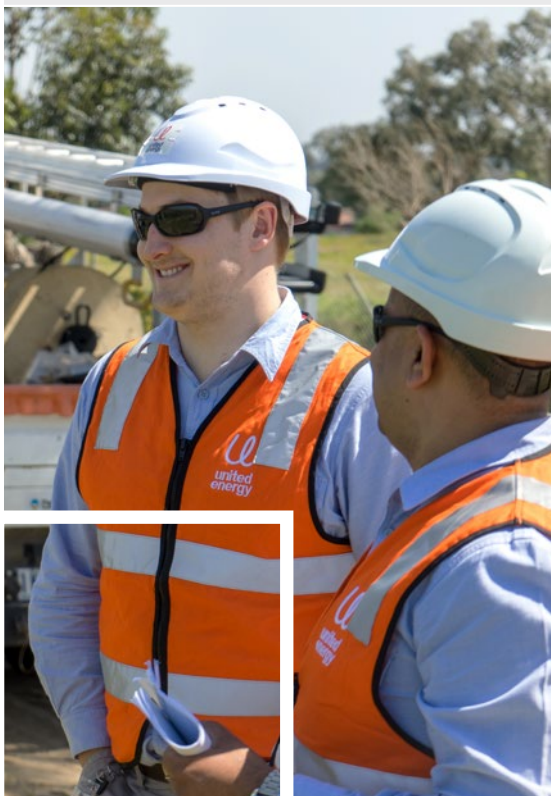


VICTORIA POWER NETWORKS

Victoria Power Networks submits proposals every five years to the Australian Energy Regulator (AER) on how it charges for electricity based on the expected costs and the needs of customers. Energised 2021–2026 is a statement of Victoria Power Networks’ approach to planning for the next five-year period.

Since June 2017, Victoria Power Networks’ has been seeking input from customers and stakeholders to inform the development of Energised 2021–2026. This has included customer engagement such as surveys, pop-ups and forums, meetings with local, state and national stakeholders and the establishment of an advisory panel. What they heard is that customers want:

- a resilient network
- an affordable network
- a flexible network that supports choice.



VICTORIA POWER NETWORKS

In 2019 Victoria Power Networks participated in a Victorian Electricity Emergency Committee (VEEC) Exercise. This was designed to test the preparedness and response arrangements in accordance with the recently revised Victorian Electricity Emergency Communications Protocol during a cyber incident impacting electricity businesses and government agencies in Victoria. The outcomes will inform:

- Suitability of the Victorian Electricity Emergency Communications Protocol (VEECP) for response to network incidents arising from breaches in cyber security;
- Explore the relationships between the VEECP, Single Industry Spokesperson Protocol (SISP) and other related emergency communications arrangements; and
- Validate the revised Electricity Emergency Management Liaison Officer (E-EMLO) arrangements for Victorian Electricity Emergencies under the given scenario.

SUSTAINABILITY

TECHNOLOGY
AND INNOVATION

We continually look at ways to reduce costs, improve efficiency and improve our operations.

In particular, our businesses are deploying innovative approaches and technologies that allow us to get more output from our network. Developing and using technology, data analytics and innovation are critical to our businesses delivering energy in an efficient way and at least cost to customers.



CASE STUDY



SA POWER NETWORKS

During the bushfire disasters experienced in the 2019 summer, SA Power Networks used a drone to assist in patrolling and re-stringing downed powerlines on Kangaroo Island. It helped to re-string three spans of 19,000 volt powerline that crossed gullies at Kohinoor Hill, west of Cygnet River. The drone carried in a winch line, and crews then pulled a 19,000 volt single wire earth return (SWER) powerline across the three spans.

The drone was also used to patrol downed lines in Flinders Chase, near Cape de Couedic. It provided an inspection map and photos that showed the condition of the line. This was co-ordinated with the CFS, which provided permits and permissions to operate the drone in the bushfire area.

SA Power Networks has been building its drone capability for their wider use in outage response work, particularly in regional areas of the State. While not suitable in all situations, they can offer a safer, cheaper and less disturbing option for re-stringing long sections of line, particularly in more difficult terrain.



DEPLOYING INNOVATIVE APPROACHES

Virtual Power Plant (VPP) optimisation

SA Power Networks' collaboration with Tesla to maximise output of its 1,100 battery VPP while ensuring network limits are not breached. Tesla plans to extend the VPP to 50,000 batteries, which will be the largest VPP in the world.

Rapid Earth Fault Current Limiters (REFCLs)

Victoria Power Networks' world-first application of technology that is capable of limiting earth faults to levels so that bushfires cannot be started. \$230 million provided by AER, with ~\$100 million spent to date.

Using smart meters to mitigate blackouts

At times of peak demand, Victoria Power Networks reduces demand using smart meters.

Dynamic voltage support for renewables

TransGrid's investment of \$19 million of investment in technology that dynamically manages frequency and voltage issues on powerlines to integrate more renewables.



CASE STUDY



POWERCOR

A total of 386MW generated by large-scale solar and wind farms was connected to the Powercor network in 2019, bringing the total connected since 2000 to 1,126MW. There have also been 85 connection enquiries from proponents of new large-scale renewable generators this year. While this is fewer than the 103 enquiries in 2018, there was a significant shift in the scale of the projects.

SUSTAINABILITY

FINANCIAL
MANAGEMENT

A core tenet is prudent financial management, and it is a key to our financial long-term sustainability.

We apply rigorous financial and operational oversight of our investment businesses, including evaluating future growth opportunities. Our treasury functions manage financial risks. Treasury and financial risk management activities are governed by the Treasury and Investment Policy, which is approved by the Board and aligned with our corporate objectives.

Under our strategy we seek to build a balanced portfolio where earnings will be supported by growth in the underlying assets of the businesses and through sustainable investment in high value unregulated opportunities.

Significant investment in the transmission grid is required to accommodate growth in renewable energy. The ISP calls for new transmission, such as interconnectors, to be built and Renewable Energy Zones to be developed, allowing the cheapest electricity to be moved throughout the grid to where it is needed. Looking beyond the immediate pipeline of ISP projects, substantial investment will also be required in distribution networks to make them smarter and more adaptable to new technologies. This is also expected to drive regulated asset base growth in the longer term which contributes to our growth story.

Our capital management approach to address this need includes maximising performance and efficiencies, optimising debt within our investment businesses, and utilising a combination of retained cash, debt and equity in the form of our Distribution Reinvestment Plan (DRP) to fund underlying growth in the investment businesses.

Our focus is on investing in core growth opportunities through disciplined capital allocation and prudent capital management, to deliver long-term capital growth plus distributions.



We apply rigorous financial and operational oversight of our investment businesses, including evaluating future growth opportunities.

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INVESTMENT GRADE FUNDING

ISSUER	VICTORIA POWER NETWORKS	SA POWER NETWORKS	TRANSGRID
Credit Rating (S&P/Moody's)	A- / n/a	A- / n/a	n/a / Baa2 ⁽²⁾ (on USPP notes)
Weighted Average Maturity ⁽¹⁾ (31 December 2018)	5.4 yrs (5.5 yrs)	6.9 yrs (5.6 yrs)	5.1 yrs (6.1 yrs)
Net Debt at 31 December 2019 (31 December 2018)	\$4.494bn (\$4.369bn)	\$3.232bn (\$3.155bn)	\$5.718bn ⁽³⁾ (\$5.509bn)
Net Debt/RAB at 31 December 2019 (31 December 2018)	70.9% (71.5%)	74.5% (74.3%)	88.9% ⁽²⁾ (87.7%)
Net Debt/RAB + CAB at 31 December 2019 (31 December 2018)	N/A	N/A	80.2% ⁽³⁾ (80.7%)
FFO/Net Debt at 31 December 2019 (31 December 2018)	15.2% (15.3%)	16.7% (16.6%)	8.1% ⁽²⁾ (8.2%)
Gross Debt at 31 December 2019 (31 December 2018)	\$4.555bn (\$4.426bn)	\$3.262bn (\$3.185bn)	\$5.846bn (\$5.634bn)

Spark Infrastructure has increased corporate facilities to \$400m; rated Baa1 by Moody's

1. Weighted average maturity calculation is based on drawn debt at 31 December 2019.
2. Relates to the Obligor Group.
3. Net Debt is calculated using gross debt less cash and adjusted for prescribed revenue over/(under) collection, and includes TransGrid Services.

BOARD OF DIRECTORS



1 DR DOUG MCTAGGART

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

Chair and Independent Director (since Dec 2015)

Dr McTaggart is a director of the Suncorp Group and Chair of AA Insurance (New Zealand), a subsidiary of Suncorp Group. He is also Chair of Suncentral Maroochydore Pty Limited. He is a member of the Australian National University Council and a member of the Expert Advisory Panel for Housing Solutions Capital Funding Strategy, Indigenous Business Australia.

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

Dr McTaggart is a member of the Remuneration Committee and the Chair of the Nomination Committee.



2 MR RICHARD (RICK) FRANCIS

BCom, MBA, CA, GAICD

Managing Director and Chief Executive Officer (since May 2012)

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

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

Mr Francis is also a Chartered Accountant.

Mr Francis has been a director of SA Power Networks and Victoria Power Networks since 2009. He was appointed inaugural Chair of NSW Electricity Networks Operations (TransGrid) in December 2015 and has served as Deputy Chair since June 2016.



3 MR ANDREW FAY

BAGec (Hons), AFin

Independent Director (since Mar 2010)

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

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

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



4 MR MILES GEORGE

BEng, MBA, GAICD

Independent Director (since October 2019)

Mr George is a director of the Australian Conservation Foundation and an advisory board member of CGN Capital Partners Infrastructure. He is a recognised leader in the Australian renewable energy industry, has previously served as a Panel Member on both AEMO and AEMC and as Interim Chief Executive Officer of CleanCo Queensland.

Mr George has over 30 years' experience in project development, investment, financing and management in the renewable energy industry and the broader infrastructure sector. He led the Initial Public Offer and listing of Infigen Energy's business in 2005, was the Managing Director of Infigen Energy from 2009-2016 and was the Chair of the Clean Energy Council from 2013-2016.

Mr George is a member of the Remuneration Committee, the Audit, Risk and Compliance Committee and the Nomination Committee.



5 MR GREG MARTIN

BEc, LLB, FAIM, MAICD

Independent Director (since Jan 2017)

Mr Martin is Chair of Iluka Resources Limited and Deputy Chair of Western Power. Mr Martin was a member of the COAG Energy Council Energy Appointments Selection Panel and was previously a director of Santos Limited and Coronado Global Resources Inc.

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

Mr Martin is Chair of the Remuneration Committee and a member of the Nomination Committee.



6 MS KAREN PENROSE

BCom, CPA, FAICD

Independent Director (since Oct 2014)

Ms Penrose is a director of Bank of Queensland Limited, Vicinity Centres, and Estia Health Limited. Ms Penrose is also a director of Medical Indemnity Protection Society (MIPS) and was formerly a director of AWE Limited and Future Generation Global Investment Company Limited.

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

Ms Penrose is a member of Chief Executive Women.

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

MANAGEMENT TEAM



1 MR GERARD DOVER

BSc (Hon), Banking & Finance,
FCA (ICAEW), GAICD, FCT

Chief Financial Officer

Mr Dover has extensive experience in business leadership working with public companies/listed boards, stock exchanges and private equity investors, banks and advisers. He is a highly commercial executive with an established track record of success in IPOs, trade sales, equity and debt raisings, M&A, and financial performance improvement.

Mr Dover's areas of expertise include power infrastructure and renewable energy, financial and strategic planning, accounting and treasury, valuations, acquisitions and divestments, capital raising and investor relations.

Mr Dover is a Chartered Accountant.

Mr Dover is a director of SA Power Networks, Victoria Power Networks and an alternate director of NSW Electricity Networks Operations (TransGrid).

Mr Dover was appointed to the position of Chief Financial Officer on 8 October 2019.



2 MS ALEXANDRA FINLEY

Dip Law, MLM, MGIA, MAICD

General Counsel and Company Secretary

Ms Finley is a highly experienced governance professional with over 20 years' experience across infrastructure, banking and financial services, property and construction, real estate investment and development, not-for-profits and in private practice. Her areas of specialty are corporate governance, legal and regulatory compliance, risk management and corporate advisory.

Ms Finley has held senior and executive roles with Top 100 ASX listed organisations with responsibility for governance, legal, risk and compliance, strategic partnerships and commercial operations.

Ms Finley is a member of the Association for Corporate Counsel GC100 and Chair of a registered children's charity.

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



3 MS SALLY MCMAHON

BEc (Hons), GAICD

Head of Economic Regulation

Ms McMahon has 25 years' experience in the energy and utility sector specialising in economic regulation, competition policy and microeconomic reform. She has held senior and executive roles with economic regulators, government and network businesses in Australia and Canada and advised energy businesses across the energy supply chain on navigating regulation and energy policy to improve performance.

Ms McMahon is the Chair of the WA Branch of the Women in Economics Network, a member of the Electricity Review Board Panel of Experts in Western Australia and a member of the Australian Institute of Energy Perth Branch Committee. She is an alternate director of NSW Electricity Networks Operations (TransGrid).

Ms McMahon commenced working with Spark Infrastructure in 2016.



4 MR ANTHONY MARRINER

BCom, PGDA, CA (SA)

Head of Renewables

Mr Marriner has 20 years' experience in investment banking. For the past 10 years he has had a specific focus on energy and utilities. This has entailed numerous transactions relating to regulated networks as well as renewables. He has held senior roles in South Africa and Australia, and has advised on a significant number of successful privatisations, acquisitions, divestments and mergers. He is also a Chartered Accountant (South Africa).

Mr Marriner commenced working with Spark Infrastructure in 2012.

ANNUAL FINANCIAL REPORT



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DIRECTORS' REPORT

The Directors of Spark Infrastructure RE Limited⁽¹⁾ present this financial report on the consolidated entity for the year ended 31 December 2019.

THE PRINCIPAL ACTIVITY OF SPARK INFRASTRUCTURE

During the reporting period, Spark Infrastructure continued to invest in essential services infrastructure businesses, primarily electricity distribution and transmission businesses, in Australia. During the period Spark Infrastructure acquired the Bomen Solar Farm (Bomen) project north of Wagga Wagga in NSW. Construction is mechanically complete with Bomen expected to commence commercial operations in Quarter 2, 2020. The renewable generation output from the solar farm is largely contracted for periods up to ten years. Except as noted above the principal activity of Spark Infrastructure is unchanged from the prior period.

THE NATURE OF SECURITIES IN SPARK INFRASTRUCTURE

Spark Infrastructure is a stapled structure comprising two elements:

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

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

SPARK INFRASTRUCTURE'S BOARD OF DIRECTORS

At the time of reporting, and throughout the year, the Directors of the company were:

Dr Douglas McTaggart, Chair

Mr Rick Francis, Managing Director and Chief Executive Officer

Mr Andrew Fay

Mr Miles George (appointed 11 October 2019)

Mr Greg Martin

Ms Karen Penrose

Retired during the year

Ms Anne McDonald (retired 30 November 2019)

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

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

Chair and Independent Director (since December 2015)

Dr McTaggart is a director of the Suncorp Group and Chair of AA Insurance (New Zealand), a subsidiary of Suncorp Group and is also Chair of Suncentral Maroochydore Pty Ltd. He is a member of the Australian National University Council and a member of the Expert Advisory Panel for Housing Solutions Capital Funding Strategy, Indigenous Business Australia.

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

Dr McTaggart is a member of the Remuneration Committee and Chair of the Nomination Committee.

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

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

Mr Francis has been a director of SA Power Networks and Victoria Power Networks since 2009. He was appointed inaugural Chair of NSW Electricity Networks Operations (TransGrid) in December 2015 and has served as Deputy Chair since June 2016. Mr Francis 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 director of Pental Group Limited (previously BT Investment Management Limited), Cromwell Property Group, J O Hambro Capital Management Holdings Limited and National Cardiac Pty Limited. He was previously a director of Gateway Lifestyle Group, Chair of Tasman Lifestyle Continuum Limited and Deutsche Managed Investments Limited. Mr Fay was Chair of Deutsche Asset Management (Australia) Limited following a 20-year career in the financial services sector and has served on industry representative bodies. He is currently a consultant to Dexis Property Group and Microbiogen Pty Limited.

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

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

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

Listed Entity	Period directorship held
Cromwell Property Group	2018 to present
Pental Group Limited	2011 to present
Gateway Lifestyle Group	2015 to 2018

Mr Miles George BE, MBA, GAICD

Independent Director (since October 2019)

Mr George is a director of Australian Conservation Foundation and an Advisory Board Member for CGN Capital Partners Infrastructure Fund III.

Mr George has over 30 years' experience in project development, investment, financing and management in the renewable energy industry and the broader infrastructure sector. He led the Initial Public Offer and listing of Infigen Energy's business in 2005 and was Managing Director of Infigen Energy from 2009-2016.

Mr George was Chair of the Clean Energy Council and is a recognised leader in the Australian renewable energy industry, having served as a Panel Member for both the Australian Energy Market Operator and the Australian Energy Market Commission, he was the Interim Chief Executive Officer of CleanCo Queensland until September 2019.

Mr George did not hold any other Australian listed entity directorships within the last three years.

Mr George is a member of the Remuneration Committee, the Audit, Risk and Compliance Committee and the Nomination Committee.

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

Mr Greg Martin BEc, LLB, FAIM, MAICD

Independent Director (since January 2017)

Mr Martin is Chair of Iluka Resources Limited and Deputy Chair of Western Power. Mr Martin was a member of the COAG Energy Council Energy Appointments Selection Panel and was previously a director of Santos Limited and Coronado Global Resources Inc.

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

Mr Martin is Chair of the Remuneration Committee and a member of the Nomination Committee.

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

Listed Entity	Period directorship held
Iluka Resources Limited	2013 to present
Coronado Global Resources Inc	2018 to 2019
Santos Limited	2009 to 2017

Ms Karen Penrose BCom, CPA, FAICD

Independent Director (since October 2014)

Ms Penrose is a director of Bank of Queensland Limited, Vicinity Centres, and Estia Health Limited. Ms Penrose is also a director of Medical Indemnity Protection Society (MIPS) and was formerly a director of AWE Limited and Future Generation Global Investment Company Limited.

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

Ms Penrose is a member of Chief Executive Women.

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

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

Listed Entity	Period directorship held
Estia Health Limited	2018 to present
Vicinity Centres	2015 to present
Bank of Queensland Limited	2015 to present
Future Generation Global Investment Company Limited	2015 to 2018
AWE Limited	2013 to 2018

Spark Infrastructure's Executive Team

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

Mr Gerard Dover BSc (Hons), Banking & Finance, FCA (ICAEW), FCT, GAICD

Chief Financial Officer

Mr Dover has extensive experience in business leadership working with public company/listed boards, stock exchanges and private equity investors, banks and advisers. He is a highly commercial executive with an established track record of success in IPOs, trade sales, equity and debt raisings, M&A, and financial performance improvement.

Mr Dover's areas of expertise include power infrastructure and renewable energy, financial and strategic planning, accounting and treasury, IT systems and risk management, with proven competencies in business strategy and operations, valuations, acquisitions and divestments, capital raisings, investor relations, commercial negotiations, team leadership and development.

Mr Dover is a director of Victoria Power Networks, SA Power Networks and an alternate director of NSW Electricity Networks Operations (TransGrid). He is also a member of the Victoria Power Networks Audit Committee and Risk Management and Compliance Committee, the SA Power Networks Audit Committee and Risk Management and Compliance Committee and the NSW Electricity Networks Operations Audit and Risk Committee.

Mr Dover was appointed to the position of Chief Financial Officer in October 2019.

Ms Alexandra Finley Dip Law, MLM, MAICD

General Counsel and Company Secretary

Ms Finley is a highly experienced governance professional with over 20 years' experience across infrastructure, banking and financial services, property and construction, real estate investment and development, not-for-profits and in private practice. Her areas of specialty are corporate governance, legal and regulatory compliance, risk management and corporate advisory.

Ms Finley has held senior and executive roles with Top 100 ASX listed organisations with responsibility for governance, legal, risk and compliance, strategic partnerships and commercial operations.

Ms Finley is a member of the Association for Corporate Counsel GC100 and Chair of a registered children's charity.

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

Ms Sally McMahon BEc (Hons), GAICD

Head of Economic Regulation and Energy Policy

Ms McMahon has 25 years' experience in the energy and utility sector specialising in economic regulation, competition policy and microeconomic reform. She has held senior and executive roles with economic regulators, government and network businesses in Australia and Canada and advised energy businesses across the energy supply chain on navigating regulation and energy policy to improve performance.

Ms McMahon is the Chair of the WA Branch of the Women in Economics Network and a member of the Electricity Review Board Panel of Experts in Western Australia.

Ms McMahon is currently an alternate Director of NSW Electricity Networks Operations (TransGrid) and its Regulatory Committee.

Ms McMahon commenced working with Spark Infrastructure in 2016.

Mr Anthony Marriner BCom, PGDA, CA(SA)

Head of Renewables

Mr Marriner has 20 years' experience in investment banking. For the past 10 years he has had a specific focus on energy and utilities. This has entailed numerous transactions relating to regulated networks as well as renewables. He has held senior roles in South Africa and Australia, and has advised on a significant number of successful privatisations, acquisitions, divestments and mergers. He is also a Chartered Accountant (South Africa).

Mr Marriner commenced working with Spark Infrastructure in 2012.

OPERATING AND FINANCIAL REVIEW

Review of Operations – Spark Infrastructure

The tables below provide a summary of Spark Infrastructure's Net Operating and Look Through Operating Cash Flows:

	CHANGE COMPARED TO 2018			
	31 December 2019 \$M	31 December 2018 \$M	\$M	%
Operating Cash Flows				
Cash Distributions from Investment Portfolio Businesses				
– Victoria Power Networks ¹	159.5	156.9	2.6	1.7
– SA Power Networks	116.2	115.2	1.0	0.9
– TransGrid	36.8	33.0	3.8	11.5
Total Cash Distributions Received from Investment Portfolio Businesses	312.5	305.1	7.4	2.4
Net interest received	1.2	0.9	0.3	33.3
Corporate expenses	(14.8)	(15.8)	1.0	(6.3)
Tax Paid – 2018 equivalent ²	(16.9)	–	(16.9)	N/A
Underlying Operating Cash Flows	282.0	290.2	(8.2)	(2.8)
Operating costs – Bomen related	(1.2)	–	(1.2)	N/A
Transaction bid costs – Bomen related	(2.6)	–	(2.6)	N/A
Other Tax Paid	(21.8)	–	(21.8)	N/A
Net Operating Cash Flows	256.4	290.2	(33.8)	(11.6)

1. Includes repayment of shareholder loans

2. Further tax payments of \$21.8 million were made during the year in relation to a number of historical years regarding the ongoing tax dispute with the Australian Tax Office.

	CHANGE COMPARED TO 2018			
	31 December 2019 \$M	31 December 2018 \$M	\$M	%
Look through Operating Cash Flows				
Investment Portfolio EBITDA (Spark share)				
– Victoria Power Networks	415.9	406.6	9.3	2.3
– SA Power Networks	338.5	321.5	17.0	5.3
– TransGrid	102.2	100.3	1.9	1.9
EBITDA	856.6	828.4	28.2	3.4
Spark Infrastructure costs	(14.8)	(15.8)	1.0	6.3
Net finance charges	(175.0)	(174.7)	(0.3)	0.2
Net regulatory depreciation	(276.3)	(257.6)	(18.7)	7.3
Non-cash, tax paid and working capital movements ¹	(11.2)	(52.5)	41.3	(78.7)
Spark Infrastructure Net Look Through Operating Cash Flow	379.3	327.8	51.5	15.7

1. Further tax payments of \$21.8 million were made during the year in relation to a number of historical years regarding the ongoing tax dispute with the Australian Tax Office.

Cash distributions received from investment portfolio businesses

Spark Infrastructure's cash flow from operating activities (referred to as standalone net operating cash flow (OCF) for 2019 was \$256.4 million, a decrease of 11.6% on 2018. To compare on a like for like basis, excluding one-off acquisition costs and tax paid, underlying standalone OCF decreased by \$8.2 million or 2.8% to \$282.0 million.

Total distributions received from Victoria Power Networks were \$159.5 million (2018: \$156.9 million), up 1.7%, and distributions received from SA Power Networks were \$116.2 million, up 0.9%, reflecting another strong period of operations for both businesses, which are coming to the end of their current five-year regulatory periods.

Total distributions received from TransGrid were \$36.8 million, up 11.5%. As previously reported, distributions from TransGrid were constrained in previous periods, in part, due to TransGrid retaining surplus cash during the period to fund investment opportunities in unregulated infrastructure connection assets and from low inflation. TransGrid Services Trust was established in June 2018 as the vehicle to own and operate TransGrid's unregulated business which has enabled distributions to recommence. TransGrid Services Trust was

initially funded by Securityholders through reinvestment of a portion of distributions to support unregulated business growth in the short term. However, TransGrid Services Trust has now completed its inaugural debt financing in November 2019 and accordingly these equity injections to support the unregulated business have ceased.

Corporate, transaction bid expenses and tax

Spark Infrastructure's recurring corporate expenses decreased by \$1.0 million or 6.3% to \$14.8 million during 2019 primarily due to lower project related costs. Bomen related transaction bid costs of \$2.6 million mainly comprise due diligence and advisor fees. Bomen operating expenses of \$1.2 million primarily relate to premiums on insurances.

During 2019, Spark Infrastructure paid \$38.7 million of tax in relation to 2018 and other years. For further detail please see the Australian Tax Office Matters section.

OPERATING AND FINANCIAL REVIEW CONTINUED

Review of Operations – Spark Infrastructure continued

Distributions to Securityholders

Spark Infrastructure pays out distributions, which are fully supported by net operating cash flows. Net operating cash flows are reviewed at both the Spark Infrastructure level as well as on a look-through proportionate basis (i.e. at the investment level). Distribution coverage or payout ratios are reviewed on both an annual basis and across the current five-year regulatory period, which is currently the 2016–2020 period. Within this framework, Spark Infrastructure continues to manage growth capital expenditure and fluctuations in its working capital as efficiently as possible.

Spark Infrastructure paid a final distribution for 2018 of \$134.6 million to Securityholders in March 2019, representing 8.0 cents per security (cps).

Spark Infrastructure paid an interim distribution to Securityholders of \$126.2 million in September 2019 for the half year to 30 June 2019. This represented a distribution of 7.5 cps.

The Directors have declared a final distribution for 2019 of 7.5 cps bringing the full year distribution in respect of 2019 to 15.0 cps. This will be paid in March 2020. The interim and final distributions are fully covered by net operating cash flows, and are in line with distribution guidance previously provided.

Spark Infrastructure has a Distribution Reinvestment Plan (DRP). The Directors regularly assess the operation of the DRP and have determined that it will remain active for the final distribution payable in March 2020 to part fund the equity commitment to the acquisition and construction of the Bomen Solar Farm. The DRP will not be underwritten and participating Securityholders will be issued Spark Infrastructure stapled securities at a discount of 2.0% to the price specified under the DRP rules.

Financial Performance – Spark Infrastructure

	31 December 2019 \$M	31 December 2018 \$M	CHANGE COMPARED TO 2018	
			\$M	%
Underlying Profit before Loan Note Interest, Income Tax and Impairment				
Profit before income tax and loan note interest	258.5	0.5	258.0	N/A
Adjusting items:				
<i>Addback</i> Impairment expense	–	270.0	(270.0)	N/A
Profit before loan note interest, income tax and impairment	258.5	270.5	(12.0)	(4.5%)
<i>Addback</i> Operating costs – Bomen related	1.2	–	1.2	N/A
<i>Addback</i> Transaction bid costs – Bomen related	2.7	–	2.7	N/A
<i>Less</i> unrealised gains from derivative instruments – Bomen related	(6.8)	–	(6.8)	N/A
Underlying Profit before Loan Note Interest and Income Tax*	255.6	270.5	(14.9)	(5.5%)

* Number may not add due to rounding.

Financial Position – Spark Infrastructure

Total equity and Loan Notes book value decreased by \$156.5 million during 2019 to \$2,711 million.

Net profit after income tax increased retained earnings by \$79.1 million, while Spark Infrastructure's share of the investment portfolio businesses mark-to-market movements on interest rate derivatives and actuarial losses on defined benefit superannuation plans decreased retained earnings and reserves by \$129.7 million. Movements in Spark Infrastructure cash flow hedge reserve increased reserves by \$1.2 million.

Capital distributions totalling \$142.1 million were paid to Securityholders during the year.

Spark Infrastructure had available cash on hand at 30 June 2019 of \$26.4 million, excluding \$5.0 million in cash held to comply with the Australian Financial Services Licence. During February 2020, Spark Infrastructure has executed \$400.0 million of bilateral corporate debt facilities maturing in February 2023, replacing its previous \$120.0 million bilateral facilities. The facilities are with banks from the prior facilities, namely the Commonwealth Bank of Australia, MUFG Bank, Ltd and Mizuho Bank Ltd, and now include Westpac Banking Corporation, Sumitomo Mitsui Banking Corporation and China Construction Bank Corporation. Spark Infrastructure pays an average margin of 95 basis points above the applicable bank bill swap rate on amounts drawn from these facilities.

A total of \$40.0 million of available facilities were drawn down during 2019 in order to part fund Spark's investment in Bomen Solar Farm and remained drawn as at 31 December 2019.

Acquisition of Bomen Solar Farm

On 17 April 2019, Spark Infrastructure acquired a 100% interest in the 120MWDC/100MWAC Bomen Solar Farm project (Bomen), located 10km north-east of Wagga Wagga in NSW. Beon Energy Solutions (Beon), owned by Victoria Power Networks, was appointed as engineering, procurement and construction (EPC) contractor. Bomen will connect into TransGrid's high-voltage transmission network providing access to the National Electricity Market, with build, own, operate and maintain (BOOM) services for the grid connection provided by TransGrid for a 30-year term. The project remains on time and on budget and is expected to commence operations in Q2 2020.

Power purchase agreements (PPAs)

Bomen has long-term PPAs in place with high-quality counterparties providing stable and predictable cash flows for up to 10 years. Once operating, Bomen will sell electricity and Large-Scale Renewable Generation Certificates (LGCs). Under the PPA arrangements, the difference between the market and the contract price will be settled on a net basis with the counterparty. Bomen has PPAs with Westpac for ten years and with Flow Power for a range of contract tenures of five, seven and ten years. These will provide a strong and stable revenue stream which is ~95% contracted for the first five years and ~82% contracted over the first ten years. When operating, Bomen is expected to generate average annual revenue of approximately \$13.5 million for the first five years.

Construction of the solar farm finished in early February 2020 and energisation and testing has now commenced. Subject to registration by the Australia Energy market Operator (AEMO) we expect Bomen to be operational in Q2 2020.

Financial arrangements

Acquisition and construction costs are being initially funded from cash and existing debt facilities, with a view to maintaining a prudent capital structure post-construction, with target bank debt funding for Bomen of 65-70%. Equity funding requirements are being provided by the activation of the DRP, which was switched on for the interim distribution paid in September 2019. The DRP will remain active for the March 2020 distribution.

Spark Infrastructure targets at least a BBB/Baa2 equivalent credit rating for each of the businesses in its portfolio. SA Power Networks' net debt to Regulated Asset Base (RAB) was 74.5%, up from 74.3% at 31 December 2018. SA Power Networks' Funds from Operations (FFO) to net debt was 16.7%, up from 16.6% at 31 December 2018. Victoria Power Networks' net debt to RAB was 70.9%, down from 71.5% at 31 December 2018. Victoria Power Networks' FFO to net debt was 15.2%, down from 15.3% at 31 December 2018. TransGrid's net debt to Regulated and Contracted Asset Base (RCAB) was 80.2%, down from 80.7% at 31 December 2018. TransGrid's FFO to net debt was 8.1%, down from 8.2% at 31 December 2018.

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 2019, SA Power Networks, Victoria Power Networks and TransGrid had 98%, 94% and 81% of gross debt hedged respectively, with interest rate swaps with terms between one and ten years in place and some fixed rate debt. This substantially limits the impact of volatility in the movement of interest rates on the financial results of these businesses.

In addition to the above, the Group has entered into an interest rate hedge arrangement with Mizuho Bank Limited, MUFG and Commonwealth Bank of Australia to allow the Group to fix the interest rate of 1.22% on the notional amount (\$100 million combined) for 3 years in relation to the debt facilities to be drawn in relation to Bomen Solar Farm. The Group has chosen to apply cash flow hedge accounting to reduce the volatility in the income statement in relation to these arrangements.

Australian Tax Office Matters

As previously disclosed, Victoria Power Networks has had an ongoing dispute with the Australian Tax Office (ATO) in respect of the tax treatment of certain "cash contributions and gifted assets" made by customers to Victoria Power Networks as part of contractual arrangements with these customers. The dispute culminated in a hearing in the Federal Court in early December 2018.

On 7 February 2019 the Federal Court handed down its judgment which affirmed the ATO's view on the tax treatment.

In summary, the Federal Court decided that:

- For assets constructed by Victoria Power Networks whereby the customer contributes to the cost of construction of such assets, the cash contribution should be treated as assessable income for tax purposes on receipt; and
- Assets transferred to Victoria Power Networks from customers (i.e. gifted assets) should be treated as assessable income to Victoria Power Networks for tax purposes at their estimated construction value net of any rebates paid by Victoria Power Networks as part of the connection agreement.

Due to the decision of the Federal Court outlined above and the similarities between the factual position of Victoria Power Networks and SA Power Networks it is believed that there is now a sufficient basis, absent the outcome of the appeal to the full Federal Court, for these cash contributions and gifted assets to be treated as assessable income for SA Power Networks.

As such, a liability of \$68.8 million was recognised for the periods up to and including the year ended 31 December 2018.

During the year payments of \$34.4 million were made to the ATO in respect of 50% of this liability. Depending on the outcome of the Full Federal Court appeal tax paid will either be refunded, or the outstanding amount settled. In respect of the year ended 31 December 2019 all tax balances have been recorded and paid on the basis of the original Federal Court decision. Victoria Power Networks subsequently appealed both matters to the Full Federal Court. The hearing is scheduled to take place in May 2020 (with the outcome expected later in 2020). The treatment in the financial statements will only be revisited should the Full Federal Court find in favour of Victoria Power Networks.

Impairment Testing

The Directors have undertaken a detailed review of the carrying values of Spark Infrastructure's investments in SA Power Networks and Victoria Power Networks to determine whether any impairment has arisen, and are satisfied that no impairment existed at 31 December 2019. The analysis undertaken as part of this review takes into account the current Corporate Plans for SA Power Networks and Victoria Power Networks. In addition Management performed an assessment to determine if there was any indication that the impairment loss recognised on the carrying value of the SA Power Networks investment at 31 December 2018 may no longer exist or may have decreased. Management determined there had not been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised and therefore no impairment loss was reversed.

At 31 December 2019, Directors determined that no indicators of impairment existed for Spark's investments in TransGrid or Bomen Solar Farm and no impairment testing was undertaken.

Review of Operations – Investment Portfolio Businesses

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

	31 December 2019 \$M	31 December 2018 \$M	CHANGE COMPARED TO 2018	
			\$M	%
Proportional Results (Spark Infrastructure's Share)				
Distribution and Transmission Revenue	998.1	963.5	34.6	3.6
Other Revenue	168.2	165.4	2.8	1.7
Total Revenue	1,166.3	1,128.9	37.4	3.3
Operating Expenses	(326.4)	(312.9)	(13.5)	4.3
Beon Margin	5.5	4.9	0.6	12.2
Enerven Margin	11.2	7.5	3.7	49.3
EBITDA	856.6	828.4	28.2	3.4
Net Finance Expenses	(183.3)	(178.4)	(4.9)	2.7
EBTDA	673.3	650.0	23.3	3.6

OPERATING AND FINANCIAL REVIEW CONTINUED

Review of Operations – Investment Portfolio Businesses continued

	31 December 2019 \$M	31 December 2018 \$M	Variance \$M	Variance %
Victoria Power Networks (100% basis)				
Distribution Revenue ¹	956.9	920.6	36.3	3.9
Advanced Metering Infrastructure (AMI) Revenue	85.7	93.0	(7.3)	(7.9)
Semi-regulated Revenue	60.8	56.8	4.0	7.0
Other Unregulated Revenue	47.0	48.9	(1.9)	(3.9)
Total Revenue (excluding Beon Energy Solutions (Beon))	1,150.4	1,119.3	31.1	2.8
Operating Expenses (excluding Beon)	(312.8)	(299.7)	(13.1)	4.4
Beon Margin	11.3	10.1	1.2	11.9
EBITDA	848.9	829.7	19.2	2.3
Depreciation and Amortisation	(316.4)	(325.1)	8.7	(2.7)
Net Finance Expenses	(167.2)	(163.6)	(3.6)	2.2
Interest on Subordinated Debt	(104.5)	(123.2)	18.7	(15.2)
Tax Expense	(83.2)	(68.4)	(14.8)	21.6
Net Profit after Tax	177.6	149.4	28.2	18.9
Net Capital Expenditure	507.6	495.7	11.9	2.4
RAB	6,339.3	6,109.0	230.3	3.8
Net Debt/RAB (%)	70.9%	71.5%	N/A	(0.6)
FFO/Net Debt (%)	15.2%	15.3%	N/A	(0.1)

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

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

During the year, there was a 2.8% increase in regulated, semi-regulated and unregulated revenue at Victoria Power Networks.

Distribution Use of System (DUoS) revenue increased during 2019 by 3.9% to \$956.9 million (2018: \$920.6 million). The increase in DUoS revenue was primarily due to annual changes in the inputs used to derive regulatory revenues. Key impacts relate to inflation and X-factors (the real increase in annual expected regulated revenue) and the year on year movement in incentive payments.

The X-factors applicable from 1 January 2019 for Powercor was -3.02% (2018: -0.81%) and for CitiPower was -0.12% (2018: -0.05%), which represent real increases in revenues before the CPI uplift of 2.08% (2018: 1.93%) for 2019. DUoS revenue increased by \$38.2 million on 2018 as a result of the CPI-X adjustments.

Included within the CPI-X adjustment for Powercor was an amount for costs associated with the installation of Rapid Earth Fault Current Limiters (REFCLs) mandated by the Victorian State Government. REFCLs are a bushfire mitigation technology that work to prevent bushfires starting from fallen powerlines. A REFCL works by rapidly neutralising phase-to-earth fault currents when a live conductor comes into contact with the ground. Powercor is required to install REFCLs at 22 zone substations in Victoria's highest bushfire risk regions within Powercor's network by 1 May 2023. Powercor completed installation of Tranche One REFCL sites in May 2019 with Tranche Two work set to begin in March 2020 with expected completion in April 2021. In January 2020, Tranche Three was partly approved by the Australian Energy Regulator (AER).

DUoS revenue for 2019 also included \$15.0 million of Service Target Performance Incentive Scheme (STPIS) recovery relating to the 2017 regulatory year. DUoS revenue for 2018 included \$17.9 million of STPIS recovery relating to the 2016 regulatory year. The purpose of the STPIS is to provide incentives to electricity distributors to maintain and improve the existing supply reliability and customer service performance to consumers. STPIS recovery represents outperformance of reliability and call centre targets as set by the regulator.

Revenue from AMI decreased by 7.9% to \$85.7 million in 2019 reflective of the depreciating AMI RAB.

Victoria Power Networks' semi-regulated revenues increased 7.0% to \$60.8 million, mainly due to increased specification and design services provided before connecting customers.

Victoria Power Networks' unregulated revenue (excluding Beon) decreased by 3.9% to \$47.0 million in the year. The decrease is primarily due to IT related projects performed under existing service level agreements.

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

Operating expenses for Victoria Power Networks increased by 4.4% to \$312.8 million in 2019. The movement year on year was impacted by a net \$15.3 million negative (non-cash) revaluation adjustment to employee entitlements provisions as a result of a fall in bond rates. Adjusting for their impact, operating expenses decreased by \$2.2 million or 0.7% as a result of productivity and efficiency improvements.

Beon Energy Solutions

Unregulated revenue received by Beon increased by 43.8% to \$239.5 million in 2019 due largely to a number of new solar farm projects, the overall margin earned increasing by \$1.2 million to \$11.3 million.

External financing expenses

Victoria Power Networks net finance expenses increased in 2019 by \$3.6 million to \$167.2 million. The increase was primarily due to the introduction of the new leasing standard and requirement to split lease costs between interest and depreciation.

Capital expenditure

Continued investment in the augmentation and maintenance of the CitiPower and Powercor networks resulted in a 2.4% increase in net capital expenditure in 2019 to \$507.6 million. A significant component of capital expenditure in the period relates to the continuation of the REFCL program.

	31 December 2019 \$M	31 December 2018 \$M	Variance \$M	Variance %
SA Power Networks (100% basis)				
Distribution Revenue ¹	848.8	821.0	27.8	3.4
Semi-regulated Revenue	97.3	79.4	17.9	22.5
Unregulated Revenue	14.0	9.7	4.3	44.3
Total Revenue	960.1	910.1	50.0	5.5
Operating Expenses	(292.2)	(269.3)	(22.9)	8.5
Enerven Margin	22.8	15.3	7.5	49.0
EBITDA	690.7	656.1	34.6	5.3
Depreciation and Amortisation ²	(306.5)	(246.1)	(60.4)	24.5
Net Finance Expenses	(138.7)	(123.4)	(15.3)	12.4
Interest on Subordinate Debt	(72.5)	(72.5)	-	-
Tax Expense ³	(3.5)	(1.7)	(1.8)	105.9
Net Profit after Tax	169.5	212.4	(42.9)	(20.2)
Net Capital Expenditure	405.6	424.9	(19.3)	(4.5)
RAB ⁴	4,340	4,247	93	2.2
Net Debt/RAB (%)	74.5%	74.3%	N/A	0.2
FFO/Net Debt (%)	16.7%	16.6%	N/A	0.1

- Adjustments are made to distribution revenues to defer/accrue for amounts in excess of/under the regulated revenue cap to reflect that these amounts will be returned to/recovered from electricity consumers in future periods via adjustments to tariffs.
- Depreciation increase a result of a reassessment of useful lives of distribution lines implemented from 1 January 2019 and the impact of AASB 16 *Leases*.
- Tax expense relates to Enerven Energy Infrastructure Pty Ltd, a subsidiary company of SA Power Networks. SA Power Networks is itself a partnership and as such all of its taxable income is recognised at the Spark Infrastructure level as is the related tax expense.
- Including public lighting RAB.

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

During the year there was a 5.5% increase in regulated, semi-regulated and unregulated revenue at SA Power Networks.

SA Power Networks increased its DUoS revenue by 3.4% to \$848.8 million in 2019. The increase in DUoS revenue was primarily due to annual changes in the inputs used to derive regulatory revenues. Key impacts relate to inflation and X-factors and the year on year movement in incentive payments.

The X-factor applicable from 1 July 2018 was -0.74% and from 1 July 2019 was -0.85%, which represent real increases in revenues before the CPI uplifts of 1.91% (at 1 July 2018) and 1.78% (at 1 July 2019). DUoS revenue increased by \$21.2 million as a result of the CPI-X adjustment.

DUoS revenue for 2019 also included \$29.3 million of STPIS recovery relating to the 2017/18 and 2016/17 regulatory years. DUoS revenue for 2018 included \$24.0 million of STPIS recovery relating to the 2016/17 and 2015/16 regulatory years.

Semi-regulated revenues were up by 22.5% on 2018 to \$97.3 million. The increase was the result of a cumulative \$6.9 million public lighting provision write back during the year following a prior year \$10.0 million provision write back for public lighting disputes works (combined impact of \$16.9 million). Adjusting for the impact of the provisions releases the increase in semi-regulated revenues would be \$1.0 million or 1.1%.

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

SA Power Networks operating expenses were \$292.2 million, an increase of 8.5% from 2018. The movement in operating expenses year on year is impacted by the prior year treatment of Guaranteed Service Level (GSL) provisions relating to storm events in 2016. GSL provisions recorded in 2016 which were ultimately not fully required were released during the first half of 2018, which reduced operating expenses by \$6.2 million in 2018. Adjusting for the impact of this provision release, the increase in operating expenses would have been 6.1% or \$16.7 million. This increase was largely due to provisions raised in relation to the November and December bushfire events, higher vegetation management costs, emergency response and restructuring and separation costs, partly offset by first time impact of AASB 16 *Leases* payments and other cost savings.

Enerven

Unregulated revenue received by Enerven increased by 42.9% to \$268.2 million (2018: \$187.7 million) in 2019. The Enerven margin increased by \$7.5 million driven largely by commercial solar installations, such as the SA Water solar initiative. Enerven is engaged in deploying solar and battery capability to a significant number of SA Water sites under a framework contract of up to \$300 million over 2019 and 2020. The increase was partially offset by a reduction in revenues from the NBN contract as the project winds down and a reduction in services under the contract.

OPERATING AND FINANCIAL REVIEW CONTINUED

Review of Operations – Investment Portfolio Businesses continued

Capital expenditure

Continued investment in the augmentation and maintenance of the South Australian network resulted in \$405.6 million in net capital expenditure in 2019 (2018: \$424.9 million). A significant component of capital expenditure in 2018 and 2019 related to the replacement of the existing undersea cable connecting Kangaroo Island to the South Australian mainland. Installation and commissioning of the new cable was completed in March 2019 at a capital cost of \$39.7 million.

External financing costs

Net finance costs increased by 12.4% during the year to \$138.7 million principally as a result of a net \$8.4 million movement (loss) in a non-cash credit valuation hedge accounting adjustment and higher interest payable. The credit valuation hedge adjustment is a change to the market value of derivative instruments to account for counterparty credit risk.

Depreciation and Amortisation

Depreciation and amortisation increased by 24.5% to \$306.5 million as a result of a reassessment of useful lives of distribution lines implemented from 1 January 2019 and the impact of AASB 16 *Leases*.

	31 December 2019 \$M	31 December 2018 \$M	Variance \$M	Variance %
TransGrid (100% basis)				
Transmission Revenue ¹	754.5	733.7	20.8	2.8
Unregulated Revenue	120.1	149.5	(29.4)	(19.7)
Other Revenue	5.4	13.2	(7.8)	(59.1)
Total Revenue	880.0	896.4	(16.4)	(1.8)
Operating Expenses	(199.0)	(227.5)	28.5	(12.5)
EBITDA	681.0	668.9	12.1	1.8
Depreciation and Amortisation	(354.2)	(326.3)	(27.9)	8.6
Net Finance Expenses	(222.2)	(251.6)	29.4	(11.7)
Interest on Shareholder Loans	(79.8)	(87.3)	7.5	(8.6)
Net Profit/(Loss)	24.8	3.7	21.1	570.3
Capital Expenditure	493.3	271.3	222.0	81.8
Regulated and Contracted Asset Base (RCAB)	7,126	6,823	303.0	4.4
Net Debt/RCAB ² (%)	80.2%	80.7%	N/A	(0.5)
FFO/Net Debt ³ (%)	8.1%	8.2%	N/A	(0.1)

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

2. Regulated and contracted asset base, RCAB is based on 31 December 2019 estimate. Net Debt also includes TransGrid Services (TGS).

3. FFO relates to the Obligor Group only.

4. Based on the AER's advice on the X-factor applicable for the period 1 July 2019 to 30 June 2020 arising from the annual update of TransGrid's return on debt.

5. No tax expense is recognised in respect of TransGrid as the structure comprises of flow through trusts for tax purposes.

Regulated revenue

TransGrid's Transmission Use of System (TUoS) revenue increased by 2.8% in 2019 to \$754.5 million. The increase in TUoS revenue was primarily due to annual changes in the inputs used to derive regulatory revenues. Key impacts relate to inflation and X-factors and the year on year movement in incentive payments:

- TransGrid's current five-year regulatory control period commenced on 1 July 2018 and included a set maximum allowed revenue (MAR) for the 2018/19 regulatory year, so no CPI-X calculation was applied. The MAR for the 2018/19 regulatory year was \$734.3 million or 5.26% higher in nominal terms than the actual MAR for the 2017/18 regulatory year. The X-factor and inflation rate, which applied to TransGrid's MAR from 1 July 2019 to 30 June 2020, were -0.97%⁴ (i.e. increase) and 1.80% (i.e. increase) respectively, resulting in a net increase of \$20.5 million in revenue through to 30 June 2020; and
- TransGrid's regulated revenue for 2019 includes \$16.2 million of STPIS benefits relating to the 2017 and 2018 calendar years. In 2018, regulated revenue included \$15.6 million of STPIS benefits relating to the 2016 and 2017 calendar years.

Unregulated revenue

Unregulated revenue was \$120.1 million, a decrease of \$29.4 million on 2018.

Unregulated revenue includes \$104.0 million of infrastructure services revenue which was mainly derived from transmission connections and line modifications (and associated consulting services) as part of asset relocations, including for Western Sydney Airport. There has been a reduction in revenue in the current period compared to the prior year as a number of line modification projects have concluded. Infrastructure connection revenues continued to increase in 2019 as construction of connection assets in prior years contributed for the full 12 months.

Unregulated revenue also included \$11.1million (2018: \$8.1 million) from telecommunications and \$5.0 million (2018: \$5.0 million) from property services, consistent with the prior year.

Operating expenses

TransGrid's total operating expenses were \$199.0 million in 2019, a decrease of 12.5% on 2018.

Unregulated operating expense and other costs were \$43.4 million, a decrease of \$33.9 million, due mainly to the conclusion of a number of line modification projects driving a corresponding decrease in project costs.

Regulated operating expenses increased by 3.6% to \$155.6 million, principally due to provisions for rectification of existing network and property defects including the provisions raised in relation to the November and December bushfires. These increases were partially offset by maintenance efficiencies continuing to be achieved and procurement savings delivered in the areas of IT, telecommunications operations and the placement of insurance.

Capital expenditure

Capital expenditure was \$493.3 million, an increase of \$222.0 million from the equivalent 2018 period. Regulated capital expenditure increased by 32.0% to \$254.7 million mainly due to augmentation projects including Powering Sydney's Future and Stockdill Switching Station and maintenance capex.

Unregulated capital expenditure increased by 204.3% in 2019 to \$238.6 million primarily due to a number of connection projects now in delivery phase.

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

External financing expenses

TransGrid's net finance expenses for 2019 decreased by 11.7% to \$222.2 million. The prior year included an accelerated amortisation of capitalised debt financing costs (non-cash) of \$27.0 million from the refinancing of syndicated loan facilities originally put in place at the time of acquisition.

Bushfire Impact on Electricity Networks

Australia experienced significant bushfires across many parts of the country during the 2019–2020 bushfire season. While the impact of the fires was felt across a number of states, CitiPower and Powercor (together Victoria Power Networks) were not directly impacted.

TransGrid recorded damages to assets in the northern and southern parts of NSW. SA Power Network's recorded significant damage to assets on Kangaroo Island. Up to 600km of overhead lines were impacted on Kangaroo Island, the Adelaide Hills and Yorke Peninsula. The priority for each of the businesses has been to restore safe and reliable power supply to those affected areas.

Both TransGrid and SA Power Networks regulatory determinations include cost pass throughs for "natural disaster events" which covers fire, flood and earthquake. Accordingly, subject to exceeding the relevant materiality thresholds, the businesses have the ability to recover additional costs through the regulatory process. It is not yet clear whether these thresholds have been exceeded and whether cost pass-through adjustments will be pursued.

Notwithstanding the above, asset replacement costs associated with bushfires should be added in the RABs of the businesses.

The businesses have liability insurance policies that cover bushfire events. In the event the conditions for the approved cost pass through events are not met and/or either business is not able to cover losses through insurance, the cost will be managed within the current opex and/or capex programs.

Networks have a vital role to play as they work to restore safe and reliable power supply to those affected areas, and we praise the dedication of our employees who worked in extremely hazardous conditions to restore power to communities as quickly as possible.

Update on Energy and Regulatory Matters

Transmission

The ISP finalised by AEMO in July 2018 established a vision for the future of the NEM. The ISP acknowledges the critical role of transmission in optimising the existing investment in energy infrastructure, efficiently connecting renewable energy sources and delivering more than \$1.2 billion⁽¹⁾ in quantified benefits to end use customers. The ISP identified \$3 billion in priority projects to be delivered by TransGrid.

Rule changes to streamline regulatory processes for priority ISP projects (QNI, Victoria-NSW interconnector (VNI) and Project EnergyConnect) were finalised in April 2019. Consultation has commenced on further rule changes to make the ISP actionable in November 2019 which formalise the standing of the ISP in regulatory processes and transmission planning. These rule changes should improve the timeliness and reduce duplication of analysis.

AEMO released a draft 2020 ISP in December 2019 for consultation. This plan confirmed the priority projects identified in the 2018 ISP and identified further projects and reinforcements to support additional renewable energy zones.

Support for the investment outlined in the ISP has been provided in the NSW Government's Transmission Infrastructure Strategy released in November 2018 and Electricity Strategy released in November 2019. These strategies aim to encourage interconnection and regional development of Renewable Energy Zones and reduce barriers to investment. The Transmission Infrastructure Strategy includes a commitment to cover any gap between TransGrid's regulated revenues and costs incurred to bring forward preliminary planning work and assessments for four priority transmission projects.

Distribution

As a part of its annual review of electricity network regulation in 2019, the Australian Energy Market Commission (AEMC) confirmed the important role of distribution networks to lead the implementation of reforms to support grids of the future and renewable energy. The AEMC also recommended a regulatory sandbox toolkit to make it easier for businesses to develop and trial innovative energy technologies and business models. The main finding of the review was that consumers should be rewarded for integrating behind the meter technologies into the network. To support this, the AEMC highlighted the need for further pricing reform, the need to remove constraints and provide incentives for networks to invest to support two-way energy flows, and a further roll-out of interval meters.

The AEMC finalised its recommendations on the regulatory framework for stand-alone power systems during 2019. The AEMC supported the provision of stand-alone power systems by distributors where it is less expensive than maintaining a connection to the grid. This will result in Distribution Network Service Providers (DNSPs) being assets provide stand-alone power systems as a regulated service and reduce costs to customers. A package of proposed rules has been released to give effect to these changes.

(1) AEMO, Integrated System Plan, July 2018, p. 6.

OPERATING AND FINANCIAL REVIEW CONTINUED

Update on Energy and Regulatory Matters continued

Regulatory Determinations

On 31 January 2019 SA Power Networks submitted its proposal to the AER for their regulatory period commencing 1 July 2020. The proposal incorporates the changes from the AER's 2018 decisions on the Rate of Return Instrument (RORI) and regulatory treatment of tax including a re-categorisation of some capital expenditure as operating expenditure consistent with the revised tax approach. The AER's draft decision was provided in October 2019 and reduced the capital expenditure allowance by more than 20%. SA Power Networks has provided additional supporting information to defend its capital expenditure forecast in the revised proposal submitted in December 2019. The revised proposal reflects a low risk free rate and will be updated for the final decision in April 2020.

Victoria Power Networks released a draft proposal for the regulatory period commencing on 1 January 2021 for public consultation in February 2019. The Victorian Government has also sought a 6 month delay in the commencement of the next regulatory period to enable the network tariff year to commence on 1 July each year rather than 1 January. As a result, the next five year regulatory period will commence on 1 July 2021 with a separate determination applying for the 6-month transition period between 1 January 2021 to 30 June 2021. Victorian Power Networks submitted its proposal for the both periods to the AER on 31 January 2020.

These processes will provide revenue certainty for SA Power Networks and Victoria Power Networks until June 2025 and June 2026 respectively.

Contingent project applications

During the year the regulatory investment test for transmission (RIT-T) processes have progressed for Project EnergyConnect and QNI. The AER determined that the RIT-T for Project EnergyConnect was satisfied on 23 January 2020. TransGrid is expected to submit a Contingent Project Application (CPA) to have the revenue for its current regulatory period amended to recover its costs of Project EnergyConnect in the first half of 2020.

To meet timelines required by the Queensland and NSW Governments, TransGrid submitted a CPA for QNI to the AER on 17 January 2020 in advance of the AER's decision that the RIT-T is satisfied. The AER will consider the RIT-T and the CPA in parallel with a decision on both expected by the end of the first quarter 2020.

TransGrid has underwriting agreements in place with the NSW, SA and Commonwealth Governments to facilitate early works on Project EnergyConnect and QNI.

Powercor has continued its program to seek revenue to cover the efficient costs of the Rapid Earth Fault Current Limiters (RECFLs) submitting its CPA for Tranche 3 in August 2019. The AER did not approve all of the proposed capital expenditure and revenue, reducing the capital expenditure to be incurred in the current regulatory period and deferring consideration of expenditure associated with the Corio Zone Substation to the 2021–2026 regulatory re-set process.

Energy and regulatory policy

The last twelve months has seen the continuation of a significant number of reviews of energy and regulatory policy that have potential to impact on the value and revenue of energy network businesses and outcomes to customers. There is no further certainty regarding a national emissions policy, and State Governments are going it alone on several emissions, energy and regulatory policy issues.

A number of significant reviews undertaken by the AER in 2018 such as the regulated rate of return, the regulatory approach to tax and productivity expectations, are now being embedded in its decisions for network service providers in NSW, ACT, NT and Tasmania and in draft determinations in SA, and Queensland resulting in significant reductions in returns for the next regulatory period.

The RORI that establishes the regulatory rate of return is reviewed every 4 years and the AER has commenced the next review by consulting on the process and releasing the first of a series of annual update papers on the parameters. Spark Infrastructure will continue to co-ordinate engagement with investors in network assets through the Network Shareholder Group (NSG) on significant regulatory issues, including the 2022 RORI. A submission from the NSG to the AER on the RORI process was provided to the AER in January 2020.

Maintaining a track record of performance in delivering services at the lowest cost remains the most effective response in a changing system. Our portfolio businesses continued to lead their peers in productivity in the AER's annual benchmarking report released on 30 November 2019. SA Power Networks remains the most productive in the National Electricity Market (NEM) on a state-wide basis. CitiPower has retained its number one ranking for productivity with SA Power Networks third and Powercor fourth. TransGrid has continued to improve productivity but remains in third place behind TasNetworks and Ausnet.

The benefits of these improvements in efficiency and productivity are shared with customers over time through lower prices. Across the NEM, the benefits from an incentive-based framework have delivered between \$6 and \$11 billion over the 2006 to 2018 period.¹

Continuing change

In early 2019, the AEMC commenced a review of the access and charging arrangements to apply to transmission networks to improve the efficiency of dispatch and investment in transmission networks and new generation. The review has considered introducing locational marginal pricing and financial transmission rights in the NEM to improve efficiency and reduce uncertainty over future revenue streams for generators.

The AEMC acknowledged the mixed views of stakeholders in relation to the effectiveness of the proposals and implementation issues and the consensus that more time was needed and in its December 2019, update report it signalled that a final report to the Council of Australian Governments (COAG) Energy Council will be delayed until March 2020 and that the implementation of any changes would be at least four years after any access model rule changes are in place. Further work is continuing to consider the usefulness of the model to manage risk, transitional impacts and assessing the costs and benefits of reforms.

The AEMC made a draft determination in response to the Adani rule change proposal on transmission loss factors in November 2019. The AEMC's draft determination did not support the rule change proposal because it could result in consumers and generators in stronger parts of the grid paying more. Preferred rule changes were proposed that would provide AEMO with more flexibility in its calculation methodology, to improve the accuracy and timeliness of the calculation of losses. A final determination is expected in February 2020.

(1) Energy Networks Australia, Rewarding performance, July 2019.

The AER has commenced a review of ring fencing arrangements to apply to transmission network service providers. The current arrangements have been in place since 2002 and are considered to need updating to recognise changes in technology that may have blurred the lines between regulated and unregulated services. A draft decision is expected in May 2020.

The Energy Security Board (ESB) commenced a review on the post 2025 electricity market design in response to a request from The COAG Energy Council to consider a long-term fit-for-purpose market framework to support reliability, modifying the NEM as necessary to meet the needs of future diverse sources of non-dispatchable generation and flexible resources including demand side response, storage and distributed energy resource participation. The ESB is required to provide recommendations on the existing market design or an alternative market design by the end of 2020. The scope of the review does not include governance arrangements. Ensuring co-ordination and consistency of related reviews will remain a challenge.

Outlook

As previously disclosed, key regulatory decisions for SA Power Networks and Victoria Power Networks will put downward pressure on revenues for those businesses, which reflects the sustained low interest rate and low inflation environment. In addition, the initial Federal Court tax ruling in February 2019 has brought forward cash tax expense. Victoria Power Network's appeal hearing on the Federal Court decision has been deferred until May 2020 (with an outcome expected later in 2020).

The Directors have declared a final distribution for 2019 of 7.5cps (full year FY2019 distribution 15.0cps) and determined that the Dividend Reinvestment Plan will remain in operation for this distribution.

The Directors have provided distribution guidance for FY2020, subject to business conditions, of at least 13.5cps comprising 7.0cps attributable to the first half of 2020 and at least 6.5cps attributable to the second half. This staggered approach reflects the step-up in tax payable for 2020 as previously foreshadowed and the expected impact of the commencement of SA Power Network's new 5-year regulatory period from 1 July 2020.

The distribution is expected to be covered by look-through net operating cash flows consistent with prior years, with Spark Infrastructure having achieved an average payout ratio of 71% over the last four years.

The AEMO's draft 2020 ISP creates substantial growth opportunities for TransGrid including QNI, Project EnergyConnect and HumeLink. A contingent project application has been submitted for QNI, while the AER has determined that Project EnergyConnect satisfies the net benefits requirement in the RIT-T application. However, each opportunity is subject to further approvals by the AER and must be able to meet a number of criteria before reaching a financial investment decision. Should the projects progress, Spark Infrastructure has a number of funding options available to it, such as retained earnings or cash, asset level and senior corporate level debt, and new equity including utilising the DRP.

REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Dear Securityholders

On behalf of the Board, we are pleased to present our 2019 Remuneration Report for which we will seek your approval at our Annual General Meeting in May 2020. The Report covers the remuneration arrangements for our Executives and Non-Executive Directors for the year ended 31 December 2019.

Group performance

Spark Infrastructure's objective is to create long term sustainable value for Securityholders by investing in comparatively low risk essential services infrastructure businesses. We aim to do this through execution of our three-part strategy of Value Enhance, Value Acquire and Value Build and by providing sustainable distributions and long-term capital growth from our investment portfolio. Spark Infrastructure expects to continue to invest in infrastructure for the future through our existing portfolio of businesses, with a particular focus on opportunities created from the transition to a renewables future, and through disciplined pursuit of acquisition opportunities.

We are pleased with our progress against our objective in 2019 as demonstrated by our:

- Acquisition of the Bomen Solar Farm Project, which was the first step in delivering on the Value Build part of our strategy;
- Pipeline of growth opportunities emerging in the first instance for TransGrid from the Integrated System Plan and associated contingent projects; and
- Strong financial performance in 2019 through our portfolio of investment businesses which continue to perform at the highest levels.

We are, of course, disappointed with the Federal Court decision on the tax treatment of capital contributions for Victoria Power Networks announced in February 2019. This led the Board to make the difficult decision of announcing distribution guidance for FY2019 of 15 cents per security (cps), 1cps lower than the 16cps paid for FY2018, to reflect the impact of the tax decision. We understand our Securityholders were equally disappointed and that the decision took many by surprise.

Link between performance and reward

We consider the structure of the Remuneration Framework to be fair and balanced and an appropriate fit for the operations of Spark Infrastructure and its investment portfolio. The Remuneration Framework provides:

- Value creation for Securityholders by delivering a combination of increasing capital growth and distributions, and focusing on effective cost management through the financial measures of our incentive plans.
- A link to our objective by rewarding for delivering the strategy, encouraging the disciplined pursuit and execution of acquisitions and delivering operational efficiency and enhancing organisational performance.

2019 remuneration outcomes

There were no fundamental changes to our Remuneration Framework and policies during 2019. The MD's fixed remuneration was increased by 2% in 2019.

The financial component of the short term incentive (STI) plan relies on the Distribution Guidance gate being achieved. Due to the Full Federal Court appeal, the Board has made the decision to defer assessment of the Distribution Guidance gate until the outcome of the appeal is known (expected later in 2020). Accordingly, no amount under the financial component of the STI will be payable to the MD until the Distribution Guidance gate is assessed. We note during the year:

- 77.4% of the maximum for the financial component of the STI (60% of the total opportunity) for the MD was achieved. Once the outcome of the appeal is known, the Distribution Guidance gate will be assessed to determine whether it would have been met had the Federal Court case not been brought forward. Once this has been determined, this component of the award will be made to the MD or forfeited in full.
- 74.0% of the maximum for the non-financial component of the STI (40% of the total opportunity) for the MD was achieved and a payment of \$260,184 was made. Half of this proportion is to be paid in cash, and the remaining 50% deferred into Rights over 12 and 24 months.

Risk adjusted TSR performance for the 2016 LTI grant was ranked at the 60th percentile of the peer group (the S&P/ASX 200) and subsequently 56.3% of the award vested. The remaining 43.7% of the award lapsed.

Our former Chief Financial Officer, Mr Schiffer, ceased employment with Spark on 30 August 2019, resulting in all outstanding Rights under the deferred STI and LTI plan lapsing (285,926 rights). However, the Board will make an ex-gratia payment of \$100,000 to Mr Schiffer, to reflect his service and contribution during the financial year. The value of the ex-gratia payment is reflective of approximately 78% of the non-financial component of Mr Schiffer's pro-rated STI, taking into account the time Mr Schiffer was in the role and assessed for performance over that period. The financial component for Mr Schiffer's pro-rated STI was forfeited in full.

Changes to remuneration for FY20

The Board has determined a 2% increase for the MD and 2% increase in Chair and Board fees will apply for 2020, while Board Committee fees will remain unchanged for 2020.

We are receptive to the feedback we receive on our remuneration framework. The Chair, Independent Directors and Management met with investors and governance and remuneration advisers throughout the year to seek feedback and maintain an open and transparent dialogue with Securityholders.

We will continue to engage with Securityholders in FY2020 and expect to review our Remuneration Framework in 2020 to increase the alignment of Executives, Non-Executive Directors and Securityholders.



D McTaggart
Chair
Spark Infrastructure



G Martin
Chair
Remuneration Committee

Sydney
25 February 2020

REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

CONTENTS

The Directors of Spark Infrastructure RE Limited⁽¹⁾ present this Remuneration Report (Report) on the consolidated entity for the year ended 31 December 2019, 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), including Executive KMP (Executives) and Non-Executive Director KMP (NEDs) for 2019.

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

The Report covers the following:

1. Summary of KMP Remuneration Arrangements and Defined Terms
2. 2019 Organisational and Financial Performance
3. Remuneration Governance
4. Remuneration Philosophy and Link to Business Strategy
5. Remuneration Policy and Mix
6. Remuneration Structure
7. Employment Contract Key Terms
8. Key Management Personnel
9. 2019 Remuneration Outcomes
10. Non-Executive Director Fees
11. Statutory Remuneration Disclosures.

1. SUMMARY OF KMP REMUNERATION ARRANGEMENTS AND DEFINED TERMS

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

This section highlights defined terms used throughout this Report as well as key elements of KMP remuneration for 2019.

1.1 Defined Terms

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

MD	The Managing Director and Chief Executive Officer.
CFO	The Chief Financial Officer.
KMP	Key Management Personnel, being those people who have authority and responsibility for planning, directing and controlling the major activities of Spark Infrastructure, directly or indirectly, including any Director (whether Non-Executive or otherwise) of Spark Infrastructure.
Executives	Executives are the direct reports to the MD (not including Executive assistants). The Board has determined that of the Executives, only the MD and CFO are KMPs.
Fixed Remuneration	Fixed Remuneration is the fixed annual remuneration component of Total Remuneration. Fixed Remuneration includes cash, superannuation and any other allowances which are the responsibility of the Executive.
LTI	The Long Term Incentive Plan.
NEDs	Non-Executive Directors.
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).
Rights	The right to acquire a Security, subject to performance and/or vesting conditions.
Risk Adjusted 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.
STI	The Short Term Incentive Plan.
Total Remuneration	Total Remuneration comprises Fixed Remuneration plus STI and LTI.
TSR	TSR or Total Securityholder Return is the total return from a security to an investor. It combines security price appreciation or diminution plus distributions reinvested to show the total return to an investor.

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

1. SUMMARY OF KMP REMUNERATION ARRANGEMENTS AND DEFINED TERMS CONTINUED

1.2 Key Changes to Remuneration Structure in 2019 and 2020

There were no changes to the remuneration structure for 2019. We expect to review our Remuneration Framework in 2020.

1.3 Remuneration Arrangements for 2019

The table below summarises the key aspects of the Group's remuneration approach.

ELEMENT	SPARK INFRASTRUCTURE APPROACH	FURTHER INFORMATION									
SUMMARY OF 2019 REMUNERATION AND OUTCOMES											
1. Link between Spark Infrastructure's 2019 performance and Executive remuneration outcomes	<p>Summary of the remuneration structure for 2019 and outcomes is set in this section.</p> <p>Summary of the organisational and financial performance for Spark Infrastructure for 2019 is provided in section 2.</p> <p>STI financial outcomes are subject to achievement of the distribution gate, thereby aligning Executive short term remuneration with distributions to Securityholders.</p> <p>An Executive's STI award is assessed against financial metrics including distributions from investments, EBITDA and unregulated revenues, and non-financial metrics being a combination of business performance and organisational performance.</p> <p>Distribution Gate for 2019: The adjustment to Spark Infrastructure's FY2019 distribution guidance to 15cps announced in February 2019 has resulted in the Board deferring its assessment of achievement of the distribution gate for FY2019 until such time as the outcome from the tax appeal to the Full Federal Court is known, expected to be later in 2020.</p> <p>During the year:</p> <p>77.4% of the maximum for the financial component of the STI (60% of the total opportunity) for the MD was achieved. Once the outcome of the appeal is known, the Distribution Guidance gate will be assessed to determine whether it would have been met had the Federal Court case not been brought forward. Once this has been determined, this component of the award will be made to the MD or forfeited in full.</p> <p>74.0% of the maximum for the non-financial component of the STI (40% of the total opportunity) for the MD was achieved and a payment of \$260,184 was made. Half of this proportion is to be paid in cash, and the remaining 50% deferred into Rights over 12 and 24 months.</p> <p>Our CFO, Mr Schiffer ceased employment on 30 August 2019, resulting in all outstanding Rights under the deferred STI and LTI plan lapsing (i.e. 335,414 Rights). However, the Board will make an ex-gratia payment of \$100,000 to Mr Schiffer, to reflect his service and contribution during the financial year. The value of the ex-gratia payment is reflective of approximately 78% of the non-financial component of Mr Schiffer's pro-rated STI. The financial component for Mr Schiffer's pro-rated STI was forfeited in full.</p> <p>The performance period for the 2016 LTI grant ended on 31 December 2019. The LTI had a single performance measure of risk adjusted TSR. Across the four-year performance period Spark Infrastructure ranked at the 60th percentile against the S&P ASX 200 Index. Based on pro-rata vesting between 30% at the 51st percentile and 100% at the 75th percentile, a 60th percentile ranking results in 56.3% vesting of the 2016 LTI at 31 December 2019. This will be equity settled.</p> <p>Further detail on the 2019 remuneration outcomes, incorporating financial and non-financial KPI performance, for KMP is provided in section 9.</p>	sections 2 and 9									
EXECUTIVE REMUNERATION FRAMEWORK											
2. Proportion of fixed and variable remuneration	<p>Executive remuneration is comprised of fixed remuneration and variable (i.e. 'at-risk') remuneration, which includes STI and LTI. The proportion of fixed and variable remuneration for each Executive is outlined below.</p> <table border="1"> <thead> <tr> <th>Executive</th> <th>Fixed remuneration</th> <th>Variable remuneration</th> </tr> </thead> <tbody> <tr> <td>MD</td> <td>38%</td> <td>62%</td> </tr> <tr> <td>CFO</td> <td>43%</td> <td>57%</td> </tr> </tbody> </table>	Executive	Fixed remuneration	Variable remuneration	MD	38%	62%	CFO	43%	57%	section 5
Executive	Fixed remuneration	Variable remuneration									
MD	38%	62%									
CFO	43%	57%									
FIXED REMUNERATION											
3. Fixed remuneration	<p>Fixed remuneration is determined by the Board taking into consideration Spark Infrastructure's market comparator group, composed of ASX-listed entities of a similar size and operational scope.</p> <p>There was a 2% increase to the MD's fixed remuneration in 2019.</p>	section 5.2									

ELEMENT	SPARK INFRASTRUCTURE APPROACH	FURTHER INFORMATION				
SHORT TERM INCENTIVE PLAN (STI)						
4. Structure and quantum	<p>Maximum STI opportunities in 2019 expressed as a percentage of Fixed Remuneration were as follows:</p> <table border="1"> <thead> <tr> <th>MD</th> <th>CFO</th> </tr> </thead> <tbody> <tr> <td>100%</td> <td>80%</td> </tr> </tbody> </table> <p>In the normal course, 50% of any STI earned is paid in cash following the end of the STI performance period. The remaining 50% of STI is deferred into Rights to strengthen the alignment of Executives to the delivery of value to our Securityholders. The Rights vest as follows, subject to continued service through to the end of the relevant vesting period (Refer section 5.3):</p> <ul style="list-style-type: none"> – 50% vest 12 months after the end of the STI performance period; and – 50% vest 24 months after the end of the STI performance period. <p>Note that vesting of the financial component of the STI for 2019 for the MD is not yet known due to the Board's deferral of its decision as to whether the FY2019 distribution gate was achieved.</p> <p>As a result, only the non-financial component of the MD's STI has vested, with half of this proportion to be paid in cash in March 2020 and the remaining 50% deferred into Rights as set out above.</p>	MD	CFO	100%	80%	sections 5 and 6.1
MD	CFO					
100%	80%					
5. Performance measures and Performance gate	<p>STI performance measures include both financial and non-financial KPIs. Achievement of these KPIs can be influenced by Executives in exercising oversight of Spark Infrastructure's investments and driving performance through efficiency, regulatory outcomes and growth in the unregulated businesses. The relative weighting between financial and non-financial KPIs may differ among Executives depending on their relative influence in each area of focus. For the MD and CFO financial KPIs comprise 60% of their total STI with 40% attributable to non-financial KPIs.</p> <p>In 2019, financial KPIs were:</p> <ul style="list-style-type: none"> – distributions from investments; – Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA); – unregulated revenue targets; and – total Spark Infrastructure controllable costs. <p>Non-financial KPIs were aligned to our strategy of Value Enhance, Value Build and Value Acquire including stakeholder management, public advocacy (within the economic regulatory and energy sector), portfolio management, operations and people and culture measures.</p> <p>In order for the financial component of the STI to be awarded, a performance gate applies such that Spark Infrastructure must achieve its Distribution Guidance for the relevant year. The performance gate does not apply to the non-financial KPI component of the STI.</p>	section 6.1				
LONG TERM INCENTIVE PLAN (LTI)						
6. Structure and quantum	<p>Maximum LTI opportunities in 2019 expressed as a percentage of Fixed Remuneration were as follows:</p> <table border="1"> <thead> <tr> <th>MD</th> <th>CFO</th> </tr> </thead> <tbody> <tr> <td>65%</td> <td>50%</td> </tr> </tbody> </table> <p>LTI awards are granted in the form of Rights to acquire Securities, subject to achievement of performance measures over the performance and vesting period.</p> <p>Executives ordinarily receive one Security for each Right that vests, together with a distribution equivalent payment for each Security allocated on vesting (equal to the distributions the Executive would have been entitled to receive had they held the Securities during the vesting period).</p>	MD	CFO	65%	50%	sections 5 and 6.2
MD	CFO					
65%	50%					

1. SUMMARY OF KMP REMUNERATION ARRANGEMENTS AND DEFINED TERMS CONTINUED

1.3 Remuneration Arrangements for 2019 continued

ELEMENT	SPARK INFRASTRUCTURE APPROACH	FURTHER INFORMATION
LONG TERM INCENTIVE PLAN (LTI)		
7. Performance measures and performance/ vesting periods	<p>The Board believes a mix of external (i.e. risk adjusted TSR) and internal (i.e. OCF) measures for the LTI provides the right focus for Executives on delivering long term Securityholder value. Accordingly, grants made from 1 January 2018 and thereafter are assessed against the following performance measures:</p> <ul style="list-style-type: none"> - Tranche 1 (50% of LTI award): Spark Infrastructure's risk adjusted TSR (assessed against the constituent entities in the S&P/ASX 200 index) measured over a four-year period; - Tranche 2 (25% of LTI award): Standalone OCF measured over a three-year period (the test period), plus require a further one-year service period; and - Tranche 3 (25% of LTI award): Look-through OCF measured over a three-year period (the test period), plus a further one-year service period. <p>Vesting occurs at the end of four years, to the extent the relevant performance/ service conditions are met.</p> <p>Details of past awards that remain on foot are set out at section 11.3.</p>	section 6.2
NON-EXECUTIVE DIRECTOR (NED) FEES		
8. NED fee quantum	<p>With the exception of the Board Chair, NEDs receive a base fee and additional fees for chairing or participating in Board committees. The Board Chair's fee is inclusive of committee membership.</p> <p>The Board has determined that NED fees for 2020 will be increased by 2%, while Board Committee fees will remain unchanged.</p>	section 10
9. NED fees from other entities	<p>NEDs may be appointed to the boards of the investment portfolio companies from time to time and discharge their role as Directors of those companies separately and in addition to their role on the Spark Infrastructure Board.</p> <p>NEDs receive fees directly from those investment portfolio companies. These fees are not paid by Spark Infrastructure because they are separate to fees paid for their role as NEDs of Spark Infrastructure. Directors' fees for investment portfolio companies are determined by the boards of those companies.</p>	section 10.4
MINIMUM SECURITYHOLDING REQUIREMENT		
10. Minimum requirement	<p>NEDs and KMP are required to hold a minimum number of Securities equivalent to:</p> <ul style="list-style-type: none"> - MD: 100% of Fixed Remuneration; - CFO: 50% of Fixed Remuneration; and - NEDs: Equivalent of one years' Director base fees. <p>Securities include Securities and Rights (earned but not yet vested) under the Deferred STI Plan but not unvested Rights delivered under the LTI Plan which are subject to performance/ service conditions.</p> <p>NEDs and KMP are required to meet the minimum Securityholding requirement within a three-year period from appointment.</p>	sections 9.4, 11.5 and 11.6
2019 REMUNERATION		
11. Changes to Fixed Remuneration for 2019	For 2019, an increase of 2% was considered appropriate for the MD.	section 5.2

2. 2019 ORGANISATIONAL AND FINANCIAL PERFORMANCE

Impact of ATO litigation

We are deeply disappointed with the Federal Court decision on the tax treatment of capital contributions for Victoria Power Networks announced in February 2019. This led the Board to make the difficult decision of announcing distribution guidance for FY2019 of 15cps, 1cps lower than the 16cps paid for FY2018, to reflect the impact of the tax decision. While we had previously disclosed the details of these tax matters in our financial statements, we understand our Securityholders were equally disappointed and that the decision took many by surprise. The matter is currently on appeal to the Full Federal Court with the outcome expected later in the year. Due to the Full Federal Court appeal, the Board has decided to defer its assessment of the achievement of the Distribution Guidance gate until the outcome of the appeal is known (expected later in 2020).

Economic and Regulatory Environment

Our main investment businesses operate on five year regulatory cycles and in the medium term we expect that distributions to Securityholders will align more closely with the five-year regulatory periods of our major investments, primarily being SA Power Networks and Victoria Power Networks.

2019 also presented challenges with regard to the economic regulatory environment within which the businesses in our investment portfolio operate. We announced that the impact of the AER's Rate of Return Instrument combined with lower inflation will negatively impact regulatory returns for the upcoming five-year regulatory periods commencing 1 July 2020 for SA Power Networks and 1 July 2021 for Victoria Power Networks, noting that Victoria Power Networks is transitioning to a 1 July commencement date but will be subject to the new rate of return from 1 January 2021 for its six month transition period. Taking into account these regulatory and macro-economic headwinds and notwithstanding the best efforts of the investment businesses to mitigate these impacts, we expect distributions to Securityholders will need to reset to a lower base for the next five-year regulatory periods.

Achievements in 2019

Spark Infrastructure delivered a strong performance result for 2019. This was enabled through the high performing businesses in our investment portfolio, the clarity and delivery of our strategy, and the quality of our management team.

A few of our significant achievements for 2019 are set out below.

- Acquisition of Bomen Solar Farm and completion of mechanical construction as of January 2020. Project remains on-time and on-budget with commercial operations expected to commence in Q2 2020.
- Delivery on our Value Enhance, Acquire & Build strategy.
- Continued strong performance and efficiency gains from our high performing investment businesses.
- Significant progress on Project Energy Connect and other ISP related projects with TransGrid.
- Significant contributions to regulatory submissions for our investment businesses.
- Continued public advocacy as a key influencer in the regulatory and energy sector, with regulators, state and federal departments.

Future Opportunities

Looking further forward, we are excited by the tremendous opportunities emerging from the transformation of Australia's energy system to a renewable future as demonstrated in AEMO's Integrated System Plan (ISP). In the first instance this will be particularly important for TransGrid who is partnering with ElectraNet on Project Energy Connect, a proposal to build an energy interconnector between NSW and South Australia. The AER recently confirmed the Project has met the RIT-T requirements, which means that it will provide a net benefit to consumers. TransGrid and ElectraNet plan now to submit a joint Contingent Project Application (CPA). If the CPA is approved, the Project will represent significant capital investment and corresponding growth in the asset base of TransGrid. And this is just one of a number of such investment opportunities being presented to TransGrid.

This transformation also informed the acquisition of Bomen Solar Farm Project as our first step in delivering our Value Build Strategy. While only a minor component (circa 3%) of our investment portfolio, Bomen Solar Farm demonstrates our credentials in the renewable space and provides attractive risk adjusted returns and value creation for Securityholders, albeit on a small scale.

With the growth opportunities emerging from the ISP, we are investing in infrastructure for the future and our focus remains on growing an investment portfolio that delivers a combination of long-term capital growth and distributions to Securityholders.

2.1 Spark Infrastructure Financial Performance

The table below shows the reported financial performance of Spark Infrastructure over the last five years. These financial performance outcomes are a key component for achievement of the STI financial metrics each year.

Standalone and look-through net operating cashflows are also key components of the LTI Plan weighted at 25% each and measured over a 3-year performance period.

	5 YEAR FINANCIAL PERFORMANCE				
	2019	2018	2017	2016	2015
Profit after tax attributable to Securityholders (\$'000)	79,138	92,285 ²	88,641	81,083	88,024
Profit before Loan Note Interest and tax expense (\$'000)	258,470	270,516 ²	265,804	225,816	252,820
Closing Security price at year end (\$)	2.09	2.21	2.51	2.38	1.92 ¹
Distribution per Security (cents)	15.00	16.00	15.25	14.50	12.00
Operating costs (\$'000) – excluding project costs	14,075	14,193	12,607	11,352	8,862
Standalone Net Operating Cash flow (cps)	15.2	17.3	15.9	18.2	12.3
Net Look-through Operating Cash flow (cps)	22.5	19.1	21.4	22.1	28.9

1. The opening security price at the start of 2015 was \$2.13
 2. Excluding asset Impairment in 2018

3. REMUNERATION GOVERNANCE

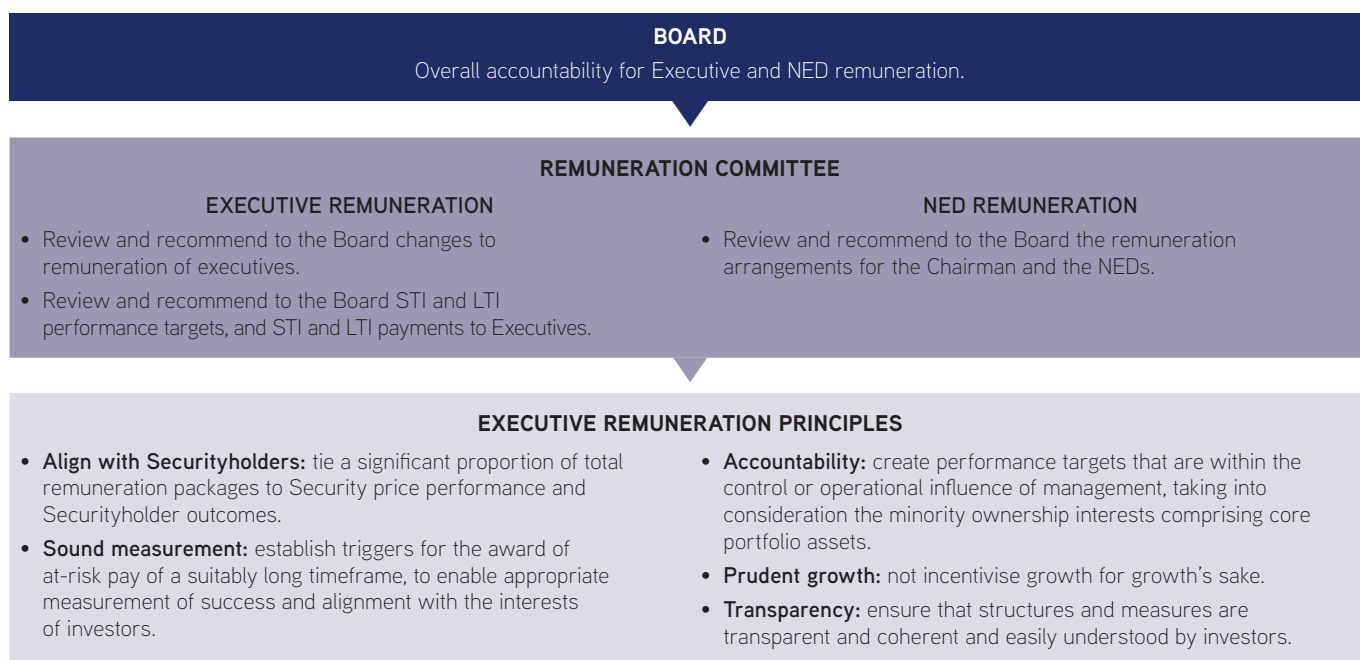
The Board, RemCo, external advisors and management work together to apply our remuneration principles and ensure our remuneration strategy supports sustainable Securityholder value, while always maintaining high standards of corporate governance.

The RemCo works closely with the Board and Audit Risk and Compliance Committee (ARC) to ensure executive remuneration outcomes reflect contributions to Spark Infrastructure's financial and non-financial performance, adherence to the risk management and compliance framework, and demonstrate our value and behaviours.

The ARC:

- advises the RemCo of material risk issues, behaviours and compliance breaches which may impact remuneration outcomes;
- reviews the measurement/calculation of financial incentive plan performance measures;
- advises whether any one-off adjustments to financial incentive plan measures and targets are appropriate; and
- reviews the annual Remuneration Report to ensure compliance with accounting standards and relevant legislation.

The diagram below represents Spark Infrastructure's remuneration decision making framework.



The composition of the RemCo is set out in Section 8. Further information on the RemCo's role, responsibilities and membership is available at www.sparkinfrastructure.com/about/corporate-governance/governance-documents.

3.1 Use of Remuneration Advisors

The RemCo appointed Ernst & Young (EY) as its external remuneration advisor during 2019.

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.

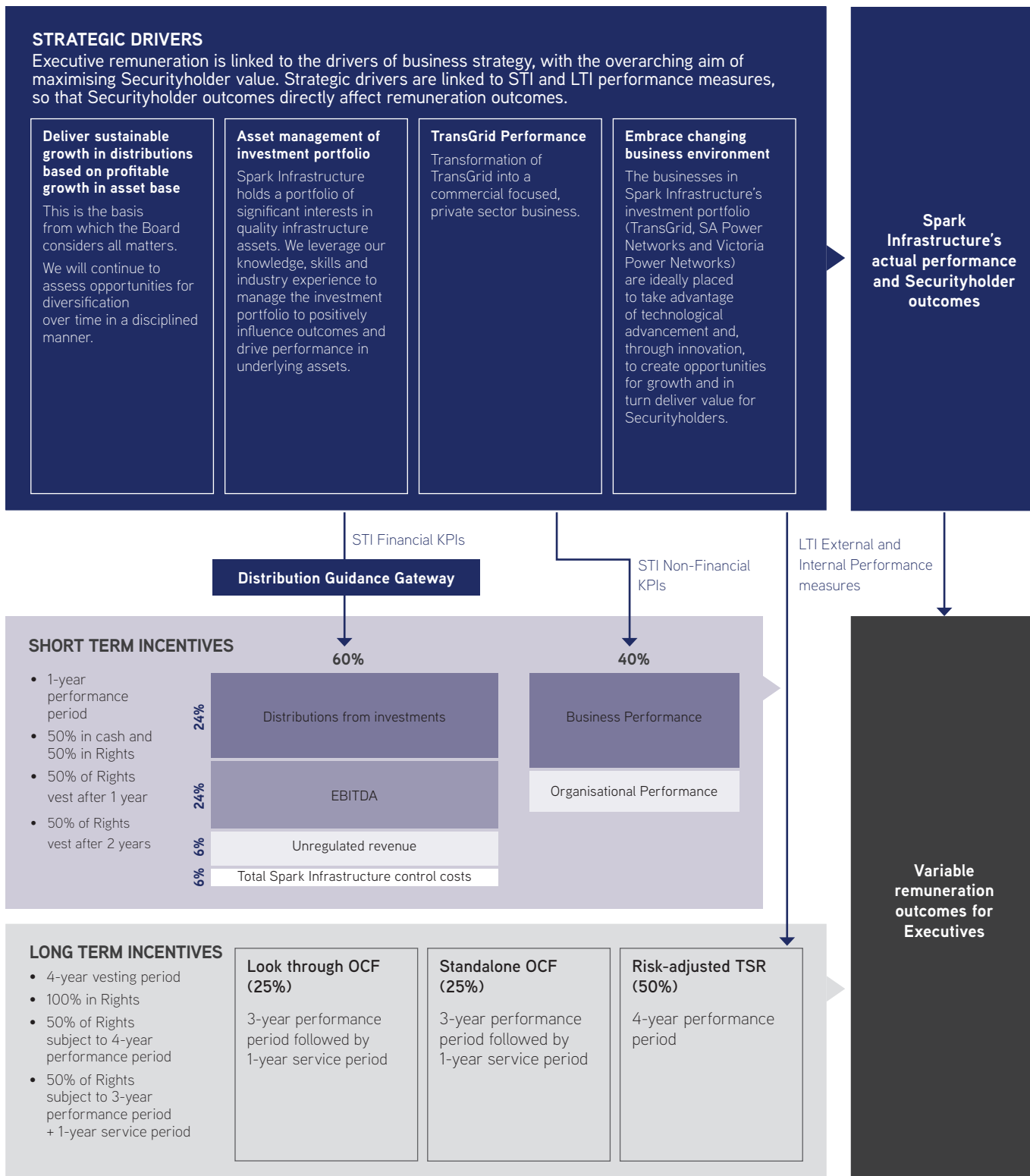
During 2019, the services EY provided the RemCo were:

- Provision of market practice and considerations regarding the executive remuneration framework;
- Valuation of the long-term incentive grant; and
- Feedback on the Remuneration Report.

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

4. REMUNERATION PHILOSOPHY AND LINK TO BUSINESS STRATEGY

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



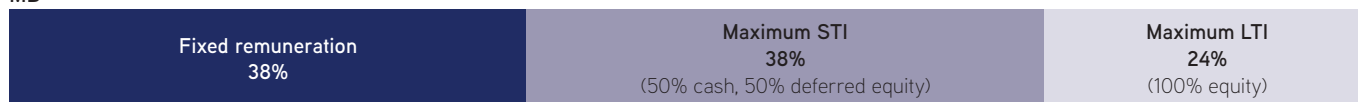
5. REMUNERATION POLICY AND MIX

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

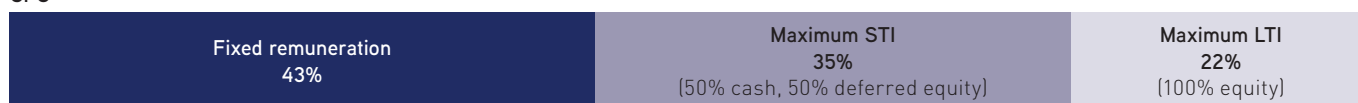
Executives receive Fixed Remuneration and variable 'at-risk' remuneration consisting of short and long-term incentive opportunities. Executive remuneration is reviewed annually by the RemCo with reference to the market and Spark Infrastructure's business operations.

Spark Infrastructure's remuneration policy has a strong performance focus, with a large proportion of Executives' remuneration contingent on maximising Securityholder value. The charts below set out the remuneration structure and maximum remuneration mix for the MD and CFO in 2019. Refer to section 6.1 and 6.2 for detail on the structure of the STI and LTI.

MD



CFO



5.1 Potential Maximum at Risk Remuneration for Executives in 2019

Presented below are the maximum STI and LTI opportunities for 2019 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
MD	100%	65%
CFO	80%	50%

5.2 The MD's Remuneration Package for 2019

Details of the MD's 2019 remuneration package are set out in the table below.

	FIXED 2019 (INCL. SUPER- ANNUATION) \$	2019 STI MAXIMUM OPPORTUNITY %	2019 STI MAXIMUM OPPORTUNITY \$	2019 LTI MAXIMUM OPPORTUNITY %	2019 LTI MAXIMUM OPPORTUNITY \$	TOTAL REMUNERATION MAXIMUM OPPORTUNITY \$
Rick Francis	879,000	100	879,000	65	571,350	2,329,350

The MD will receive a CPI increase of 2% in Fixed Remuneration in 2020. There are no other changes to the MD's remuneration package for 2020.

5.3 STI and LTI Common Features: Clawback, Treatment of Awards on Cessation of Employment and Trading Policy

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

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

6. REMUNERATION STRUCTURE

6.1 Short Term Incentives

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

Purpose	<p>The STI plan is operated to:</p> <ul style="list-style-type: none"> - focus Executives, through challenging performance measures, on the achievement of results in areas that are expected to impact the performance of Spark Infrastructure in the short term; - create sustained annual performance over a longer term period through STI deferral; - assist in the attraction, reward and retention of high quality employees; - constrain the potential for unacceptable risk taking; - ensure that a significant portion of remuneration is "at risk" with a mix of financial and non-financial performance measures; and - strengthen the link between Executive remuneration and long-term Securityholder returns through STI deferral. 									
Performance Gate	<p>In order for the financial component of the STI to be awarded, Spark Infrastructure must achieve its Distribution Guidance for the year.</p> <p>The performance gate does not apply to the non-financial component of the STI.</p>									
Performance measures	<p>An Executive's STI award is assessed based on financial KPIs (subject to the distribution gate) and non-financial KPIs over a 12-month performance period. Non-Financial KPIs may be weighted differently among participants depending on their relative influence in the area. The weighting of financial and non-financial KPIs for each Executive in 2019 was as follows:</p> <table border="1"> <thead> <tr> <th>POSITION</th> <th>FINANCIAL KPIs</th> <th>NON-FINANCIAL KPIs</th> </tr> </thead> <tbody> <tr> <td>MD</td> <td>60%</td> <td>40%</td> </tr> <tr> <td>CFO</td> <td>60%</td> <td>40%</td> </tr> </tbody> </table>	POSITION	FINANCIAL KPIs	NON-FINANCIAL KPIs	MD	60%	40%	CFO	60%	40%
POSITION	FINANCIAL KPIs	NON-FINANCIAL KPIs								
MD	60%	40%								
CFO	60%	40%								

In 2019, Spark Infrastructure Financial KPIs and Non-Financial KPIs were:

Financial KPIs: definition and rationale

- **Distributions (24%)** – Spark Infrastructure's objective is to deliver sustainable levels of distributions to Securityholders over time, based on distributions received from its investments.
- **Look-through EBITDA (24%)** – Look-through earnings demonstrate growth and operational excellence and performance of the underlying businesses, which produces distribution sustainability and growth.
- **Unregulated revenue (6%)** – growth in unregulated revenue at TransGrid demonstrates achievement of key business priorities of our investment and ability to participate in rapid industry change and the move to a renewable energy future.
- **Total Spark Infrastructure controllable costs (6%)** – Disciplined management of Spark Infrastructure's costs is an area of continual focus to deliver value for Securityholders.

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

PERFORMANCE LEVEL	% OF MAXIMUM STI AWARDED BASED ON EACH OF SPARK INFRASTRUCTURE'S FINANCIAL KPIs
Below threshold	0%
Threshold	50%
Target	70%
Exceed stretch target	100%

Performance measures continued

Non-financial KPIs: definition and rationale

BUSINESS PERFORMANCE

- **Strategic** – Spark Infrastructure’s vision is to be the leading ASX-listed infrastructure owner of a portfolio of infrastructure for the future, to provide long-term value creation through capital growth and distributions from our existing portfolio of businesses, and through disciplined pursuit of acquisitions. Our strategy is
 - **Value Enhance** – managing for performance and organic growth;
 - **Value Acquire** – evaluate opportunities to grow and diversify the portfolio through disciplined acquisitions;
 - **Value Build** – building and developing a platform of businesses in adjacent sectors and opportunities emerging from the transformation of the energy sector and the Integrated System Plan.
- **Special projects** – Spark Infrastructure will undertake special projects such as the assessment of a potential acquisition opportunities as we invest in infrastructure for the future. The level of achievement will be based on the diligence of execution and discipline applied to the conduct of the project rather than the success of the outcome.
- **Operations** – operational efficiency, reliability and safety of the underlying businesses in our 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 participation on the boards in its investment portfolio. As we have seen to date, sustainability in look through cashflows will come from managing the businesses as efficiently as possible within the constraints of the regulatory framework, and from organic growth prospects for the capital asset bases of the businesses, whether from unregulated connection assets or a pipeline of contingent transmission projects in TransGrid.
- **Optimising regulatory outcomes** – is critical to the ongoing financial performance of the businesses that comprise Spark Infrastructure’s investment portfolio.

ORGANISATIONAL PERFORMANCE

- **People and culture, governance and process improvement** – maintaining a robust culture and investing in people is fundamental in maintaining and growing a sustainable business and harnessing our strategic objectives. Spark Infrastructure has a small high quality specialist team. Continuing to support and build our people capability is essential to deliver our Value Strategy and deliver long term growth and create sustainable value for Securityholders coupled with a robust and effective risk and compliance framework.

- **Target – building and enhancing our people capability, supported by a strong culture and robust risk management to deliver performance and the right behaviours, supported by appropriate remuneration structures**

- **Stakeholder management** – interaction of management with investment partners, industry participants, market participants, regulators, government and the communities in which its underlying businesses operate is critical to realising long term sustainable growth of the investment portfolio, and creating value for Securityholders. Spark Infrastructure is an active participant and thought leader in industry and regulatory change.

‘At Target’ means the key objectives for each area of performance were assessed to be at least 70% of their weighting, in aggregate. ‘Above Target’ means one or more of the key objectives for the performance area must have been fully achieved with majority of key objectives at least substantially achieved.

Non-Financial KPIs and targets for Executives (other than the MD) are set and assessed by the MD and are reviewed by the RemCo. The maximum achievement for non-financial KPIs is 100% of opportunity.

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

For a summary of overall 2019 organisational and financial performance, refer to section 2.

Performance and deferral period	<p>Performance is measured at the end of Spark Infrastructure’s financial year.</p> <p>For Executives, 50% of any STI award is paid in cash in March following the year of assessment. The remaining 50% of the STI is delivered in the form of Rights and vests (subject to continuous service) as follows:</p> <ul style="list-style-type: none"> - 50% vests 12 months after the end of the performance period; and - 50% vests 24 months after the end of the performance period (deferral periods). <p>Rights are granted at no cost to the Executive. Upon vesting, rights are automatically exercised and no amount is payable by the Executive on exercise. One Security is ordinarily received for every Right that vests. A dividend equivalent payment is also made upon vesting, equal to the distributions the Executive would have been entitled to receive had they held the physical Securities during the deferral period. Under the Terms of the Equity Incentive Plan Rules, the Board retains discretion to settle these amounts in cash.</p> <p>Spark Infrastructure uses a face value methodology for allocating Rights to each Executive, being the VWAP of Securities traded in the 30 trading days up to and including 31 December. The relevant VWAP for determination of the Grant of Rights attributable to the FY2019 performance year is \$2.12.</p>
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6. REMUNERATION STRUCTURE CONTINUED

6.2 Long Term Incentives

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

Purpose	<p>The LTI is operated to:</p> <ul style="list-style-type: none"> – align Executive reward with the long-term interests of Spark Infrastructure and its Securityholders, ensuring creation of sustainable Securityholder returns; – focus on performance hurdles that measure performance in terms of risk management as well as returns; and – ensure that a significant portion of remuneration is “at risk”. 										
Performance measures	<p>Grants made in 2019 were subject to three independent performance measures:</p> <ul style="list-style-type: none"> – Risk Adjusted TSR (50% of LTI award) – Standalone OCF (25% of LTI award) – Look-through OCF (25% of LTI award) 										
Risk adjusted relative TSR	<p>Risk adjusted TSR is the return on a Security in excess of what would be expected taking into consideration the relative level of risk in each peer company. The relationship between risk and return is well understood; that is, if risk is high, then there is an expectation of higher returns, and vice versa.</p> <p>Traditional TSR does not consider 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.</p> <p>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.</p> <p>Risk adjusted TSR is selected as the LTI measure as it provides Spark Infrastructure with a measure of how we are performing in comparison to the market. Where an absolute TSR measure is used, Executives could be rewarded by a rising market even if Spark Infrastructure performs relatively poorly.</p> <p>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.</p> <p>The Board views the constituents of the S&P/ASX 200 index to be the most appropriate comparator group as this group should represent the competing investment preferences of our investors.</p> <p>Calculation of risk adjusted TSR and vesting schedule</p> <p>The excess return of Spark Infrastructure (above what would be expected taking into consideration the relative level of risk in each peer company's security) is compared to the excess returns of S&P/ASX 200 index companies over the four-year performance period, to determine Spark Infrastructure's percentile ranking.</p> <p>The degree to which the risk adjusted TSR component of the LTI opportunity (i.e. 50%) vests is determined by reference to the following scale:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">TSR PERCENTILE RANKING</th> <th style="text-align: right;">% OF RISK ADJUSTED TSR COMPONENT OF LTI AWARD THAT VESTS</th> </tr> </thead> <tbody> <tr> <td>Below the 51st percentile</td> <td style="text-align: right;">0%</td> </tr> <tr> <td>At the 51st percentile</td> <td style="text-align: right;">30%</td> </tr> <tr> <td>Between the 51st percentile and the 75th percentile</td> <td style="text-align: right;">Pro-rata vesting between 30% and 100%</td> </tr> <tr> <td>At or above the 75th percentile</td> <td style="text-align: right;">100%</td> </tr> </tbody> </table> <p>Testing of the risk adjusted TSR part of the award will occur shortly after the end of the four-year performance period. If any LTI awards do not vest on testing, they will immediately lapse. There is no retesting of LTI awards.</p> <p>The risk adjusted TSR calculation is undertaken independently of management and is externally reviewed on an annual basis. The Board has disclosed the methodology used to calculate the risk adjusted TSR applicable to assess the LTI on Spark Infrastructure's website at www.sparkinfrastructure.com/about/corporate-governance/governance-documents.</p>	TSR PERCENTILE RANKING	% OF RISK ADJUSTED TSR COMPONENT OF LTI AWARD THAT VESTS	Below the 51st percentile	0%	At the 51st percentile	30%	Between the 51st percentile and the 75th percentile	Pro-rata vesting between 30% and 100%	At or above the 75th percentile	100%
TSR PERCENTILE RANKING	% OF RISK ADJUSTED TSR COMPONENT OF LTI AWARD THAT VESTS										
Below the 51st percentile	0%										
At the 51st percentile	30%										
Between the 51st percentile and the 75th percentile	Pro-rata vesting between 30% and 100%										
At or above the 75th percentile	100%										

Standalone OCF and Look-through OCF	<p>Standalone Operating Cash Flow (OCF) and Look-through OCF were selected as performance measures for the LTI as they:</p> <ul style="list-style-type: none"> - can be influenced by Executives by actively managing the cost, performance, capital expenditure and debt strategy of our investments; - clearly demonstrate the performance of Spark Infrastructure; and - reflect Spark Infrastructure's ability to influence the investment companies to ensure distributions are received and are available to be paid to Spark Infrastructure investors. <p>The OCF measures increase transparency and reduce any potential for artificial growth in distributions to Securityholders by more clearly linking the operational performance of the investment portfolio to the performance of Spark Infrastructure. The decision to use both look-through and standalone cash flow measures seeks to emphasise this balance.</p> <p>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.</p>						
	<p>Calculation of OCF and vesting schedule</p>						
	<p>Operating Cash flow is the cash flow from operating activities of the businesses comprising Spark Infrastructure's investment portfolio. Operating cash flow is set each year in accordance with Spark Infrastructure's budget and business plan and reflects the underlying 5-year business plans of the investment portfolio businesses. Operating Cash flow is measured on a standalone and a look through basis. Standalone OCF is calculated as the distributions from the portfolio businesses less corporate expenses and represents the cash flow available for distribution to Securityholders. Look-through OCF is comprised of the net cash flow from business operations of the investment portfolio.</p>						
	<p>The degree to which the OCF component of the LTI opportunity vests (i.e. 50%) is determined by reference to OCF performance over the three-year performance period and continued service until the end of the four-year vesting period. A three-year performance period was selected as it allows smoothing of outcomes over the testing period in order to reduce volatility between and across regulatory periods.</p>						
	<p>OCF performance is measured by reference to the following scale:</p>						
	<table border="1"> <thead> <tr> <th data-bbox="416 1093 823 1122">THREE-YEAR AGGREGATED OCF TARGET</th> <th data-bbox="1246 1070 1506 1122">% OF OCF COMPONENT OF LTI AWARD THAT VESTS</th> </tr> </thead> <tbody> <tr> <td data-bbox="416 1128 639 1158">Below 97.5% of target</td> <td data-bbox="1469 1128 1506 1158">0%</td> </tr> <tr> <td data-bbox="416 1164 847 1193">Between 97.5% of target and 105% of target</td> <td data-bbox="1118 1164 1506 1193">Pro-rata vesting between 25% and 100%</td> </tr> </tbody> </table>	THREE-YEAR AGGREGATED OCF TARGET	% OF OCF COMPONENT OF LTI AWARD THAT VESTS	Below 97.5% of target	0%	Between 97.5% of target and 105% of target	Pro-rata vesting between 25% and 100%
THREE-YEAR AGGREGATED OCF TARGET	% OF OCF COMPONENT OF LTI AWARD THAT VESTS						
Below 97.5% of target	0%						
Between 97.5% of target and 105% of target	Pro-rata vesting between 25% and 100%						
	<p>Testing of the OCF part of the LTI awards will occur shortly after the end of the three-year performance period. To the extent any LTI awards are not eligible for vesting based on performance, they will immediately lapse.</p>						
	<p>The OCF part of the LTI awards that become eligible for vesting (based on performance) will vest subject to continued service over an additional one-year service period.</p>						
	<p>There is no retesting of LTI awards.</p>						
LTI grant based on "face value" methodology	<p>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 2020 Grant of LTI Awards is \$2.12.</p>						
Delivery of LTI awards	<p>LTI awards are delivered in the form of Rights, which are granted at no cost to the Executive. Executives ordinarily receive one Security for every Right that vests, together with a distribution equivalent payment for each Security allocated on vesting. This distribution equivalent payment will be equal to the distributions the Executive would have been entitled to receive had they held the Securities during the vesting period. Rights are automatically exercised on vesting and no amount is payable by the Executive on exercise. Under the Terms of the Equity Incentive Plan Rules, the Board retains discretion to settle these amounts in cash.</p>						

7. EMPLOYMENT CONTRACT KEY TERMS

Each Executive, including the MD, has a formal employment agreement. These employment agreements are of a continuing nature and have no fixed term of service. There were no changes to the employment agreements for Executives in 2019.

The key terms of the employment agreements are summarised below:

POSITION	CONTRACT	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

8. KEY MANAGEMENT PERSONNEL

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

For the year ended 31 December 2019, the KMP were as follows.

KMP	POSITION	TERM AS KMP
Executives		
Mr Rick Francis	Managing Director and Chief Executive Officer	Full Year
Mr Nicholas Schiffer	Chief Financial Officer	Part Year to 30 August 2019
Mr Gerard Dover	Chief Financial Officer	Part Year commencing 8 October 2019
Independent Non-Executive Directors		
Dr Douglas McTaggart	Independent Non-Executive Director and Board Chair, Member of Remuneration Committee and Chair of the Nomination Committee	Full Year
Mr Andrew Fay	Member of Audit, Risk and Compliance Committee and Nomination Committee	Full Year
Mr Greg Martin	Member of Remuneration Committee (Chair of Remuneration Committee from 10 September 2019) and Nomination Committee	Full Year
Ms Anne McDonald	Chair of Remuneration Committee (to 9 September 2019), Member of Remuneration Committee (from 10 September 2019), Member of Audit, Risk and Compliance Committee and Nomination Committee	Part Year to 30 November 2019
Ms Karen Penrose	Chair of Audit, Risk and Compliance Committee and Member of the Nomination Committee	Full Year
Mr Miles George	Non-Executive Director (Appointed as a Member of the Remuneration Committee, the Audit, Risk and Compliance Committee and the Nomination Committee in February 2020)	Part Year commencing 11 October 2019

9. 2019 REMUNERATION OUTCOMES

The sections below set out the outcomes for our Executives in 2019.

9.1 STI Awards Reflect Spark Infrastructure Performance

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

1. Spark Infrastructure's STI has key STI financial performance measures which demonstrate alignment and delivery of Spark Infrastructure's strategy and reflect the performance of Spark Infrastructure and its investment portfolio: Distributions from investments, look-through EBITDA, TransGrid unregulated revenue, and total Spark Infrastructure controllable costs.
2. The financial component of the STI plan relies on the Distribution Guidance gate being achieved for that year.
3. In February 2019, the Board announced Distribution Guidance for FY2019 of 15cps, 1cps lower than the 16cps paid for FY2018, to reflect the impact of the tax outcome following the Federal Court decision on the tax treatment of capital contributions for Victoria Power Networks.
4. Due to the Full Federal Court appeal, the Board has made the decision to defer assessment of the Distribution Guidance gate until the outcome of the appeal is known (expected later in 2020). Accordingly, no amount under the financial component of the STI will be payable to the MD until the Distribution Guidance gate is assessed. If the gate is not deemed to be met, the MD will forfeit the 60% financial component of his 2019 STI award.

Spark Infrastructure delivered a strong financial performance in 2019 with a number of significant achievements against performance measures:

Financial Performance

Distribution Gate

- **Achievement of distribution guidance is a gate condition for STI financial metrics**

Assessment
Deferred

Financial Performance Results

FINANCIAL KPI's	LEVEL OF ACHIEVEMENT
Distributions from investments (Total investment portfolio distributions up 2.4% to \$312.5 million)	84.4%
Look-through EBITDA financial measures (Aggregated proportional EBITDA increased by 3.4% to \$856.6 million)	74.7%
TransGrid unregulated revenue (TransGrid's unregulated revenue decreased by 19.7% to \$120.1 million)	79.2%
Total Spark Infrastructure controllable costs	58.6%
TOTAL FINANCIAL KPI's	77.4%

Non-Financial Performance

Business Performance Results (overall weighted at 70% of Non-Financial KPI component)

Strategic, Special Projects and Operations – continued efficiency and outperformance by investment businesses with growth in unregulated business opportunities. Investment businesses continue to operate in line with Business Plans with strong distribution results. TransGrid Services business established a \$355 million debt facility to fund unregulated business opportunities. Clear effective communication of our Value Strategy and acquisition of Bomen Solar Farm Project as first step in delivery of our Value Build Strategy.

- **Target – achieving efficiency and outperformance by investment businesses, resulting in growth of the capital asset bases or unregulated business opportunities, and distributions to Spark Infrastructure**

Above Target

Optimise regulatory outcomes – enhanced engagement with regulators, government and industry in response to regulatory change with a significant number of regulatory submissions made throughout the year. Significant progress on Project Energy Connect and other ISP related projects with TransGrid. Significant contributions to regulatory submissions for our investment businesses. Continued public advocacy as a key influencer in the regulatory and energy sector, with regulators, state and federal departments.

- **Target – engaging with regulators, government and other key stakeholders, influencing and taking a thought leadership role in response to regulatory change**

At Target

Organisational Performance Results (overall weighted at 30% of Non-Financial KPI component)

People and culture, Governance and Process Improvement – continued focus on leadership and culture together with our strong governance framework to support long-term growth and performance. Built out team of high quality specialists including enhancement of our skills and expertise in the renewables sector and recruitment of new CFO. Remuneration structure and Incentive and reward for investment companies aligned to Spark Infrastructure key metrics. Strong governance framework in place recognised by investors. Maintained strong risk and compliance framework.

- **Target – building and enhancing our people capability, supported by a strong culture and robust risk management to deliver performance and the right behaviours, supported by appropriate remuneration structures**

At Target

Stakeholder Management – Stakeholder engagement remains a priority. Engagement with regulators, government and other stakeholders throughout 2019 and demonstrated thought leadership within the energy industry. Continued program of engagement with investors through investor roadshows and Chair's governance roadshows. Positive relationship and reputation with investment partners.

- **Target – enhanced engagement with investors and partner relationships and contribution to energy sector policy**

At Target

'At Target' means the key objectives for each area of performance were assessed to be at least 70% of their weighting, in aggregate.

'Above Target' means one or more of the key objectives for the performance area must have been fully achieved with majority of key objectives at least substantially achieved.

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

9. 2019 REMUNERATION OUTCOMES CONTINUED

9.1 STI Awards Reflect Spark Infrastructure Performance continued

The following table shows the actual STI outcomes for the MD for 2019. The STI outcome below sets out the assessment of achievement against personal KPIs, reflecting the Board's decision to defer assessment of the Distribution Guidance gate with no amount under the financial component of the STI payable until the Distribution Guidance gate is assessed. For further detail regarding the STI and the weighting of financial and non-financial KPIs for individual KMP, refer to section 6.1.

EXECUTIVE	STI MAXIMUM OPPORTUNITY % OF FIXED REMUNERATION	ACTUAL STI (% OF OPPORTUNITY)	STI FORFEITED (% OF OPPORTUNITY)	CONTINGENT STI (% OF OPPORTUNITY)	ACTUAL STI \$	ACHIEVEMENT OF FINANCIAL KPIs	ACHIEVEMENT OF PERSONAL KPIs	CONTINGENT STI PAYMENT
Rick Francis	100%	29.6%	10.4%	60%	260,184	77.4%	74.0%	408,208

Other KMP – CFO Incentives during 2019:

- Nick Schiffer resigned as CFO during the year and ceased employment on 30 August 2019. Upon leaving, all of Mr Schiffer's outstanding Rights under the Deferred STI Plan and LTI Plan lapsed (285,926 rights). A one-off ex-gratia cash payment of \$100,000 will be made to Mr Schiffer in March 2020 representing his service and contribution during 2019, which reflects approximately 78% of the non-financial component of Mr Schiffer's pro-rata STI.
- Gerard Dover commenced as CFO on 8 October 2019. Under Mr Dover's contract he was not entitled to any pro-rata STI incentive in relation to the 2019 year.

9.2 LTI Performance Testing at 31 December 2019

The LTI Award granted to KMP at 1 January 2016 (FY2016) had a performance period of four years i.e. ended 31 December 2019. The FY2016 LTI Award had one measure, being relative performance measured on risk adjusted TSR basis (Jensen's Alpha approach) against all entities in the S&P ASX 200 index at grant date. The vesting schedule was 30% vesting at the 51st percentile, increasing up to 100% at the 75th percentile – i.e. below the 51st percentile there is no vesting, while vesting is capped at 100% for any result above the 75th percentile.

The risk adjusted TSR result for the four-year period ended 31 December 2019 was that Spark Infrastructure ranked at the 60th percentile against the S&P ASX 200 index. Accordingly, 56.3% of the FY2016 LTI Award vested (and the remaining 43.7% forfeited) at 31 December 2019. The LTI Award will be settled with Spark Infrastructure Securities acquired on-market in March 2020.

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

9.3 Actual Remuneration Received by Executive KMP in 2019

The following table shows details of the actual remuneration received by Executives in 2019 and 2018. The amounts in the table differ from the Executive statutory remuneration set out in section 11.1. Actual remuneration received is provided in addition to the statutory reporting of remuneration expense to increase transparency about what the Executives actually received during the year.

		SHORT TERM BENEFITS		POST-EMPLOYMENT	LONG TERM BENEFITS	TOTAL \$
		BASE SALARY \$	STI ¹ \$	NON MONETARY \$	SUPER-ANNUATION \$	VESTED LTI ² \$
Executives						
Rick Francis	2019	854,000	604,212	–	25,000	1,992,505
	2018	836,470	709,752	–	25,000	2,258,290
Nicholas Schiffer³	2019	402,790	200,270 ⁴	–	13,766	616,826
	2018	560,200	81,180	–	20,290	661,670
Gerard Dover³	2019	119,323	–	–	5,251	124,574
	2018	–	–	–	–	–

1. The STI received in 2019 represents cash amounts earned in relation to the individual's performance from FY2018 (not deferred) and from amounts previously deferred into Rights from both FY2016 and FY2017 (both under the Deferred STI Plan) that have now vested, including distribution equivalent amounts earned. The STI received in 2018 represents cash amounts earned in relation to the individual's performance from FY2017 (not deferred) and from amounts previously deferred into Rights from FY2015 and FY2016 (both under the Deferred STI Plan) that have now vested, including distribution equivalent amounts earned.

2. LTI received in 2019 relates to the vested 2015 LTI Tranche and was cash settled. (2018: In relation to vested 2014 LTI Tranche and cash settled).

3. Nicholas Schiffer ceased as CFO on 30 August 2019 and the period reported on is from 1 January 2019 until that date. Gerard Dover commenced as CFO on 8 October 2019 and the period reported on is from that date.

4. Excludes ex-gratia payment of \$100,000 on ceasing employment, to be paid in March 2020.

9.4 Executive Minimum Securityholding Policy

The MD is required to hold the equivalent of 100% of Fixed Remuneration in Securities within a three-year period. For the CFO, the requirement is the equivalent of 50% of Fixed Remuneration in Securities within a three-year period.

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

Both the MD and CFO have met the requirements of the Executive Minimum Securityholding Policy.

For the statutory table of equity instruments held by executives refer to section 11.5.

10. NON-EXECUTIVE DIRECTOR FEES

10.1 Approach to Non-Executive Director Fees

Remuneration for NEDs is designed to ensure that Spark Infrastructure can attract and retain suitably qualified and experienced Directors. Unlike Executive remuneration, fees for NEDs are not linked to performance. However, all NEDs are expected to hold Securities 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 a single fee inclusive of committee membership duties;
- the Board considers the relative workloads of committees in setting the fees applicable to committee chairs and committee members;
- members of committees shall be eligible to receive a committee membership fee in addition to the NED base fee; and
- NEDs may be appointed to special purpose committees established from time to time. NEDs who are members of special purpose committees may receive a one-off committee membership fee in addition to their other fees (for regular Board duties) to recognise the significant additional workload. Special purpose committee membership fees are determined by the Board.

10.2 Schedule of Fees

The fees for NEDs during 2019 are set out in the table below.

ROLE	2019 FEE ¹ \$	2018 FEE \$
Board Chair ²	303,000	303,000
Non-Executive Director Base	130,000	130,000
Audit, Risk and Compliance Committee (ARC) Chair	39,800	39,800
Audit, Risk and Compliance Committee member	19,900	19,900
Remuneration Committee (REMCO) Chair	34,200	34,200
Remuneration Committee member	17,100	17,100

1. There was no increase in NED fees for 2019.

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

No fees are payable for membership of the Nomination Committee.

Except for the payment of statutory superannuation entitlements, 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 per annum and is unchanged from 2015. There will be no change to the aggregate fee limit for 2020.

10. NON-EXECUTIVE DIRECTOR FEES CONTINUED

10.3 Statutory Remuneration of NEDs

The annual fees paid to NEDs (inclusive of statutory superannuation) for 2019 and 2018 were:

YEAR	SHORT TERM BENEFITS				TOTAL (INCLUSIVE OF SUPER- ANNUATION) \$	POST- EMPLOYMENT SUPER- ANNUATION CONTRIBUTION ¹ \$	
	DIRECTOR FEES \$	ARC FEES \$	REMCO FEES \$	DUE DILIGENCE CTEE FEES \$			
Current Non-Executive Directors							
Douglas McTaggart	2019	303,000	-	-	-	303,000	20,767
	2018	303,000	-	-	-	303,000	20,290
Andrew Fay	2019	130,000	19,900	-	-	149,900	13,005
	2018	130,000	19,900	-	-	149,900	13,005
Greg Martin	2019	130,000	-	22,359	-	152,359	13,218
	2018	130,000	-	17,100	-	147,100	12,762
Karen Penrose	2019	130,000	39,800	-	-	169,800	14,732
	2018	130,000	39,800	-	-	169,800	14,732
Miles George ²	2019	28,938	-	-	-	28,938	2,511
	2018	-	-	-	-	-	-
Anne McDonald ³	2019	119,582	18,305	27,571	-	165,458	14,355
	2018	130,000	19,900	34,200	-	184,100	15,972
TOTAL	2019	841,520	78,005	49,930	-	969,455	78,588
	2018	823,000	79,600	51,300	-	953,900	76,761

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

2. Miles George commenced as a Director on 11 October 2019 and the period reported on is from that date.

3. Anne McDonald retired as a Director with effect on 30 November 2019 and the period reported on is from 1 January 2019 until that date.

10.4 NED Fees from Other Entities

Where it is deemed appropriate for Spark Infrastructure to nominate NEDs for appointment as Directors of the boards of investment portfolio companies, those NEDs are entitled to receive fees in that capacity from those portfolio companies. Those Directors have separate corporate responsibilities to each company of which they are a Director. The Directors' duties they owe to the investment companies are separate and distinct from their responsibilities as NEDs of Spark Infrastructure. Fees received in their capacity as Directors on such boards are to compensate for those separate additional responsibilities. Those fees are determined and paid for by the investment portfolio company, not by Spark Infrastructure. The following Spark Infrastructure NEDs were Directors on boards and committees of investment portfolio companies during 2019.

Victoria Power Networks

Board Member	Annual Fee \$	Audit Committee	Annual Fee \$	Risk Committee	Annual Fee \$	Remuneration Committee	Annual Fee \$	Total Fees for 2019 \$
Anne McDonald ¹	75,000	Chair	15,000	Member	10,000	Member	10,000	100,658

1. Anne McDonald retired as a director of Victoria Power Networks with effect from 30 November 2019. Fees received for 2019 were on a pro-rata basis.

SA Power Networks

Board Member	Annual Fee \$	Audit Committee	Annual Fee \$	Risk Committee	Annual Fee \$	Remuneration Committee	Annual Fee \$	Total Fees for 2019 \$
Andrew Fay	75,000	Chair	15,000	Member	10,000	Member	10,000	110,000

Note that the Spark Infrastructure MD and CFO were both Directors on the Boards of Victoria Power Networks and SA Power Networks in 2019. However, all board and committee fees received for their services were paid to Spark Infrastructure. No separate board or committee fees are paid by TransGrid. Spark Infrastructure receives a shareholder allowance from TransGrid which covers the costs of Directors.

11. STATUTORY REMUNERATION DISCLOSURES (AUDITED)

11.1 Executive Statutory Remuneration (for the Years Ended 31 December 2019 and 31 December 2018)

The following table shows the statutory remuneration required to be disclosed for Executives in 2019 and 2018. These disclosures are calculated in accordance with Accounting Standards and will therefore differ from the information presented in the 2019 actual remuneration received table in Section 9.3 as the remuneration in the form of equity (Deferred STI and LTI) in this section is based on the amount expended by the company over the vesting period, rather than the amount delivered or received by the Executive in the relevant year.

KMP		SHORT TERM BENEFITS		NON MONETARY BENEFITS \$	POST- EMPLOYMENT	BENEFIT BASED ON SECURITIES		TOTAL	CONTINGENT STI PAYMENT
		CASH SALARY \$	STI CASH \$		SUPER- ANNUATION \$	DEFERRED STI – RIGHTS ¹ \$	LTI ² \$		
Rick Francis	2019	854,000	130,092	–	25,000	225,390	410,289	1,644,771	408,208
	2018	836,470	286,008	–	25,000	299,862	385,117	1,832,457	–
Nicholas Schiffer – ceased 30 August 2019	2019	402,790	–	–	13,766	(95,178)	(94,844)	226,534	–
	2018	560,200	161,144	–	20,290	102,218	61,096	904,948	–
Gerard Dover – commenced 8 October 2019	2019	119,323	–	–	5,251	–	–	124,574	–
	2018	–	–	–	–	–	–	–	–
TOTAL	2019	1,376,113	130,092	–	44,017	130,212	315,445	1,995,879	408,208
	2018	1,396,670	447,152	–	45,290	402,080	446,213	2,737,405	–

1. Represents the fair value of the component of the STI that is deferred in Rights – refer note 11.2.

2. Represents the fair value of the LTI recognised in the year – refer note 11.3.

3. Nicholas Schiffer resigned as CFO during the year and ceased to be CFO on 30 August 2019. The period reported on is from 1 January 2019 until 30 August 2019. Upon leaving, all of Mr Schiffer's outstanding Rights under the Deferred STI Plan and LTI Plan lapsed. A one-off ex-gratia cash payment of \$100,000 will be made to Mr Schiffer in March 2020 representing his service and contribution during 2019.

4. Gerard Dover commenced as CFO on 8 October 2019 and the period reported on is from that date.

The financial component of the STI plan relies on the Distribution Guidance gate being achieved. Due to the Full Federal Court appeal, the Board has made the decision to defer assessment of the Distribution Guidance gate until the outcome of the appeal is known (expected later in 2020). Accordingly, no amount under the financial component of the STI will be payable to the MD until the Distribution Guidance gate is assessed.

Therefore, only the non-financial component of the FY2019 STI for the MD (40% opportunity) has vested with 50% of the achievement paid in cash and 50% of achievement deferred into Rights to vest in equal proportions over 12 months and 24 months after the end of the STI performance period (namely 31 December 2019), subject to continued service through to the end of the relevant vesting period.

11. STATUTORY REMUNERATION DISCLOSURES (AUDITED) CONTINUED

11.2 Deferred STI at 31 December 2019

Shown below are the number of outstanding Rights received under the Deferred STI arrangements for 2017, 2018 and 2019, the year in which the Rights may vest, and the expense recognised.

The minimum value of the grant is nil if the vesting conditions are not met. The maximum value is based on the estimated fair value calculated at the time of the grant, amortised in accordance with the accounting standard requirements.

The deferred STI awards that vested as at 31 December 2019 will be settled with Spark Infrastructure Securities acquired on-market in March 2020.

KMP	GRANT DATE	FINANCIAL YEAR DEFERRED STI RELATES TO	RIGHTS GRANTED NO.	OPENING VWAP AT GRANT DATE \$	FAIR VALUE \$	DEFERRED STI EXPENSE IN 2019 \$	VESTING DATE
Rick Francis	1 January 2018	2017	59,788	2.61	156,047	52,016	31 December 2019
	1 January 2019	2018	61,906	2.31	143,003	71,501	31 December 2019
	1 January 2019	2018	61,906	2.31	95,335	47,668	31 December 2020
	1 January 2020	2019	30,682	2.12	32,523	32,523	31 December 2020
	1 January 2020	2019	30,682	2.12	21,682	21,682	31 December 2021
TOTAL			244,964		448,590	225,390	
Nicholas Schiffer – ceased 30 August 2019	1 January 2018	2017	16,126	2.61	LAPSED	(28,034)	LAPSED
	1 January 2019	2018	34,880	2.31	LAPSED	(40,286)	LAPSED
	1 January 2019	2018	34,880	2.31	LAPSED	(26,858)	LAPSED
TOTAL			85,886			(95,178)	
Gerard Dover – commenced 8 October 2019	–	–	–	–	–	–	–
TOTAL			330,850		448,590	130,212	

11.3 LTI at 31 December 2019

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.

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

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.

KMP	GRANT DATE	NUMBER OF RIGHTS GRANTED NO.	FAIR VALUE AT GRANT DATE \$/cps	FAIR VALUE AT GRANT DATE \$	LTI EXPENSE IN 2019 \$	VESTING DATE
Rick Francis	1 January 2016 ¹	276,589	1.08	298,716	74,679	31 December 2019
	1 January 2017 ²	234,978	2.11	495,804	123,951	31 December 2020
	1 January 2018 ²	207,537	1.97	408,848	102,212	31 December 2021
	1 January 2019 ²	247,338	1.77	437,788	109,138	31 December 2022
TOTAL		966,442		1,641,156	410,289	
Nicholas Schiffer – ceased 30 August 2019	1 January 2016 ⁽¹⁾	64,129	2.11	135,312	(67,496)	–
	1 January 2017 ²	55,529	1.97	109,392	(27,348)	LAPSED
	1 January 2018 ²	129,870	1.77	229,870	LAPSED	LAPSED
TOTAL		249,528		474,574	(94,844)	LAPSED
Gerard Dover – commenced 8 October 2019	–	–	–	–	–	–
TOTAL		1,215,970			315,445	

- The 2016 LTI award was assessed against the following performance measure:
 - **(100% of LTI award):** Spark Infrastructure's risk adjusted TSR (assessed against the constituent entities in the S&P/ASX 200 index) measured over a four-year period;
- The LTI awards from 2017 and onwards are subject to the following performance measures:
 - **Tranche 1 (50% of LTI award):** Spark Infrastructure's risk adjusted TSR (assessed against the constituent entities in the S&P/ASX 200 index) measured over a four-year period;
 - **Tranche 2 (25% of LTI award):** Standalone OCF measured over a three-year period (the test period), plus require a further one-year service period; and
 - **Tranche 3 (25% of LTI award):** Look-through OCF measured over a three-year period (the test period), plus a further one-year service period.

11.4 Movements in Rights during 2019

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

	OPENING BALANCE 1 JANUARY 2019 NO.	GRANTED AS REMUNER- ATION NO.	VALUE OF RIGHTS GRANTED ¹ \$	VESTED NO.	VALUE OF RIGHTS VESTED/ EXERCISED \$	LAPSED NO.	NET OTHER MOVEMENTS NO.	CLOSING BALANCE 31 DECEMBER 2019 NO.
Rick Francis	902,704	308,702	491,993	277,414	588,117	120,869	-	813,123
Nicholas Schiffer ²	173,292	129,870	229,221	-	-	303,162	-	-

1. The fair value of LTI Rights granted to Executives on 1 January 2019 is set out in table 11.3 and the fair value of STI Rights is set out in table 11.2.
2. Rights that lapsed were as a result of the assessment of the testing of the FY2016 LTI Award. See section 9.2 for further details
3. Mr Schiffer ceased as CFO on 30 August 2019 and all his Rights lapsed at that date.

11.5 Equity Instrument Disclosures Relating to Executives

The table below details the Spark Infrastructure stapled securities in which Executives held relevant interests during 2019:

	OPENING BALANCE 1 JANUARY 2019 NO.	NET MOVEMENT ACQUIRED/(DISPOSED) NO.	CLOSING BALANCE 31 DECEMBER 2019 NO.
Rick Francis	251,798	208,891 ¹	460,689
Gerard Dover	-	121,251	121,251

1. Securities acquired relate to Rights which vested on 31 December 2018 and via participation in the DRP during the year.

The calculation of Securities under the Executive Minimum Securityholding Policy includes interests in vested and unvested Rights under the Deferred STI Plan.

Excluded from Table 11.4 above are 277,414 Rights that vested at 31 December 2019 in respect of both Deferred STI and LTI (Excluded Vested Rights) but which have not yet been converted to securities and transferred to the holdings of the Executive. The number of Excluded Vested Rights does not include additional Rights in respect of distribution equivalents applicable to the deferral years and is calculated pre the application of tax. Rights are expected to be converted to Securities and transferred to executives during March 2020.

11.6 Equity Instrument Disclosures Relating to Non-Executive Directors

The relevant interest of each NED for 2019 is as follows:

	OPENING BALANCE 1 JANUARY 2019 NO.	NET MOVEMENT ACQUIRED (DISPOSED) NO.	CLOSING BALANCE 31 DECEMBER 2019 NO.
Douglas McTaggart	180,000	6,345	186,345
Andrew Fay	238,590	-	238,590
Greg Martin	100,000	-	100,000
Karen Penrose	55,300	1,949	57,249
Miles George	-	100,000	100,000
Anne McDonald ¹	71,000	-	-

1. Anne McDonald retired on 30 November 2019.

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

STATUTORY DECLARATIONS

Attendance at Directors' Meetings

The following table sets out the number of Directors' meetings held during 2019 and the number of meetings attended by each Director which they were eligible to attend (that is, in the case of Directors, while they were appointed and provided they were not disqualified from attending because of observation of processes to guard against any perceived conflict of interest).

During 2019, fifteen Board meetings, six Audit, Risk and Compliance Committee (ARC) meetings, three Remuneration Committee (RemCo) meetings, one Nomination Committee (NomCo) and one Insurance 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		NOMCO		INSURANCE SUB-CO	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Dr Douglas McTaggart	15	14	–	–	3	2	1	1	1	1
Mr Rick Francis	15	15	–	–	–	–	–	–	1	1
Mr Andrew Fay	15	15	6	6	–	–	1	1	–	–
Mr Greg Martin	15	14	–	–	3	3	1	1	–	–
Ms Anne McDonald	14	12	5	5	3	3	1	1	–	–
Ms Karen Penrose	15	15	6	6	–	–	1	1	1	1
Mr Miles George	3	3	–	–	–	–	–	–	–	–

By agreement with the committee chairs, there is a standing invitation for all Directors to attend committee meetings. During 2019, Directors took up these invitations and attended a number of committee meetings.

INDEMNIFICATION OF OFFICERS AND AUDITORS

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

During 2019, the Trust paid a premium in respect of a contract of insurance indemnifying the Directors against a liability incurred as a Director to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The entities have not otherwise, during or since the end of 2019, indemnified or agreed to indemnify an officer or auditor of the Trust or of any related body corporate against a liability incurred as an officer or auditor, except to the extent permitted by law.

NON-AUDIT SERVICES

Details of amounts paid or payable to the external auditor for non-audit services provided during 2019 are outlined in Note 15 to the financial statements.

The Directors are satisfied that the non-audit services provided by the auditor are compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are of the opinion that the services as disclosed in Note 15 to the financial statements do not compromise the external auditor's independence, based on advice received from the ARC, for the following reasons:

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

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 82.

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. With respect to Bomen, so far as the directors are aware, there have not been any material breaches of licences or approvals and all activities for Bomen have been undertaken in compliance with the relevant environmental regulations.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Except as otherwise disclosed, there was no significant change in the state of affairs of Spark Infrastructure during 2019.

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 2019 is disclosed in Note 12 to the financial statements.

OPTIONS OVER STAPLED SECURITIES

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

EVENTS OCCURRING AFTER REPORTING DATE

The Directors of Spark Infrastructure are not aware of any other matter or circumstance not otherwise dealt with in this financial report that has significantly affected or may significantly affect the operations or the state of affairs in the period since 31 December 2019 up to the date of this report.

ROUNDING OF AMOUNTS

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

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

On behalf of the Directors:



D McTaggart
Chair



R Francis
Managing Director

Sydney
25 February 2020

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 29, 225 George Street
SYDNEY NSW 2000

25 February 2020

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 2019, 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



Jason Thorne
Partner
Chartered Accountants

DIRECTOR'S DECLARATION

The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable;
- (b) in the Directors' opinion, the attached consolidated financial statements and notes that are set out on pages 84 to 118 and the remunerations report in pages 58 to 79 in the Directors report 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 as at 31 December 2019 and performance of the Trust and the Consolidated Entity;
- (c) the Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.
- (d) the attached consolidated 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
25 February 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the Financial Year Ended 31 December 2019

	Notes	Year Ended 31 Dec 2019 \$'000	Year Ended 31 Dec 2018 \$'000
Income from associates:			
– Share of equity accounted profits	8(c)	207,760	212,037
– Interest income	4(a)	63,182	73,590
		270,942	285,627
Other income – interest		1,543	2,331
		272,485	287,958
Interest expense (including borrowing costs)	4(b)	(748)	(1,652)
General and administrative expenses	4(c)	(16,166)	(15,790)
Operating costs – Bomen related		(1,141)	–
Transaction bid costs – Bomen related		(2,736)	–
Unrealised gains from derivative instruments – Bomen related		6,776	–
Impairment expense		–	(270,000)
Profit before Income Tax and Loan Note Interest		258,470	516
Loan Note interest		(119,180)	(118,582)
Profit/(Loss) before Income Tax		139,290	(118,066)
Income tax (expense)/benefit	5(a)	(60,152)	21,351
Net Profit/(Loss) after Income Tax Attributable to Securityholders		79,138	(96,715)
Other Comprehensive Income:			
Items that will not be reclassified subsequently to profit or loss:			
– Share of associates' actuarial loss on defined benefit plans	14	(26,304)	(1,046)
Items that may be reclassified subsequently to profit or loss:			
– Share of associates' losses on hedges	13	(145,324)	(39,807)
– Cash flow hedge reserve	13	1,200	–
Income tax benefit related to components of other comprehensive income		41,922	9,645
Other comprehensive loss for the Financial Year		(128,506)	(31,208)
Total Comprehensive Loss for the Financial Year Attributable to Securityholders		(49,368)	(127,923)
Earnings per Security			
Weighted average number of stapled securities (No.'000)	16	1,687,085	1,682,011
Profit before income tax, Loan Note interest and Impairment (\$'000)		258,470	270,516
Basic earnings per security before income tax, Loan Note interest and Impairment (cents)	16	15.32¢	16.08¢
Earnings used to calculate earnings per security (\$'000)		79,138	(96,715)
Basic earnings per security based on net profit after income tax attributable to Securityholders (cents)	16	4.69¢	(5.75¢)

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

Notes to the financial statements are included on pages 88–118.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

	Notes	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Current Assets			
Cash and cash equivalents	23(a)	31,400	134,344
Receivables from associates	6	7,339	8,371
GST receivable		8,839	4
Other current assets		1,829	2,071
Total Current Assets		49,407	144,790
Non-Current Assets			
Property, plant and equipment	7	159,789	591
Derivative financial instruments – Power Purchase Agreements (PPA)	24(d)	8,176	–
Derivative financial instruments – Interest rate swaps	24(d)	1,714	–
Investments in associates:			
– Investments accounted for using the equity method	8(d)	2,165,891	2,326,112
– Loans to associates	9	460,598	503,372
– Loan notes to associates	10	237,444	237,444
Total Non-Current Assets		3,033,612	3,067,519
Total Assets		3,083,019	3,212,309
Current Liabilities			
Current tax liability	5(f)	68,830	–
Payables		7,767	2,145
Interest bearing liabilities	(23b)	39,567	–
Loan Note interest payable to Securityholders		60,309	59,711
Total Current Liabilities		176,473	61,856
Non-Current Liabilities			
Payables		1,310	115
Loan Notes attributable to Securityholders	11	1,072,674	1,061,764
Deferred tax liabilities	5(c)	194,154	282,747
Total Non-Current Liabilities		1,268,138	1,344,626
Total Liabilities		1,444,611	1,406,482
Net Assets		1,638,408	1,805,827
Equity			
Equity attributable to Parent Entity:			
– Issued capital	12	805,884	923,270
– Reserves	13	(178,980)	(69,613)
– Retained earnings*	14	1,011,504	952,170
Total Equity		1,638,408	1,805,827
Total Equity attributable to Securityholders is as follows:			
Total Equity		1,638,408	1,805,827
Loan Notes attributable to Securityholders		1,072,674	1,061,764
Total Equity and Loan Notes		2,711,082	2,867,591

* The Group has initially applied AASB 16 at 1st Jan 2019, using the modified retrospective approach. Under this approach comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial recognition. Due to being immaterial, the Right of Use Asset and Lease Liability on the balance sheet has not been disclosed separately.

Notes to the financial statements are included on pages 88–118.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the Financial Year Ended 31 December 2019

	Notes	Issued Capital \$'000	Reserves \$'000	Retained Earnings \$'000	Total \$'000
2018					
Balance at 1 January 2018		1,067,502	(40,911)	1,050,173	2,076,764
Net loss after income tax for the year		-	-	(96,715)	(96,715)
Other comprehensive loss for the year, net of income tax	13,14	-	(29,920)	(1,288)	(31,208)
Total comprehensive loss for the year		-	(29,920)	(98,003)	(127,923)
Recognition of share-based payments	13	-	1,218	-	1,218
Capital distributions	12	(144,232)	-	-	(144,232)
Balance at 31 December 2018		923,270	(69,613)	952,170	1,805,827
2019					
Balance at 1 January 2019		923,270	(69,613)	952,170	1,805,827
Net profit after income tax for the year		-	-	79,138	79,138
Other comprehensive loss for the year, net of income tax	13,14	-	(108,702)	(19,804)	(128,506)
Total comprehensive loss for the year		-	(108,702)	59,334	(49,368)
Recognition of share-based payments	13	-	(665)	-	(665)
Capital distributions	12	(142,130)	-	-	(142,130)
Contributions of equity (net of issue costs) ¹	12	24,744	-	-	24,744
Balance at 31 December 2019		805,884	(178,980)	1,011,504	1,638,408

1. Excludes loan notes issued – see note 12.

Notes to the financial statements are included on pages 88–118.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the Financial Year Ended 31 December 2019

	Notes	Year Ended 31 Dec 2019 \$'000	Year Ended 31 Dec 2018 \$'000
Cash Flows from Operating Activities			
Distributions from associates – preferred partnership capital	2	69,635	69,635
Distributions from associates – other	2	135,832	65,533
Interest received from associates	2	64,213	74,417
Interest received – other		1,641	2,194
Interest paid – other		(399)	(1,273)
Other expenses	2	(14,738)	(15,808)
Operating costs – Bomen related	2	(1,215)	–
Transaction bid costs – Bomen related	2	(2,645)	–
Tax paid ¹	2	(38,730)	–
Net Cash Inflow Related to Operating Activities	23(c)	213,594	194,698
Cash Flows from Investing Activities			
Repayment of borrowings by associate	2	42,774	95,465
Acquisition of subsidiary – Bomen		(1,400)	–
Purchase of property, plant and equipment – Bomen		(155,042)	–
Purchase of Land – Bomen		(7,772)	–
Purchase of property, plant and equipment		(32)	(33)
Equity investment in NSW Electricity Networks Operations		(9,111)	(9,757)
Net Cash (Outflow)/Inflow Related to Investing Activities		(130,583)	85,675
Cash Flows from Financing Activities			
Payment of external borrowing costs		(200)	(504)
Payment of issue costs		(170)	–
Payment of lease liability		(693)	–
Proceeds from issue of stapled securities		35,820	–
Proceeds from external borrowings		40,000	–
Distributions to Securityholders:			
– Loan Note interest		(118,582)	(118,582)
– Capital distributions		(142,130)	(144,232)
Net Cash Outflow Related to Financing Activities		(185,955)	(263,318)
Net (Decrease)/Increase in Cash and Cash Equivalents for the Year		(102,944)	17,055
Cash and cash equivalents at beginning of the Year		134,344	117,289
Cash and Cash Equivalents at end of the Year	23(a)	31,400	134,344

1. Tax paid of \$34.4 million relates to 50% settlement of FY15, 16, 17 & 18 in respect of the outstanding tax relating to gifted assets and cash contributions. The remaining \$4.3 million relates to tax paid relating to income tax instalments for the FY19 income tax year.

Notes to the financial statements are included on pages 88–118.

NOTES TO THE FINANCIAL STATEMENTS

for the Financial Year Ended 31 December 2019

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 Accounting Standards ("AAS"). Compliance with AAS 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 25, 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 25 February 2020.

New and Revised Standards and Interpretations

Standards and Interpretations Affecting Amounts Reported in the Year Ended 31 December 2019 ("Current Year" or "Financial Year")

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

Adoption of New and Revised Standards

New and Revised Standard	Requirements
AASB 16 <i>Leases</i>	<p>AASB 16 primarily impacts the accounting for leases for a lessee by introducing non-financial assets and liabilities reflecting the committed lease terms.</p> <p>Spark Infrastructure currently holds one lease relating to its office premises, which is being accounted for as an operating lease and has been brought onto the balance sheet under AASB 16.</p> <p>Refer to Note 7 for the impact of the standard.</p>
Interpretation 23 <i>Uncertainty Over Income Tax Treatments</i>	<p>Interpretation 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:</p> <ul style="list-style-type: none"> - Determine whether uncertain tax positions are assessed separately or as a group; and - Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings: <ul style="list-style-type: none"> - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings. - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position. <p>Refer to Note 18 for the Group's uncertain tax position.</p>
AASB 2018-1 <i>Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle</i>	<p>AASB 2018-1 makes a number of relatively minor amendments to AASB 3 Business Combinations, AASB 111 Joint Arrangements, AASB 112 Income Taxes and AASB 123 Borrowing Costs.</p>

Standards and Interpretations in Issue Not Yet Adopted

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

Standard/Interpretation	Effective for the Annual Reporting Period Beginning on	Expected to be Initially Applied in the Financial Year Ending
<p>AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material</p> <p>AASB 2018-7 principally amends AASB 101 and AASB 108. The amendments refine the definition of material in AASB 101. The amendments clarify the definition of material and its application by improving the wording and aligning the definition across the Australian Accounting Standards and other publications. The amendment also includes some supporting requirements in AASB 101 in the definition to give it more prominence and clarifies the explanation accompanying the definition of material.</p> <p>The Directors note that the adoption of this amendment does not have a material impact on the full year financial report of the Group.</p>	1 January 2020	31 December 2020
<p>AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework</p> <p>AASB 2019-1 amends Australian Accounting Standards, Interpretations and other pronouncements to reflect the issuance of the revised Conceptual Framework for Financial Reporting (Conceptual Framework).</p> <p>The application of Conceptual Framework is limited to</p> <ul style="list-style-type: none"> – For profit entities that have public accountability – Other for-profit entities that voluntarily elect to apply the Conceptual Framework <p>The Directors note that the adoption of this amendment does not have a material impact on the full year financial report of the Group.</p>	1 January 2020	31 December 2020

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.

Although Spark Infrastructure has a net current deficiency of \$127.1 million (current liabilities exceed current assets) at reporting date, the Group has sufficient current undrawn borrowing facilities (of \$360 million, refer to Note 23(b)) and generates sufficient operating cash flows to meet its current obligations as they fall due. Accordingly, this Financial Report has been prepared on a going concern basis.

(b) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Trust and its controlled entities as at 31 December 2019. 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) Changes in accounting policy

Except for changes below, the accounting policies to all periods presented in these financial statements are consistently applied.

The Group applied AASB 16 with a date of initial application of 1 January 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed below. The Group applied AASB 16 using the modified retrospective approach where the right-of-use asset equals the lease liability at 1 January 2019. The details of the changes in accounting policies are disclosed below.

(d) Leases

As a lessee

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under Interpretation 4. Under AASB 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and Interpretation 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under AASB 16 was applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee, the Group previously classified leases as operating based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the group. Under AASB 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on balance sheet.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

(d) Leases continued

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
 - The Group has the right to operate the asset; or
 - The Group designed the asset in a way that predetermines how and for what purpose it will be used.

The policy is applied to contracts entered into, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

(e) 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.

(f) 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.

(g) 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.

(h) Cash and Cash Equivalents

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

(i) 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.

(j) Property, Plant and Equipment

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Land is not depreciated. The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- buildings: 40 years
- plant and equipment: 3–30 years
- fixtures and fittings: 5–10 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(k) Financial Instruments

Recognition and initial measurement

Spark Infrastructure initially recognises financial instruments on the date on which they are originated. A financial asset or financial liability is measured initially at fair value. For an item not at Fair Value Through Profit or Loss (FVTPL) transaction costs are also included that are directly attributable to its acquisition or issue. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

Classification and Subsequent Measurement – Unchanged by adoption of new and revised standards

Financial Assets – Policy applicable from 1 January 2018

On initial recognition, financial assets being loan and loan notes to associates are classified as measured at amortised cost.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement of financial assets:

- Financial assets at FVTPL: These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. However, see below for derivatives designated as hedging instruments.
- Financial assets at amortised cost: These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial Liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Spark Infrastructure classifies its Loan Notes to Securityholders, as measured at amortised cost. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss. See below for financial liabilities designated as hedging instruments.

De-recognition – Unchanged by adoption of new and revised standards

Financial Assets

Spark Infrastructure derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which Spark Infrastructure neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial Liabilities

Spark Infrastructure derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment

Spark Infrastructure recognises loss allowances for an Expected Credit Loss (ECL) on financial instruments that are measured at amortised cost.

Spark Infrastructure measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12 month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments, such as loan and loan notes to associates, on which credit risk has not increased significantly since their initial recognition.

12 month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that Spark Infrastructure expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to Spark Infrastructure if the commitment is drawn down and the cash flows that Spark Infrastructure expects to receive.

Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met. The Group has elected to use cash flow hedge accounting to reduce the volatility in the income statement in relation to the foreign currency and interest rate swaps.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value and the effective portion of the hedge is deferred to Other Comprehensive Income in the cash flow hedge reserve while the ineffective portion is recognised in the income statement.

When the Group discontinues hedge accounting for a cash flow hedge:

- If the hedged future cash flows are still expected to occur, that amount shall remain in the cash flow hedge reserve until the future cash flows occur.
- If the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in OCI and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item (unless the accumulative change in fair value is negative), determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The Group designates only the change in fair value of the spot element of forward exchange contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts ('forward points') is separately accounted for as a cost of hedging and recognised in a costs of hedging reserve within equity.

1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

(k) Financial Instruments continued

When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as inventory, the amount accumulated in the hedging reserve and the cost of hedging reserve is included directly in the initial cost of the non-financial item when it is recognised.

For all other hedged forecast transactions, the amount accumulated in the hedging reserve and the cost of hedging reserve is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to 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.

(l) 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.

(m) 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.

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.

(n) Income Tax

Current Tax

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

Deferred Tax

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

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

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

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

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

Current and Deferred Tax for the Year

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

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

Tax Consolidation Legislation

Tax consolidated groups have been formed within Spark Infrastructure, whereby wholly-owned Australian resident entities have combined together to form a tax consolidated group that will be taxed under Australian taxation law as if it was a single entity. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of members of a tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the head entity in the relevant tax consolidated group. Further details are provided in Note 5.

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.

(o) Investments in Associates

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

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

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

(p) Loans and Receivables

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

(q) 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.

(r) 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.

(s) Contributions from Customers for Capital Works

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

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

(t) 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(o)) 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:

Impairment of Assets

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

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

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

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

SUMMARY OF ACCOUNTING POLICIES CONTINUED

(t) Critical Accounting Estimates and Judgements continued

Cash flow projections for a ten-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*.

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(s). 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 8 describes that NSW Electricity Networks Assets Holdings Trust and NSW Electricity Networks Operations Holdings Trust are associates of Spark Infrastructure although Spark Infrastructure only has a 15.01% ownership interest. Spark Infrastructure has significant influence over NSW Electricity Networks Assets Holdings Trust and NSW Electricity Networks Operations Holdings Trust by virtue of its right under the Shareholders Agreement to appoint one Director for every 10% shareholding. In addition, Spark Infrastructure has a special right to appoint a second Director while its ownership remains at or above 15.01%. This right is particular to Spark Infrastructure.

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

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

Deferred Tax Assets

Deferred tax assets are recognised to the extent that it is probable that there are sufficient taxable amounts available against which deductible temporary differences or unused tax losses and tax offsets can be utilised and they are expected to reverse in the foreseeable future. As at 31 December 2019 (2018: nil), there are no amounts unrecognised on the basis that the above criteria was not met.

(u) Fair Value Measurement of Financial Instruments

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the chief financial officer. The valuation team regularly reviews significant unobservable inputs and valuation

adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified. Significant valuation issues are reported to the Group's audit committee. When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(v) Measurement of Fair Value

Further information about the assumptions made in measuring fair values is included in:

- Note 24(d) Financial Instruments.

(w) Functional and Presentation Currency

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.

These consolidated financial statements are presented in Australian dollars which is the Company's functional currency.

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
- Bomen Group – the 100% interest in the Bomen Solar Farm HoldCo Pty Ltd and Bomen Solar Farm Hold Trust (and its 100% owned subsidiaries Bomen Solar Farm Pty Ltd, Bomen SF Trust and Bomen SF FinCo Pty Ltd). The Bomen Solar Farm is still under construction and operations have not commenced. Operations are expected to commence in the second quarter of 2020.

The segments noted also fairly represent the Group's geographical segments determined by location within Australia as they have the same economic characteristics.

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		BOMEN		TOTAL	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Segment Cash Flows										
Distributions from associates – preferred partnership capital	–	–	69,635	69,635	–	–	–	–	69,635	69,635
Distributions from associates – other	65,086	–	46,550	45,570	24,196	19,963	–	–	135,832	65,533
Interest received from associates	51,636	61,458	–	–	12,577	12,959	–	–	64,213	74,417
Repayment of borrowings by associates ¹	42,774	95,465	–	–	–	–	–	–	42,774	95,465
Operating costs – Bomen related	–	–	–	–	–	–	(1,215)	–	(1,215)	–
Total Segment Cash Flows	159,496	156,923	116,185	115,205	36,773	32,922	(1,215)	–	311,239	305,050
Net interest received	–	–	–	–	–	–	–	–	1,242	921
Corporate expenses	–	–	–	–	–	–	–	–	(14,738)	(15,808)
Transaction costs – Bomen related	–	–	–	–	–	–	–	–	(2,645)	–
Tax paid	–	–	–	–	–	–	–	–	(38,730)	–
Net Operating Cash Flows¹									256,368	290,163

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

	VICTORIA POWER NETWORKS		SA POWER NETWORKS		TRANSGRID		BOMEN		TOTAL	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Segment Revenue										
Share of equity accounted profits	84,910	70,353	120,127	141,132	2,723	552	–	–	207,760	212,037
Interest income – associates	51,204	60,493	–	–	11,978	13,097	–	–	63,182	73,590
Unrealised gains from derivative instruments	–	–	–	–	–	–	6,776	–	6,776	–
Segment revenue	136,114	130,846	120,127	141,132	14,701	13,649	6,776	–	277,718	285,627
Interest revenue	–	–	–	–	–	–	–	–	1,543	2,331
Total Revenue									279,261	287,958
Segment expenses	–	–	–	–	–	–	(1,141)	–	(1,141)	–
Segment contribution	136,114	130,846	120,127	141,132	14,701	13,649	5,635	–	276,577	285,627
Net interest income	–	–	–	–	–	–	–	–	794	679
Corporate expenses	–	–	–	–	–	–	–	–	(14,075)	(14,193)
Transaction costs – Bomen related	–	–	–	–	–	–	–	–	(2,736)	–
Cost associated with investing activities	–	–	–	–	–	–	–	–	(2,090)	(1,597)
Profit for the year before income tax, Loan Note interest and Impairment	–	–	–	–	–	–	–	–	258,470	270,516
Impairment expense	–	–	–	–	–	–	–	–	–	(270,000)
Interest on Loan Notes	–	–	–	–	–	–	–	–	(119,180)	(118,582)
Income tax (expense)/benefit	–	–	–	–	–	–	–	–	(60,152)	21,351
Net Profit/(Loss) attributable to Securityholders									79,138	(96,715)

2. SEGMENT INFORMATION CONTINUED

Segment assets and liabilities are measured in the same way as in the financial statements. Assets are allocated based on the operations of the segment and the physical location of the asset. Liabilities are allocated based on the operations of the segment.

	VICTORIA POWER NETWORKS		SA POWER NETWORKS		TRANSGRID		BOMEN		TOTAL	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Segment Assets										
Investments accounted for using the equity method	493,116	523,718	1,280,842	1,366,211	391,933	436,183	-	-	2,165,891	2,326,112
Loans to associates	460,598	503,372	-	-	-	-	-	-	460,598	503,372
Loan notes to associates	-	-	-	-	237,444	237,444	-	-	237,444	237,444
Receivables from associates	4,655	5,088	-	-	2,684	3,283	-	-	7,339	8,371
Derivative Instruments – Power Purchase Agreements (PPA)	-	-	-	-	-	-	8,176	-	8,176	-
Property, plant and equipment – Bomen related	-	-	-	-	-	-	157,577	-	157,577	-
GST receivable	-	-	-	-	-	-	8,839	-	8,839	-
Total Segment Assets	958,369	1,032,178	1,280,842	1,366,211	632,061	676,910	174,592	-	3,045,864	3,075,299
Cash and cash equivalents	-	-	-	-	-	-	-	-	31,400	134,344
Derivative instruments – Interest Rate Swaps	-	-	-	-	-	-	-	-	1,714	-
Other current assets	-	-	-	-	-	-	-	-	1,829	2,075
Property, plant and equipment	-	-	-	-	-	-	-	-	2,212	591
Total Assets	-	-	-	-	-	-	-	-	3,083,019	3,212,309

	VICTORIA POWER NETWORKS		SA POWER NETWORKS		TRANSGRID		BOMEN		TOTAL	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Segment Liabilities										
Payables	-	-	-	-	-	-	3,425	-	3,425	-
Total Segment Liabilities	-	-	-	-	-	-	3,425	-	3,425	-
Unallocated Liabilities										
Loan Notes attributable to Securityholders	-	-	-	-	-	-	-	-	1,072,674	1,061,764
Interest bearing liabilities	-	-	-	-	-	-	-	-	39,567	-
Other liabilities	-	-	-	-	-	-	-	-	65,961	61,971
Tax payable	-	-	-	-	-	-	-	-	68,830	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	194,154	282,747
Total Liabilities	-	-	-	-	-	-	-	-	1,444,611	1,406,482

3. ACQUISITION OF SUBSIDIARY

On 17 April 2019 Spark Infrastructure Holdings No. 6 Pty Ltd (SIH No. 6) acquired 100% of the existing shares in Bomen SF HoldCo Pty Ltd and the units in Bomen SF Hold Trust (together Bomen). The acquisition constituted an acquisition of assets rather than a business combination under AASB 3 *Business Combinations*.

Under the agreement, SIH No. 6 made a capital injection through the payment of \$1.4 million for the Power Purchase Agreements (PPAs) and \$12.2 million subscription for additional units in the Bomen SF Hold Trust (paid immediately following acquisition date) where the Bomen SF Hold Trust, as a trustee for Bomen SF Trust was required to reimburse the Seller for services provided in obtaining and securing all agreements to allow the construction and commercial operation of Bomen.

Spark Infrastructure has achieved control of Bomen by virtue of an ultimate 100% share and unit holding in the Farm and as such consolidated Bomen.

(a) Consideration transferred

The following table summarises the acquisition-date fair value of each major class of consideration transferred.

	\$'000
Cash	13,558
Total consideration transferred	13,558

(b) Acquisition-related costs

The Group incurred acquisition-related costs of \$2.7 million relating to external advisors, legal fees and due diligence costs. These amounts have been included in administrative expenses in the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

(c) Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	\$'000
GST receivable	1,417
Property, plant and equipment	14,166
Power purchase agreements	1,400
Accounts payable	(3,425)
Total identifiable net assets acquired	13,558

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

Assets acquired	Valuation technique
Property, plant and equipment	<i>Market comparison technique and cost technique:</i> The valuation model considers the market prices for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.
Power purchase agreements	<i>Market comparison technique:</i> The valuation model considers the market prices for similar items when they are available.

The above fair values have been determined on a provisional basis. If new information obtained within one year from the acquisition date about the facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

(d) Bomen assets and liabilities as at 31 December 2019

	\$'000
Assets under construction	149,806
Land	7,771
Derivative Assets – Power purchase agreements	8,176
Other assets – GST receivable and prepayments	8,839
Payables and other liabilities	(3,425)
	171,167

(e) Related party transactions

Beon Energy Solutions (Beon), owned by Victoria Power Networks, has been appointed as engineering, procurement and construction (EPC) contractor. As at 31 December 2019 Spark Infrastructure had incurred costs of \$90.7 million which are capitalised as assets under construction.

Bomen will connect into TransGrid's high-voltage transmission network providing access to the National Electricity Market, with build, own, operate and maintain (BOOM) services for the grid connection provided by TransGrid for a 30-year term. As at 31 December 2019 Spark Infrastructure is yet to incur any costs in relation to TransGrid services.

4. PROFIT FOR THE FINANCIAL YEAR

	Year Ended 31 Dec 2019 \$'000	Year Ended 31 Dec 2018 \$'000
(a) Income from Associates		
Equity Accounted Profits:		
– Victoria Power Networks Pty Ltd	84,910	70,353
– SA Power Networks Partnership	120,127	141,132
– NSW Electricity Networks Assets ¹	(3,592)	(5,913)
– NSW Electricity Networks Operations ¹	6,315	6,465
	207,760	212,037
Interest Income – Associates:		
– Victoria Power Networks Pty Ltd	51,204	60,493
– NSW Electricity Networks Operations	11,978	13,097
	63,182	73,590
	270,942	285,627
(b) Interest expense – other:		
– Interest costs and other associated costs of senior debt	748	1,652
(c) General and Administrative Expenses		
Staff costs – salaries and short term benefits	3,990	3,912
Staff costs – post employment benefits	216	197
Staff costs – incentives	1,548	2,861
Total staff costs	5,754	6,970
Directors' fees – short term benefits	891	877
Directors' fees – post employment benefits	79	77
Depreciation ²	876	170
Project related expenses	950	1,597
Other expenses	7,616	6,099
	16,166	15,790

1. Together referred to as TransGrid.

2. Includes impact of AASB 16 *Leases* additional depreciation expense in the current year.

5. INCOME TAXES

	Year Ended 31 Dec 2019 \$'000	Year Ended 31 Dec 2018 \$'000
Amounts recognized in profit or loss		
Current tax		
Current tax expense in respect of the Current Year	(49,805)	(15,782)
Adjustments recognised in relation to the settlement deed for capitalised labour ²	–	40,748
Adjustments recognised in relation to current tax in prior years ¹	–	17,005
	(49,805)	41,971
Deferred tax		
Deferred tax (expense)/benefit recognised in the Current Year	(10,347)	37,133
Adjustments recognised in relation to the settlement deed for capitalised labour ²	–	(40,748)
Adjustments recognised in relation to deferred tax in prior years ¹	–	(17,005)
	(10,347)	(20,620)
Total income tax (expense)/benefit relating to continuing operations	(60,152)	21,351

1. Amendments to the treatment of customer contributions and gifted assets reported in Spark Infrastructure Holdings No.2 Pty Ltd's income tax returns.
2. Refer note 5(f) for more information.

	Year Ended 31 Dec 2019 \$'000	Year Ended 31 Dec 2018 \$'000
(a) Income Tax Recognised in the Statement of Profit or Loss and Other Comprehensive Income		
Profit/(Loss) before tax for continuing operations	139,290	(118,066)
Income tax (expense)/benefit calculated at 30% (2018: 30%)	(41,787)	35,420
Deduct:		
Effect of expenses that are not deductible in determining taxable (loss)/profit	(830)	(900)
Effect of prior year adjustments in SA Power Networks tax base	(8,547)	(7,811)
Tax effect on operating results of the Trusts	(8,988)	(5,358)
Total Current Year income tax benefit/(expense)	(60,152)	21,351
The tax rate of 30% used above is the current Australian corporate tax rate. There was no change in the corporate tax rate during the current year.		
(b) Income Tax Recognised Directly in Equity		
Share of associates' reserves	41,922	9,645
Income tax expense	41,922	9,645
(c) Deferred Tax Balances		
Temporary Differences		
Timing differences – other	212	(754)
Investment in associates	(194,366)	(369,891)
	(194,154)	(370,645)
Unused tax losses		
Tax losses ¹	–	87,898
Net tax liabilities	(194,154)	(282,747)

1. Unused tax losses are associated with Spark Infrastructure Holdings No.1 Pty Ltd with nil (2018: \$2,096,000) and Spark Infrastructure Holdings No.2 Pty Ltd with nil (2018: \$85,802,000). Unused tax losses do not expire.

5. INCOME TAXES CONTINUED

(d) Tax Consolidation

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 22.

(e) 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.

(f) Australian Tax Office (ATO) Matters

As previously disclosed, Victoria Power Networks has had an ongoing dispute with the ATO in respect of the tax treatment of certain "cash contributions and gifted assets" made by customers to Victoria Power Networks as part of contractual arrangements with these customers. The dispute culminated in a hearing in the Federal Court in early December 2018. On 7 February 2019 the Federal Court handed down its judgement which affirmed the ATO's view on the tax treatment.

In summary, the Federal Court decided that:

- For assets constructed by Victoria Power Networks whereby the customer contributes to the cost of construction of such assets, the cash contribution should be treated as assessable income for tax purposes on receipt; and
- Assets transferred to Victoria Power Networks from customers (i.e. gifted assets) should be treated as assessable income to Victoria Power Networks for tax purposes at their estimated construction value net of any rebates paid by Victoria Power Networks as part of the connection agreement.

Victoria Power Networks subsequently appealed both matters to the full Federal Court. The hearing is scheduled to take place in May 2020 (with the outcome expected later in 2020).

Due to the decision of the Federal Court on 7 February 2019 outlined above and the similarities between the factual position of Victoria Power Networks and SA Power Networks it is believed that there is now a sufficient basis, absent the outcome of the appeal to the full Federal Court, for these cash contributions and gifted assets to be treated as assessable income for SA Power Networks.

As such, a liability of \$68.8 million for SIH No.2 (being the holding entity of SA Power Networks) was recognised for the periods up to and including the year ended 31 December 2018. During the year payments of \$34.4 million were made to the ATO in respect of 50% of this liability. Depending on the outcome of the full Federal Court appeal, tax paid will either be refunded, or the outstanding amount settled. In respect of the year ended 31 December 2019 all tax balances have been recorded on the basis of the Federal Court decision; this will only be revisited should the full Federal Court find in favour of Victoria Power Networks.

Deed of Settlement – Capitalised Labour

In September 2018, Spark Infrastructure, Victoria Power Networks and other relevant parties signed a Deed of Settlement with the ATO to finalise all matters in relation to:

- Deductibility of certain labour costs and motor vehicle running costs for Victoria Power Networks for the 31 December 2007 to 31 December 2010 income years;
- Deductions in respect of certain asset replacement projects for Victoria Power Networks for the 31 December 2008 to 31 December 2010 income years; and
- Deductibility of internal labour and motor vehicle costs in respect of certain capital projects for SA Power Networks for the 30 June 2000 to 31 December 2015 income years.

As a result, Spark Infrastructure has recognised a one-off non-cash reduction in available tax losses of \$135.8 million (tax effected at 30% of \$40.7 million) relating to its partnership interest in SA Power Networks with a corresponding increase in capital allowances, which will be available to SIH No.2 through amortisation in future years. Therefore, the adjustments are timing in nature and have no material current year profit or loss impact for Spark Infrastructure or Victoria Power Networks.

6. RECEIVABLES FROM ASSOCIATES – CURRENT

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Victoria Power Networks	4,655	5,088
NSW Electricity Networks Operations	2,684	3,283
	7,339	8,371

Receivables from associates relates to interest receivable on loans to Victoria Power Networks and loan notes to NSW Electricity Networks Operations per Notes 9 and 10. These receivables are expected to be settled in full within the next 12 months.

7. PROPERTY, PLANT AND EQUIPMENT

See accounting policy in Note 1(j).

(a) Reconciliation of carrying amount

Non-Current	Freehold Land \$'000	Furniture, Fittings & Equipment \$'000	Right of Use Asset \$'000	Assets Under Construction \$'000	Total \$'000
Opening net book value at 1 January 2018	–	698	–	–	698
Additions	–	63	–	–	63
Depreciation charge	–	(170)	–	–	(170)
Closing net book value at 31 December 2018	–	591	–	–	591
Cost	–	813	–	–	813
Accumulated Depreciation	–	(222)	–	–	(222)
Net book value at 31 December 2018	–	591	–	–	591
Opening net book value at 1 January 2019	–	591	–	–	591
Additions	7,771	32	2,466	149,567	159,836
Capitalised Interest	–	–	–	239	239
Depreciation charge	–	(172)	(705)	–	(877)
Closing net book value at 31 December 2019	7,771	451	1,761	149,806	159,789
Cost	7,771	845	2,466	149,806	160,888
Accumulated Depreciation	–	(394)	(705)	–	(1,099)
Net book value at 31 December 2019	7,771	451	1,761	149,806	159,789

During 2019, the Group acquired a piece of land for \$7.7 million with the intention of constructing Bomen solar farm on the site. See Note 3 for additional information. The Group has started construction of Bomen and costs incurred up to 31 December 2019 totalled \$149.8 million (2018: nil). Included in this amount are capitalised borrowing costs related to the acquisition of the land and the construction of Bomen of \$0.2 million.

8. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(a) Investments in Associates

Name of Entity	Principal Activity	OWNERSHIP INTEREST (%)		Country of Incorporation/ Formation ¹
		2019	2018	
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 ²	Ownership of electricity transmission assets in New South Wales	15.01	15.01	Australia
NSW Electricity Networks Operations Holdings Trust ²	Ownership of an electricity transmission business in New South Wales	15.01	15.01	Australia

1. The principal place of business is the same as the country of incorporation.
2. Together referred to as TransGrid.

8. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD CONTINUED

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

	31 DEC 2019 \$'000	31 DEC 2019 \$'000	31 DEC 2019 \$'000	31 DEC 2019 \$'000	31 DEC 2018 \$'000	31 DEC 2018 \$'000	31 DEC 2018 \$'000	31 DEC 2018 \$'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	413,803	308,876	101,092	230,298	331,760	333,509	85,883	213,951
Non-current assets	8,273,351	6,810,000	7,394,809	3,956,272	8,016,147	6,563,659	7,433,512	2,791,021
Total assets	8,687,154	7,118,876	7,495,901	4,186,570	8,347,907	6,897,168	7,519,395	3,004,972
Current liabilities	1,569,489	391,176	132,015	288,955	1,548,901	1,186,964	104,318	184,638
Non-current liabilities	5,650,381	4,511,059	5,963,753	2,708,255	5,223,789	3,316,189	5,681,070	1,650,859
Total liabilities	7,219,870	4,902,235	6,095,768	2,997,210	6,772,690	4,503,153	5,785,388	1,835,497
Net assets	1,467,284	2,216,641	1,400,133	1,189,360	1,575,217	2,394,015	1,734,007	1,169,475

(c) Summarised Financial Performance of Associates

	YEAR ENDED 31 DEC 2019 \$'000	YEAR ENDED 31 DEC 2019 \$'000	YEAR ENDED 31 DEC 2019 \$'000	YEAR ENDED 31 DEC 2019 \$'000	YEAR ENDED 31 DEC 2018 \$'000	YEAR ENDED 31 DEC 2018 \$'000	YEAR ENDED 31 DEC 2018 \$'000	YEAR ENDED 31 DEC 2018 \$'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)	1,047,854	848,853	-	709,634	1,015,487	829,877	-	729,788
Revenue – semi-regulated and unregulated	347,589	379,407	555,760	149,252	271,810	276,617	544,963	177,721
Operating revenue	1,395,443	1,228,260	555,760	858,886	1,287,297	1,106,494	544,963	907,509
Revenue – transmission (pass-through)	287,788	239,561	-	-	288,402	240,947	-	-
Expenses	1,683,231	1,467,821	555,760	858,886	1,575,699	1,347,441	544,963	907,509
Expenses – transmission (pass-through)	(287,788)	(239,561)	-	-	(288,402)	(240,947)	-	-
Profit/(loss) before income tax	265,893	173,000	(23,934)	(2,807)	219,640	223,059	(39,392)	39,167
Income tax expense	(83,161)	(3,471)	-	-	(68,951)	(1,742)	-	-
Net profit/(loss)	182,732	169,529	(23,934)	(2,807)	150,689	221,317	(39,392)	39,167
Other comprehensive income:								
(Loss)/gain on hedges	(136,039)	(145,740)	(181,440)	(30,899)	(51,299)	(31,350)	(45,805)	166
Actuarial (loss)/gain on defined benefit plans	(10,980)	(36,525)	-	(108)	6,156	(2,660)	-	(12,351)
Income tax benefit related to components of other comprehensive income	44,106	-	-	-	13,543	-	-	-
Other comprehensive loss for the Financial Year	(102,913)	(182,265)	(181,440)	(31,007)	(31,600)	(34,010)	(45,805)	(12,185)
Total comprehensive income/(loss) for the Financial Year	79,819	(12,736)	(205,374)	(33,814)	119,089	187,307	(85,197)	26,982

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 2019 \$'000	Year Ended 31 Dec 2018 \$'000
Victoria Power Networks net profit	89,539	73,838
SA Power Networks net profit	83,069	108,445
Additional share of profits from preferred partnership capital ¹	35,514	35,514
NSW Electricity Networks Assets net loss	(3,592)	(5,913)
NSW Electricity Networks Operations net (loss)/profit	(421)	5,879
	204,109	217,763
Adjustment in respect of regulated revenue cap ²	4,941	(4,437)
Additional adjustments to share of equity profits ³	(1,290)	(1,289)
	207,760	212,037

- Under the partnership agreement, Spark Infrastructure is entitled to an additional share of profit in SA Power Networks, which ensures that Spark Infrastructure shares in 49% of the overall results of operations from SA Power Networks.
- Adjustments are made to distribution/transmission revenues to defer/accrue for amounts in excess of/under the regulated revenue cap to reflect that these amounts will be returned to/recovered from electricity consumers in future periods via adjustments to tariffs.
- Additional adjustments made to share of equity profits include:
 - Depreciation/amortisation of fair value uplift of assets on acquisition; and
 - Customer contribution and gifted asset depreciation.

	Year Ended 31 Dec 2019 \$'000	Year Ended 31 Dec 2018 \$'000
(d) Movement in Carrying Amounts		
Carrying amount at beginning of the Current Year	2,326,112	2,550,342
Share of profits after income tax	207,760	212,037
Preferred partnership distribution received – SA Power Networks	(69,635)	(69,635)
Distributions received – SA Power Networks	(46,550)	(45,570)
Distributions received – Victoria Power Networks	(65,085)	–
Distributions received – NSW Electricity Networks Assets	(19,325)	(17,832)
Distributions received – NSW Electricity Networks Operations	(4,871)	(2,131)
Capital contribution – NSW Electricity Networks Operations	9,111	9,757
Impairment loss – SA Power Networks	–	(270,000)
Share of associates' comprehensive loss recognised directly in equity	(171,626)	(40,856)
Carrying amount at end of the Current Year	2,165,891	2,326,112

(e) Contingent Liabilities

Spark Infrastructure's share of contingent liabilities are provided in Note 18.

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
9. LOANS TO ASSOCIATES – INTEREST BEARING		
Victoria Power Networks	460,598	503,372

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 \$42.8 million was repaid by the borrower to Spark Infrastructure during 2019 (2018: \$95.5 million).

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
10. LOAN NOTES TO ASSOCIATES – INTEREST BEARING		
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.

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
11. LOAN NOTES ATTRIBUTABLE TO SECURITYHOLDERS		
Balance at beginning of the Financial Year	1,061,764	1,061,744
Issue of Loan Notes under Distribution Reinvestment Plan	10,945	–
Issue costs associated with Loan Notes	(55)	–
Write back of deferred discount ¹	20	20
Balance at end of the Financial Year	1,072,674	1,061,764

1. 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.

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
12. ISSUED CAPITAL		
Balance at beginning of the Financial Year	923,270	1,067,502
Issue of new securities under Distribution Reinvestment Plan	24,877	–
Issue costs	(133)	–
Capital distributions ¹	(142,130)	(144,232)
Balance at end of the Financial Year	805,884	923,270

1. Capital distributions of 4.00 cps on 13 September 2019 (4.50 cps on 15 September 2018) and 4.45 cps on 15 March 2019 (4.45 cps on 15 March 2018) were paid to Securityholders during the year – refer Note 17.

	No.'000	No.'000
Fully Paid Stapled Securities		
Balance at the beginning of the Financial Year	1,682,011	1,682,011
Issue of new securities under Distribution Reinvestment Plan	16,838	–
Balance at the end of the Financial Year	1,698,849	1,682,011

	Year Ended 31 Dec 2019 \$'000	Year Ended 31 Dec 2018 \$'000
13. RESERVES		
Cash Flow Hedging Reserve		
Balance at beginning of the Financial Year	(69,613)	(40,911)
Cash flow hedge reserve – effective portion of changes in fair value ¹	1,200	–
Share of associates' losses on hedges ¹	(145,324)	(39,807)
Related tax benefit	35,422	9,887
Recognition of share-based payments	(665)	1,218
Balance at end of the Financial Year	(178,980)	(69,613)

1. The Cash Flow Hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss or directly included in the initial cost or other carrying amount of a non-financial asset or nonfinancial liability.

	Year Ended 31 Dec 2019 \$'000	Year Ended 31 Dec 2018 \$'000
14. RETAINED EARNINGS		
Balance at beginning of the Financial Year	952,170	1,050,173
Net profit/(loss) after tax for the Financial Year	79,138	(96,715)
Share of associates' actuarial loss recognised directly in retained earnings ¹	(26,304)	(1,046)
Related tax benefit/(expense)	6,500	(242)
Balance at end of the Financial Year	1,011,504	952,170

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

	Year Ended 31 Dec 2019 \$	Year Ended 31 Dec 2018 \$
15. REMUNERATION OF EXTERNAL AUDITOR		
Audit and review of the financial reports	312,500	278,500
General tax advice	75,000	116,000
Other accounting services	32,000	28,000
Project related tax advice and assurance services	–	33,000
	419,500	455,500

The auditor of Spark Infrastructure is Deloitte Touche Tohmatsu.

	Year Ended 31 Dec 2019 \$'000	Year Ended 31 Dec 2018 \$'000
16. EARNINGS PER SECURITY (EPS)		
Profit before income tax, Loan Note interest and Impairment	258,469	270,516
Weighted average number of securities (No.'000)	1,687,085	1,682,011
Basic EPS before income tax, Loan Note interest and Impairment (cents)	15.32¢	16.08¢
Earnings used to calculate EPS	79,138	(96,715)
Basic EPS based on net profit attributable to Securityholders (cents)	4.69¢	(5.75¢)

Basic EPS is the same as diluted EPS.

	2019		2018	
	Cents per Security	Total \$'000	Cents per Security	Total \$'000
17. DISTRIBUTION PAID AND PAYABLE				
Distribution Paid:				
Interim distribution in respect of year ended 31 December 2019 paid on 13 September 2019 (2018: 14 September 2018):				
Interest on Loan Notes	3.50	58,870	3.50	58,870
Capital Distribution	4.00	67,280	4.50	75,691
	7.50	126,150	8.00	134,561
Distribution Payable/Proposed:				
Final distribution in respect of the year ended 31 December 2019 payable on 13 March 2020 (2018: 15 March 2019):				
Interest on Loan Notes	3.55	60,309	3.55	59,711
Capital Distribution	3.95	67,105	4.45	74,850
	7.50	127,414	8.00	134,561
Total paid and payable	15.00	253,564	16.00	269,122

The distributions are unfranked.

	Year Ended 31 Dec 2019 \$	Year Ended 31 Dec 2018 \$
18. CONTINGENT LIABILITIES		
Federal Court decision on the tax treatment of cash contributions and gifted assets ¹	–	70,000
Share of associates' contingent liabilities ²	64,520	29,864
	64,520	99,864

1. On 7 February 2019 the Federal Court handed down a decision on the tax treatment of cash contributions and gifted assets for Victoria Power Networks for the tax years 2008 to 2011. Further detail is included within Note 5(f).

2. The contingent liabilities relate to a number of guarantees provided to various parties by the investment portfolio assets.

19. 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 2019 \$	Year Ended 31 Dec 2018 \$
Salary and fees	2,266,980	2,272,402
Superannuation expense	122,605	123,699
Short term incentive expense	260,304	849,232
Long term incentive expense	315,445	446,213
Total expense	2,965,334	3,691,546

20. RELATED PARTY DISCLOSURES

(a) Directors

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

	Opening Balance 1 January 2019 (No.)	Net Movement Acquired/ (Disposed) (No.)	Closing Balance 31 December 2019 (No.)
2019			
Dr Douglas McTaggart	180,000	6,345	186,345
Mr Rick Francis	251,798	208,891	460,689
Mr Andrew Fay	238,590	–	238,590
Ms Karen Penrose	55,300	1,949	57,249
Mr Greg Martin	100,000	–	100,000
Mr Miles George¹	–	100,000	100,000
Ms Anne McDonald²	71,000	–	–

1. Mr George was appointed to the Board on 11 October 2019.

2. Ms McDonald retired from the Board on 30 November 2019.

The relevant interest of each Director of Spark Infrastructure in respect of 2018 was as follows:

	Opening Balance 1 January 2018 (No.)	Net Movement Acquired/ (Disposed) (No.)	Closing Balance 31 December 2018 (No.)
2018			
Dr Douglas McTaggart	135,000	45,000	180,000
Mr Rick Francis	116,176	135,622	251,798
Mr Andrew Fay	188,590	50,000	238,590
Ms Anne McDonald	71,000	–	71,000
Ms Karen Penrose	50,000	5,300	55,300
Mr Greg Martin	50,000	50,000	100,000

(b) Group Executives

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

	Opening Balance 1 January 2019 (No.)	Net Movement Acquired/ (Disposed) (No.)	Closing Balance 31 December 2019 (No.)
2019			
Mr Rick Francis	251,798	208,891	460,689
Mr Nicholas Schiffer ¹	-	-	-
Mr Gerard Dover ²	-	121,251	121,251
	Opening Balance 1 January 2018 (No.)	Net Movement Acquired/ (Disposed) (No.)	Closing Balance 31 December 2018 (No.)
2018			
Mr Rick Francis	116,176	135,622	251,798
Mr Nicholas Schiffer ¹	-	-	-

1. Mr Schiffer was appointed as CFO on 17 July 2017 and resigned 3 June 2019.

2. Mr Dover was appointed as CFO on 8 October 2018.

(c) Responsible Entity

The responsible entity of the Trust is Spark Infrastructure RE Limited.

(d) KMP

KMP are those having the authority and responsibility for directing and controlling the activities of an entity. The Directors and certain employees that meet the definition of KMP are disclosed above along with their remuneration in Note 19. Security holding details are disclosed in Note 20(a) and Note 20(b).

(e) Other Related Parties

Other related parties include associates, subsidiaries, and entities within Spark Infrastructure.

Associates

In our view, there should be a disclosure of transactions that are not eliminated in applying equity accounting. The details of ownership interests in associates are provided in Note 8. The details of interest receivable and loans provided to associates are detailed in Notes 6, 9 and 10. Details of interest income on these loans are detailed in Note 4(a). Details of bank guarantee between Bomen Solar Farm Pty Ltd as trustee of Bomen Trust and TransGrid are detailed in Note 24(j).

Subsidiaries

The details of ownership interest in subsidiaries are provided in Note 22. 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 5.

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.

21. SUBSEQUENT EVENTS

During February 2020, Spark Infrastructure has executed \$400.0 million of bilateral corporate debt facilities maturing in February 2023, replacing its previous \$120.0 million bilateral facilities. The facilities are with banks from the prior facilities, namely the Commonwealth Bank of Australia, MUFG Bank, Ltd and Mizuho Bank Ltd, and now include Westpac Banking Corporation, Sumitomo Mitsui Banking Corporation and China Construction Bank Corporation. Spark Infrastructure pays an average margin of 95 basis points above the applicable bank bill swap rate on amounts drawn from these facilities.

A total of \$40.0 million of available facilities were drawn down during 2019 in order to part fund Spark's investment in Bomen Solar Farm and remained drawn as at 31 December 2019.

Spark Infrastructure as a member of the TransGrid Board provided commitment and approval to TransGrid prior to their Contingent Project Application (CPA) submission for the Queensland to NSW Interconnector (QNI) Minor Upgrade Project on 17 January 2020. This commitment was a defined trigger event for the QNI project in the AER's Final Decision for TransGrid's 2018-2023 Regulatory Period.

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 (2018: nil).

22. CONTROLLED ENTITIES

The group's principal subsidiaries at 31 December 2019 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Entity	Country of Incorporation	2019 Equity Holdings (%)	2018 Equity Holdings (%)
Controlled entities of Spark Infrastructure Trust:			
– Spark Infrastructure Holdings No. 1 Pty Limited ¹	Australia	100	100
– Spark Infrastructure Holdings No. 2 Pty Limited ¹	Australia	100	100
– Spark Infrastructure Holdings No. 3 Pty Limited ¹	Australia	100	100
– Spark Infrastructure Electricity Assets Trust	Australia	100	100
Controlled entity of SIH No. 1 ¹ :			
– Spark Infrastructure (Victoria) Pty Limited ²	Australia	100	100
– Bomen SF HoldCo Pty Limited	Australia	100	–
– Bomen Solar Farm Pty Limited	Australia	100	–
– Bomen SF Hold Trust	Australia	100	–
– Bomen SF Trust	Australia	100	–
– Bomen SF FinCo Pty Limited	Australia	100	–
Controlled entities of SIH No. 2 ¹ :			
– Spark Infrastructure (South Australia) Pty Limited ³	Australia	100	100
– Spark Infrastructure SA (No 1) Pty Limited ³	Australia	100	100
– Spark Infrastructure SA (No 2) Pty Limited ³	Australia	100	100
– Spark Infrastructure SA (No 3) Pty Limited ³	Australia	100	100
Controlled entities of SIH No. 3 ¹ :			
– Spark Infrastructure Holdings No. 4 Pty Limited (“SIH No.4”) ⁴	Australia	100	100
– Spark Infrastructure Holdings No. 5 Pty Limited (“SIH No. 5”) ⁴	Australia	100	100
– Spark Infrastructure RE Ltd ⁴	Australia	100	100
– Spark Infrastructure Electricity Assets Pty Ltd ⁴	Australia	100	100
– Spark Infrastructure Electricity Operations Trust	Australia	100	100
– Spark Infrastructure Electricity Operations Pty Ltd ⁴	Australia	100	100

1. Head entity of a tax consolidated group.

2. An entity within a tax consolidated group with SIH No. 1 as the head entity.

3. An entity within a tax consolidated group with SIH No. 2 as the head entity.

4. An entity within a tax consolidated group with SIH No. 3 as the head entity.

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
23. NOTES TO THE STATEMENT OF CASH FLOWS		
(a) Reconciliation of Cash and Cash Equivalents		
Cash on hand and at bank	26,400	10,344
Cash at bank held for Australian Financial Services Licensing purposes	5,000	5,000
Cash on deposit	–	119,000
Cash and Cash Equivalents	31,400	134,344

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

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
(b) Committed Financing Facilities		
Syndicated unsecured bank loan facilities:		
– Amount used	40,000	–
– Amount unused	80,000	120,000
	120,000	120,000

Committed Finance Facility maturities as at 31 December 2019 are:

- September 2021: \$40,000,000 3-year revolving facility with Commonwealth Bank of Australia
- September 2021: \$40,000,000 3-year revolving facility with Mitsubishi UFG Financial Group, Inc
- September 2021: \$40,000,000 3-year revolving facility with Mizuho Bank, Ltd

During February 2020, Spark Infrastructure executed \$400.0 million of bilateral corporate debt facilities, replacing its previous \$120.0 million bilateral corporate debt facilities. Refer to Note 21 for further information.

	Year Ended 31 Dec 2019 \$'000	Year Ended 31 Dec 2018 \$'000
(c) Reconciliation of Profit for the Financial Year to Net Cash Inflows Related to Operating Activities		
Net profit/(loss) after tax	79,138	(96,715)
Add back/(subtract):		
Loan Note interest expense	119,180	118,582
Non-cash interest expense	448	241
Non-cash depreciation expense	876	170
Non-cash Impairment expense	–	270,000
Share of equity accounted profits and losses of associates net of distributions received	(2,293)	(76,868)
Gain on derivative contracts (less distribution/costs)	(6,776)	–
<i>Changes in net assets and liabilities:</i>		
Decrease in current receivables	1,278	2,002
Increase/(Decrease) in current payables	4,872	(1,363)
Movement in current and deferred tax balances	20,989	(21,351)
Capitalised Bomen costs	(3,425)	–
Movement in lease liability	(693)	–
Net cash inflow related to operating activities	213,594	194,698

24. FINANCIAL INSTRUMENTS

The Group has the following derivative 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. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Audit, Risk and Compliance Committee (Committee), which is responsible for developing and monitoring the Group's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

Spark Infrastructure identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. Where all relevant criteria are met, hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. This will effectively result in recognising interest expense at a fixed interest rate for the hedged floating rate loans and inventory at the fixed foreign currency rate for the hedged purchases.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

(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), 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 2019 was \$2,670.9 million (2018: \$2,867.6 million) comprising \$1,072.7 million (2018: \$1,061.7 million) in Loan Notes and \$1,598.3 million (2018: \$2,076.8 million) in equity attributable to the Securityholders.

The debt covenants under the bank debt facilities require, inter alia, that the gearing at Spark Infrastructure does not exceed 30% on a standalone basis and on a consolidated basis (including its proportionate share of debt of the investment portfolio assets) and that the gearing does not exceed 75% at any time. During the Current Year Spark Infrastructure complied with all of its debt covenants.

Spark Infrastructure holds less than a 50% interest in the investment portfolio assets and while it has significant influence, does not control these businesses and is not in a position to determine their distribution policy alone. The Distribution Policies are set out in Shareholder Agreements between Spark Infrastructure and its fellow shareholders. Any change in the Distribution Policies requires a special majority resolution of the shareholders. Further, the revenue of the investment portfolio assets is significantly reliant on the regulatory determinations of the Australian Energy Regulator (AER). This could in turn impact on distributions received by Spark Infrastructure.

(c) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1.

(d) Accounting Clarifications and Fair Value

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	CARRYING AMOUNT					FAIR VALUE					
	Fair value – hedging instruments	Mandatorily others	FVOCI – debt instruments	FVOCI – equity instrument	Financial assets at amortised cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2019											
Financial assets measured at fair value											
Interest rate swaps	1,714	-	-	-	-	-	1,714	1,714	-	-	1,714
Foreign exchange swaps	-	-	-	-	-	-	-	-	-	-	-
Power Purchase Agreements	-	8,176	-	-	-	-	8,176	-	-	8,176	8,176
Financial assets at amortised cost											
Cash and cash equivalents	-	-	-	-	31,400	-	31,400	-	-	-	-
Receivables from associates	-	-	-	-	7,339	-	7,339	-	-	-	-
Other receivables	-	-	-	-	9,806	-	9,806	-	-	-	-
Loans to associates	-	-	-	-	460,598	-	460,598	-	-	-	-
Loan notes to associates	-	-	-	-	237,444	-	237,444	-	-	-	-
	1,714	8,176	-	-	746,587	-	756,477	1,714	8,176	-	9,890
31 December 2018											
Financial assets measured at fair value											
Interest rate swaps	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange swaps	-	-	-	-	-	-	-	-	-	-	-
Power Purchase Agreements	-	-	-	-	-	-	-	-	-	-	-
Financial assets measured at amortised costs											
Cash and cash equivalents	-	-	-	-	134,344	-	134,344	-	-	-	-
Receivables from associates	-	-	-	-	8,371	-	8,371	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-	-	-
Loans to associates	-	-	-	-	503,372	-	503,372	-	-	-	-
Loan notes to associates	-	-	-	-	237,444	-	237,444	-	-	-	-
	-	-	-	-	883,531	-	883,531	-	-	-	-

24. FINANCIAL INSTRUMENTS CONTINUED

(d) Accounting Clarifications and Fair Value continued

(\$'000)	CARRYING AMOUNT					FAIR VALUE					
	Fair value instruments – hedging at FVTPL – others	Mandatorily others	FVOCI – debt instruments	FVOCI – equity instrument	Financial assets at amortised cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2019											
Financial liabilities measured at fair value											
Power Purchase Agreements	-	-	-	-	-	-	-	-	-	-	-
Financial liabilities not measured at fair value											
Trade payables ¹	-	-	-	-	-	9,078	9,078	-	-	-	-
Loan note interest payable	-	-	-	-	-	60,309	60,309	-	-	-	-
Loan notes	-	-	-	-	-	1,072,674	1,072,674	-	-	-	-
Other loans	-	-	-	-	-	39,567	39,567	-	-	-	-
	-	-	-	-	-	1,181,628	1,181,628	-	-	-	-
31 December 2018											
Financial liabilities measured at fair value											
Power Purchase Agreements	-	-	-	-	-	-	-	-	-	-	-
Financial liabilities not measured at fair value											
Trade payables ¹	-	-	-	-	-	2,260	2,260	-	-	-	-
Loan note interest payable	-	-	-	-	-	59,711	59,711	-	-	-	-
Loan notes	-	-	-	-	-	1,061,764	1,061,764	-	-	-	-
	-	-	-	-	-	1,123,735	1,123,735	-	-	-	-

1. Other payables that are not financial liabilities (accrued expenses) are not included.

i. Valuation techniques and significant unobservable inputs

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values at 31 December 2019 for financial instruments measured at fair value in the statement of financial position, as well as the significant observable inputs used.

Financial instruments measured at fair value

Type	Valuation techniques	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement	Level
Power Purchase Agreements	<i>PPA pricing:</i> The fair value has used directly market observable inputs where available to inform our valuation analysis. This will include data typically used by market participants in actual transactions in the market.	CPI escalation of forward curves beyond observable quoted pricing period.	The higher the CPI adjustment, the higher the fair value of the instrument.	Level 3
Forward exchange contracts	<i>Forward pricing:</i> The fair value is determined using quoted forward exchange rates at the reporting date and present value calculations based on high credit quality yield curves in the respective currencies.	Not applicable	Not applicable	Level 2
Interest rate swaps	<i>Swap models:</i> The fair value is calculated as the present value of the estimated future cash flows. Future floating-rate cash flows are based on quoted swap rates, futures prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Group and of the counterparty; this is calculated based on credit spreads derived from current credit default swap or bond prices.	Not applicable	Not applicable	Level 2

ii. Level 3 fair values

The following table presents the changes in level 3 items for the periods ended 31 December 2019 and 31 December 2018:

	Power Purchase Agreement \$'000
Opening balance 1 January 2019	-
Acquisitions/(disposals)	1,400
Unrealised gains/(losses) recognised in profit and loss	6,776
Unrealised gains recognised in other comprehensive income	-
Closing balance 31 December 2019	8,176

The sensitivity of Level 3 contracts with significant unobservable inputs, where the inputs are higher by 10% percent is \$8,596 thousand and lower by 10% percent is (\$8,596) thousand (profit after tax increase/(decrease)). Input changes were applied to forward prices with references to electricity market and emissions schemes, cost-based indexes, contract volumes and management's assumptions on long-term commodity curves.

24. FINANCIAL INSTRUMENTS CONTINUED

(e) Financial Market Risk

Market risk is the risk that changes in market prices e.g. electricity price, foreign exchange rates and interest rates, will affect Spark Infrastructure's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Spark Infrastructure uses derivatives to manage market risks. All such transactions are carried out within the guidelines set out in the treasury policy. Notes 24(f) and 24(g) below discuss the strategy adopted to manage the foreign currency and 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) Currency Risk

The group is exposed to foreign exchange risk, primarily the US\$. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of the relevant group entity. The risk is measured through a forecast of highly probable US\$ expenditures. The risk is hedged with the objective of minimising the volatility of the Australian currency cost of highly probable forecast asset purchases.

(g) Interest Rate Risk

Spark Infrastructure's main interest rate risk arises from long-term borrowings with variable rates, which expose Spark Infrastructure to cash flow interest rate risk. Generally, Spark Infrastructure enters into long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. During 2019 and 2018, Spark Infrastructure's borrowings at variable rate were denominated in Australian dollars.

Spark Infrastructure's borrowings and receivables are carried at amortised cost. The borrowings are periodically contractually repriced (see below) and to that extent are also exposed to the risk of future changes in market interest rates.

Fair value sensitivity analysis for fixed-rate instruments

Spark Infrastructure does not account for any fixed-rate financial assets or financial liabilities at FVTPL, and it does not designate interest rate swaps as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss. A change of 50 basis points in interest rates would have increased or decreased equity by \$3,368/\$3,506 thousand after tax (2018: nil). This analysis assumes that all other variables remain constant.

Cash flow sensitivity analysis for variable-rate instruments

A reasonably possible change of 50 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	PROFIT OR LOSS		EQUITY, NET OF TAX	
	50 bp increase	50 bp decrease	50 bp increase	50 bp decrease
31 December 2019 (\$'000)				
Cash flow sensitivity (net)	-	-	3,368	(3,506)

(h) Cash Flow Hedges

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.

Swaps currently in place fully hedged (2018: nil) the variable loan principal outstanding. The fixed interest rates of the swaps range between 1.220% and 1.345% (2018: nil) and the current variable rates of the loans is set at 1M bank bill rate which at the end of the reporting period was 0.87% (2018: nil). The hedge ratio is 1.

In these hedge relationships, the main sources of ineffectiveness are:

- the effect of the counterparty's and the Group's own credit risk on the fair value of the swaps, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in interest rates;
- when the interest rate swap cover exceeds the floating rate facility drawdown resulting in over hedged position; and
- differences in repricing dates between the swaps and the borrowings.

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows.

(\$'000)	Nominal amount	Carrying amount (asset)	Line item in the statement of financial position where the hedging instrument is included	Changes in the value of the hedging instrument recognised in OCI	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from hedging reserve to profit or loss
Interest rate risk							
Interest rate swaps	100,000	1,714	Interest rate swap	1,200	-	-	-

Energy derivatives – Power Purchase Agreements

The Group has entered into Power Purchase Agreement (PPA) derivative instruments for economic hedging purposes under the Board approved risk management policies. However the PPAs do not satisfy the hedging item criteria, therefore the Group cannot apply hedge accounting under AASB 9 *Financial Instruments*. Therefore changes in the fair value of the PPA are recognised immediately in profit or loss as part of gain/(loss) on fair value of financial instruments. These derivatives are required to be categorised as held for trading and are classified in the Consolidated Statement of Financial Position as PPA.

It is Spark Infrastructure's policy to actively manage the energy price exposure arising from both forecast energy supply and customer energy load. Spark Infrastructure's risk management policy for energy price risk is to hedge forecast future positions for up to five years. Exposures to fluctuations in the wholesale market energy prices are managed through the use of various types of hedge contracts including derivative financial instruments.

The following table details the fair value of PPA derivatives outstanding at the end of the reporting period:

	2019 \$'000	2018 \$'000
Energy Derivatives – economic hedge	8,176	-

The following table details the sensitivity to a 10 percent increase or decrease in the energy contract market forward prices and volumes. A sensitivity of 10 percent has been used as this is considered reasonably possible, based on historical data relating to the level of volatility in market prices.

At the end of the reporting period, if the forward prices or volumes had been 10 percent higher or lower and all other variables were held constant, Spark Infrastructure's profit after tax and other comprehensive income would have been affected as follows:

	IMPACT ON POST TAX PROFIT		IMPACT ON OTHER COMPONENTS OF EQUITY	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Energy forward price +10%	8,596	-	8,596	-
Energy forward price -10%	(8,596)	-	(8,596)	-
Volume +10%	145	-	145	-
Volume -10%	(999)	-	(999)	-

Hedging reserves

The following table provides a reconciliation by risk category of components of equity and analysis of OCI items, net of tax, resulting from cash flow hedge accounting.

	Cost of hedging reserve (\$'000)	Spot component of currency forwards (\$'000)	Interest rate swaps (\$'000)	Total hedge reserve (\$'000)
Closing balance 31 December 2017	-	-	-	-
Add: Change in fair value of hedging instrument recognised in OCI	-	-	-	-
Add: Costs of hedging deferred and recognised in OCI	-	-	-	-
Less: Reclassified to the cost of inventory – not included in OCI	-	-	-	-
Less: reclassified from OCI to profit or loss	-	-	-	-
Less: Deferred tax	-	-	-	-
Closing balance 31 December 2018	-	-	-	-
Add: Change in fair value of hedging instrument recognised in OCI	-	-	1,714	1,714
Add: Costs of hedging deferred and recognised in OCI	-	-	-	-
Less: Reclassified to the cost of inventory – not included in OCI	-	-	-	-
Less: reclassified from OCI to profit or loss	-	-	-	-
Less: Deferred tax	-	-	(514)	(514)
Closing balance 31 December 2019	-	-	1,200	1,200

24. FINANCIAL INSTRUMENTS CONTINUED

(i) 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 carrying amounts of financial assets represent the maximum credit exposure.

i. Cash and cash equivalents

Spark infrastructure held cash and cash equivalents of \$31.4 million at 31 December 2019 (2018: \$134.3 million). The cash and cash equivalents are held with banks, which are rated Aa3 to Aa2, based on Moody's ratings.

ii. Derivatives

The Group manages its exposure to credit risk using credit risk management policies. Derivative counterparties are limited to high creditworthy financial institutions with approved financial institutions that have a credit rating of at least A from Standard & Poor's and within credit limits assigned to each financial institution and other organisations in the energy industry. Spark Infrastructure also utilises International Swaps and Derivative Association (ISDA) agreements with derivative counterparties in order to limit exposure to credit risk through the netting of amounts receivable from and amounts payable to individual counterparties.

At the end of the reporting period, there was a significant concentration of credit risk with certain counterparties in relation to energy derivatives undertaken in accordance with the Spark Infrastructure's hedging and risk management activities. The carrying amount of the financial assets recognised in the financial statements, which is net of impairment losses, represents the maximum exposure to credit risk.

(j) Guarantees and commitments

The Group's policy is to provide financial guarantees only for subsidiaries' liabilities. At 31 December 2019, the Company has issued a guarantee to certain banks in respect of credit facilities granted to the subsidiaries.

Bomen Solar Farm Pty Ltd as trustee of the Bomen Trust has provided a documentary letter of credit to Jinko Solar Australia Holdings Co. Pty Ltd under the Module Supply Agreement.

In addition, Bomen Solar Farm Pty Ltd as trustee of the Bomen Trust has provided a bank guarantee of \$3.0 million to TransGrid on demand under the Project contract and of \$3.2 million to Westpac under the PPA.

(k) Liquidity Risk Management

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for management of the Group's short, medium and long-term funding and liquidity management requirements. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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 23 (b).

Liquidity and Interest Risk Tables

The following tables detail Spark Infrastructure's remaining contractual maturity for its 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.

2019	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	–	1,641	1,765	4,361	1,244	67	9,078
Other Loans	–	–	39,567	–	–	–	39,567
Interest on drawn debt	–	35	65	237	–	–	337
Commitment fee on interest bearing liabilities	–	24	64	585	1,706	–	2,379
Loan Notes attributable to Securityholders ^a	10.85	–	60,309	59,460	479,075	10,805,527	11,404,371
Power Purchase Agreement	–	–	–	–	–	–	–
Interest rate swaps	–	31	65	347	675	(2,525)	(1,407)
Total		1,731	101,835	64,990	482,700	10,803,069	11,454,325

2018	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	–	597	1,122	426	48	67	2,260
Commitment fee on interest bearing liabilities	–	114	–	335	745	–	1,194
Loan Notes attributable to Securityholders ^a	10.85	–	59,711	58,870	474,327	10,817,013	11,409,921
Total		711	60,833	59,631	475,120	10,817,080	11,413,375

a. The Loan Notes mature in 2105.

As disclosed in Note 24(b), Spark Infrastructure has a secured bank loan that contains loan covenants. A future breach of covenant may require Spark Infrastructure to repay the loan earlier than indicated in the above table. Under the facility agreement, covenants are monitored on a regular basis by the Group and regularly reported to management to ensure compliance with the agreement.

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 2019 was \$0.65 per Loan Note (2018: \$0.65). 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.

25. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

The following aggregate amounts are disclosed in respect of the Parent Entity, Spark Infrastructure Trust:

Financial Position	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Current assets	15,876	19,670
Non-current assets	1,995,500	2,116,331
Total Assets	2,011,376	2,136,001
Current liabilities	60,320	59,733
Non-current liabilities	1,120,307	1,100,488
Total liabilities	1,180,627	1,160,221
Net Assets	830,749	975,780
Equity		
Issued capital	805,884	923,257
Retained earnings	24,865	52,523
Total Equity	830,749	975,780
Financial Performance	Year Ended 31 Dec 2019 \$'000	Year Ended 31 Dec 2018 \$'000
Net (loss)/profit for the year	(27,658)	9,565
Other comprehensive income	-	-
Total comprehensive (loss)/income for the Financial Year	(27,658)	9,565

(b) Guarantees entered into by the Parent Entity

The Parent Entity has provided financial guarantees in respect of Financing Facilities, refer Note 24(j).

(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 2019, the Parent Entity had no contractual commitments (2018: nil).

26. ADDITIONAL INFORMATION

Spark Infrastructure is a company limited by shares, incorporated and domiciled in Australia. The registered office of business of the Trust is as follows:

Level 29, 225 George Street
Sydney NSW 2000
Australia

INDEPENDENT AUDITOR'S REPORT

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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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 2019, 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 2019 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 'Responsible Entity'), would be in the same terms if given to the Directors of the Responsible Entity 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 for 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.



Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Recoverable amount of Investments accounted for using the equity method</p> <p>As at 31 December 2019, the Group's Consolidated Statement of Financial Position includes 'Investments accounted for using the equity method' amounting to \$2,166 million, comprising investments in Victoria Power Networks, SA Power Networks and TransGrid ("investment portfolio") as disclosed in Note 8 'Investments accounted for using the equity method'.</p> <p>Management identified an indicator of impairment relating to each of the investments in Victoria Power Networks and SA Power Networks as at 31 December 2019. Accordingly, Spark management prepared a fair value less cost to sell impairment model relating to the investments in Victoria Power Networks and SA Power Networks. The fair value less cost to sell model is based on the forecast distributions from the investment, the projected terminal value of the Regulated Asset Base ('RAB') and the projected terminal value of the unregulated business.</p> <p>The fair value less costs to sell model is used to determine whether the carrying value of the investment does not exceed its recoverable value or whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.</p> <p>The assessment of the recoverable value of the investment involves the exercise of significant judgement in determining the assumptions to be used in the discounted cash flow model, including the distributions, the discount rate, the RAB multiple and the EBITDA multiples for unregulated activities.</p>	<p>In conjunction with Deloitte valuation specialists, our procedures included but were not limited to:</p> <ul style="list-style-type: none"> • evaluating indicators of impairment for each investment • understanding management's process for the preparation and review of the impairment models • evaluating the discounted cash flow model developed to assess the recoverable value of each investment, including assessing the following key assumptions: <ul style="list-style-type: none"> ○ distributions; ○ discount rate; ○ RAB multiple; ○ EBITDA multiples for unregulated activities. <p>We corroborated the RAB and EBITDA multiples by reference to external data. The discount rate was assessed using our own independent data.</p> <ul style="list-style-type: none"> • performing sensitivity analysis on a number of assumptions, including the discount rate and the appropriate terminal value based on RAB multiples for regulated activities and EBITDA multiples for unregulated activities • testing on a sample basis the mathematical accuracy of the discounted cash flow model • considering whether an impairment loss recognised in prior periods requires reversing • assessing the appropriateness of disclosures in the Notes to the financial statements. <p>We concur with the assessment that the carrying value of the investment does not exceed its recoverable value for Victoria Power Networks and SA Power Networks and that there is no indication that the impairment loss recognised in prior periods in respect of SA Power Networks no longer exists or has decreased.</p>

Other Information

The Directors of the Responsible Entity (the "Directors") are responsible for the other information. The other information comprises the Directors' Report, which we obtained prior to the date of this auditor's report, and the other documents comprising the Group's annual report (but does not include the financial report and our auditor's report thereon), which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and 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

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with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other 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.
- 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.

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- 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's 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

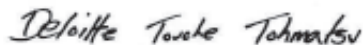
Opinion on the Remuneration Report

We have audited the Remuneration Report of Spark Infrastructure Trust and its subsidiaries included in pages 58 to 79 of the Directors' Report for the year ended 31 December 2019.

In our opinion, the Remuneration Report of Spark Infrastructure Trust and its subsidiaries, for the year ended 31 December 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors have voluntarily presented the Remuneration Report which has been prepared in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



DELOITTE TOUCHE TOHMATSU



Jason Thorne
Partner
Chartered Accountants
Sydney, 25 February 2020

ADDITIONAL INFORMATION

KEY RISKS

The identification and management of risk is fundamental to achieving Spark Infrastructure's objective to create long-term, sustainable value.

Key risk elements are set out more fully in the Directors' Report and the Sustainability Section of the Annual Report.

We manage key risks through our risk management framework by:

- integrating risk management into business activities and processes
- managing risks in a structured and systematic manner
- understanding the level of risk we are prepared to take consistent with our strategy and Risk Appetite Statement
- ensuring the effectiveness of controls
- ensuring appropriate levels of insurance
- ensuring appropriate risk management governance is in place

Set out below are the key risk areas that could have a material impact on Spark Infrastructure.

HEALTH & SAFETY

Spark Infrastructure and its investment businesses face risks relating to the health and safety of our workforce. The health, safety and wellbeing of our workforce is our top priority. Refer to Health, Safety and Wellbeing in the Sustainability Section of the Annual Report and Our Sustainability Data Report.

CLIMATE CHANGE

Spark Infrastructure is committed to managing its climate change risks and will look to adopt the Task Force on Climate related Financial Disclosures (TCFD) over time. With our investment businesses, we consider potential physical climate risks that may impact business operations. Refer also to Environment in the Sustainability Section of the Annual Report and Our Sustainability Data Report.

INDUSTRY AND REGULATION

The energy industry is currently experiencing unprecedented change and uncertainty. Detailed disclosure is set out in the Directors' Report and the Regulatory and Resilient Assets Section of the Annual Report.

TAXATION

Taxation is a key risk for Spark Infrastructure and its investment businesses. Detailed disclosure is set out in the Directors' Report and the notes to the Financial Statements.

INFORMATION TECHNOLOGY

The role of technology and associated risks including cyber security issues are regularly considered by Spark Infrastructure and its investment businesses and forms part of our approach to risk management. Details are set out in the Technology and Innovation Section of the Annual Report.

FINANCIAL MANAGEMENT AND MARKET RISKS

Spark Infrastructure exercises prudent financial risk management for itself and across its investment businesses. Financial Risks are managed in accordance with our Treasury Policy which is approved by the Board. Detailed disclosure is set out in the Financial Risk Management Section of the notes to the Financial Statements and in the Financial Management Section of the Annual Report.

BUSHFIRES

The risk of bushfires is managed by our investment businesses as an integral part of how they maintain safe and reliable networks. Details are set out in the Annual Report and specifically in the Environment Section and the Sustainability Data Report.

ADDITIONAL ASX DISCLOSURES

ASX requires certain disclosures to be made in the annual report, which are set out below.

STAPLING

As a part of the usual conditions of listing a stapled structure ASX reserves the right to remove the Spark Infrastructure Trust (the Stapled Entity) from the official list if:

- any of the securities cease to be “stapled” to the corresponding securities of the Stapled Entity; or
- any security is issued by the Stapled Entity which is not stapled to corresponding securities of the Stapled Entity.

DIVESTMENT OF SECURITIES

Certain provisions in the Constitution of Spark Infrastructure Trust and Note Trust Deed (the Stapled Entity Constitutions) permit the divestment of securities in limited circumstances. These are summarised below.

Designated Foreign Holders

In certain circumstances Spark Infrastructure may divest a foreign holder of their Stapled Securities. This may occur where Spark Infrastructure wishes to issue or transfer a further security which is to be stapled to the already existing Stapled Securities (“New Attached Security”), but the issue of the New Attached Security to certain foreign holders would be unreasonable in Spark Infrastructure’s opinion. In that case, rather than issue New Attached Securities to those foreign holders, Spark Infrastructure may instead divest those foreign holders of their existing Stapled Securities. Spark Infrastructure may cause New Attached Securities to be stapled provided certain conditions are satisfied including:

- the New Attached Security is (or will be) officially quoted;
- the ASX has indicated that it will approve the stapling of the New Attached Security to the Stapled Securities;
- the Stapled Entity (excluding the issuer of the New Attached Security) has agreed to the stapling of the New Attached Security to the Stapled Security and that the stapling of the New Attached Security is in the best interest of holders as a whole and is consistent with the then investment objectives of Spark Infrastructure;
- the constituent documents for the New Attached Security have provisions giving effect to the stapling;
- the issuer of the New Attached Security has agreed to enter into the Accession Deed;
- where the New Attached Security is partly-paid, or approved from holders is required to the transaction, approval of the holders has been obtained; and
- the number of New Attached Securities issued is identical to the number of Stapled Securities on issue.

The issue/transfer of a New Attached Security to a foreign holder may require compliance with legal and regulatory requirements in the foreign jurisdiction. Subject to applicable ASIC relief, the provisions in the Stapled Entity Constitutions relating to the stapling of securities provide that Spark Infrastructure will have the ability to determine that a Foreign Investor (a holder whose address in the register is in a place other than Australia) is a Designated Foreign Holder and divest that Designated Foreign Holder of their Stapled Securities where

Spark Infrastructure determines that it is unreasonable to issue or transfer New Attached Securities to such holders, having regard to the following criteria:

- the number of Foreign Investors in the foreign place;
- the number and the value of New Attached Securities that may be issued or transferred to the Foreign Investors in the foreign place; and
- the cost of complying with legal requirements and the requirements of any relevant regulatory authority applicable to the issue or transfer of the New Attached Securities in the foreign place.

Where Designated Foreign Holders are divested of their Stapled Securities they will receive the proceeds of sale of those Stapled Securities (net of transaction costs including without limitation any applicable brokerage, stamp duty and other taxes or charges) as soon as practicable after the sale.

Stapled Securities are issued on terms under which each investor who is or becomes a Designated Foreign Holder agrees to the above terms and irrevocably appoints each Stapled Entity as that holder’s agent and attorney to do all acts and things and execute all documents which Spark Infrastructure considers necessary, desirable or reasonably incidental to effect the above actions.

Excluded US Persons

The Stapled Securities have not been, and will not be, registered under the US Securities Act and none of the Stapled Entities have been, or will be, registered under the US Investment Company Act. Accordingly, the securities may not be offered, sold or resold in, the United States or to, or for the account or benefit of US Persons except in accordance with an available exemption from, or a transaction not subject to, the registration requirements of the US Securities Act, the US Investment Company Act and applicable United States state securities laws.¹

In order to at all times qualify for the exemptions, the provisions of the Stapled Entity Constitutions dealing with stapling of securities provide that where a holder is an Excluded US Person:

- the Stapled Entity may refuse to register a transfer of Stapled Securities to that Excluded US Person; or
- the Excluded US Person may be requested to sell their Stapled Securities and if they fail to do so within 30 Business Days, to be divested of their Stapled Securities and to receive the proceeds of sale (net of transaction costs including without limitation any applicable brokerage, stamp duty and other taxes or charges) as soon as practicable after the sale.

In addition, the provisions in the Stapled Entity Constitutions relating to the stapling of securities provide that a holder may be required to complete a statutory declaration in relation to whether they (or any person on whose account or benefit it holds Stapled Securities) are an Excluded US Person. Any holder who does not comply with such a request can be treated as an Excluded US Person.

Stapled Securities are issued on terms under which each holder who is or becomes an Excluded US Person agrees to the above terms and irrevocably appoints the Stapled Entity as that holder’s agent and attorney to do all acts and things and execute all documents which Spark Infrastructure considers necessary, desirable or reasonably incidental to effect the above actions.

1. Stapled Securities are not permitted to be held by or for the account or benefit of any US person (as defined in Rule 902 of Regulation S under the US Securities Act, as amended) who is not both a qualified institutional buyer (QIB) (as defined in Rule 144A of the US Securities Act) and also a qualified purchaser (QP) (as defined in Section 2(a)(51) of the US Investment Company Act, as amended and the rules and regulations of the Securities and Exchange Commission promulgated thereunder). The Stapled Entity may determine that an investor is an Excluded US Person, if it considers the investor is a US person that is not both a QIB and a QP, or holds or will hold Stapled Securities for the account or benefit of any US person who is not both a QIB and a QP.

SECURITYHOLDER INFORMATION

TOP 20 HOLDERS

Rank	Name	FULLY PAID STAPLED SECURITIES	
		Units	% of Units
1	HSBC CUSTODY NOMINEES	693,064,686	40.796
2	J P MORGAN NOMINEES AUSTRALIA	187,438,068	11.033
3	CITICORP NOMINEES PTY LIMITED	153,942,636	9.062
4	BNP PARIBAS NOMINEES PTY LTD	82,967,315	4.884
5	NATIONAL NOMINEES LIMITED	54,115,134	3.185
6	BNP PARIBAS NOMS PTY LTD	26,594,032	1.565
7	CUSTODIAL SERVICES LIMITED	17,197,325	1.012
8	CITICORP NOMINEES PTY LIMITED	11,932,800	0.702
9	PRUDENTIAL NOMINEES PTY LTD	7,050,000	0.415
10	ARGO INVESTMENTS LIMITED	6,868,363	0.404
11	NATIONAL EXCHANGE PTY LTD	6,754,152	0.398
12	AUSTRALIAN EXECUTOR TRUSTEES	5,318,808	0.313
13	JOHN E GILL TRADING PTY LTD	4,155,772	0.245
14	3RD WAVE INVESTORS LTD	3,500,000	0.206
15	NAVIGATOR AUSTRALIA LTD	3,318,667	0.195
16	BNP PARIBAS NOMINEES PTY LTD	3,196,012	0.188
17	HSBC CUSTODY NOMINEES	2,968,355	0.175
18	HSBC CUSTODY NOMINEES	2,899,659	0.171
19	NULIS NOMINEES (AUSTRALIA)	2,843,899	0.167
20	HSBC CUSTODY NOMINEES	2,643,492	0.156
Total Securities of Top 20 Holdings		1,278,769,175	75.273
Total of Securities		1,698,848,708	

SUBSTANTIAL HOLDERS

AS AT 28 JANUARY 2020	
Name of holder	% of units
Lazard	16.57
Legg Mason	5.92
Magellan Financial Group Limited	5.71

RANGE OF UNITS SNAPSHOT

AS AT 28 JANUARY 2020			
Holdings Ranges	Holders	Total Units	%
1-1,000	1,716	865,685	0.050
1,001-5,000	7,101	23,030,537	1.360
5,001-10,000	6,666	51,342,087	3.020
10,001-100,000	10,391	257,586,609	15.160
100,001-1,000,000	324	62,055,764	3.650
1,000,001-9,999,999,999	34	1,303,968,026	76.760
Totals	26,232	1,698,848,708	100.000

UNMARKETABLE PARCELS (UMP)

AS AT 28 JANUARY 2020			
Total Securities	UMP Securities	UMP Holders	UMP %
1,698,848,708	17,282	412	0.00101

GLOSSARY OF TERMS

Term	Definition
ACCC	Australian Competition and Consumer Commission
ACT	Australian Capital Territory
ADMS	Advanced Distribution Management System
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASX	Australian Securities Exchange
Beon	Beon Energy Solutions, a subsidiary of Victoria Power Network for unregulated operations
CAB	Contracted Asset Base, being the value of assets resulting from TransGrid providing connection and other contracted services and Bomen Solar Farm (under construction)
cps	Cents per security
DER	Distributed Energy Resources
DPS	Distributions per security
DSO	Distributed System Operator
EBITDA	Earnings before interest, tax, depreciation and amortisation
EMS	Environmental Management Systems
EPA	Environment Protection Authority
EPS	Earnings per security
ESB	Energy Security Board
GW	Gigawatts
HSE	Health, Safety and Environment
ISP	Integrated System Plan
kW	Kilowatts
LiDAR	Light Detection and Ranging Measurement
Look-through OCF	Look-through operating cash flow, being an estimate of Spark Infrastructure's proportion of the operating cash flow of the investment businesses available for distribution to Securityholders
LTIFR	Lost Time Injury Frequency Rate
MTIFR	Medical Time Injury Frequency Rate
MW	Megawatts
NEM	National Electricity Market
NSG	Network Shareholders Group
NSW	New South Wales
RAB	Regulated Asset Base, being the value of the assets used to provide prescribed distribution/transmission services
RCAB	Regulated and Contracted Asset Base added together
REFCL	Rapid Earth Fault Current Limiter
RERT	Reliability and Emergency Reserve Trader
REZ	Renewable Energy Zone
RIT-D	Regulatory Investment Test – Distribution
RIT-T	Regulatory Investment Test – Transmission
RORI	Rate of Return Instrument
SA	South Australia
Solar PV	Photovoltaic cells used in solar generation
Spark Trust	Spark Infrastructure Trust
Standalone OCF	Standalone operating cash flow, being Spark Infrastructure's cash flows from operating activities, including repayment of shareholder loans from the investment businesses
STPIS	Service Target Performance Incentive Scheme
TCFD	Task Force on Climate-related Financial Disclosures
TRIFR	Total Recordable Injury Frequency Rate
TWh	Terawatt hours
VPP	Virtual Power Plant
WHS	Work Health and Safety

CONTACT INFORMATION

REGISTERED OFFICE

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ENQUIRIES AND INFORMATION

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F: + 61 2 9279 0664

E: enquiries@boardroomlimited.com.au

W: www.boardroomlimited.com.au

Investor Relations

Neil Donaldson

Company Secretary

Alexandra Finley

Auditor

Deloitte Touche Tohmatsu

Spark Infrastructure RE Limited (ABN 36 114 940 984) as the responsible entity for Spark Infrastructure Trust (ARSN 116 870 725).

This report is not an offer or invitation for subscription or purchase of or a recommendation to purchase securities or financial product.

This report contains general information only and does not take into account the investment objectives, financial situation and particular needs of individual investors. It is not financial product advice. Investors should obtain their own independent advice from a qualified financial advisor having regard to their objectives, financial situation and needs.

FIVE-YEAR SUMMARY OF PERFORMANCE

		2019	2018	2017	2016	2015
Spark Infrastructure Key Metrics						
Distribution per Security	cents	15.0	16.0	15.25	14.5	12.0
Standalone Operating Cash Flow ¹	\$ million	256.4	290.2	267.5	305.6	207.4
Look-through Operating Cash Flow	\$ million	379.3	327.8	420.7	371.5	426.8
Distributions Received from Associates	\$ million	312.5	305.1	284.4	308.3	196.5
Spark Infrastructure Income Statement						
Total Income	\$ million	272.5	288.0	285.0	243.9	270.6
Profit before Loan Note Interest	\$ million	258.5	0.5	265.8	225.8	252.8
Profit after Tax Attributable to Securityholders	\$ million	79.1	(96.7)	88.6	81.1	88.0
Spark Infrastructure Balance Sheet						
Total Assets	\$ million	3,083.0	3,212.3	3,515.7	3,524.6	3,724.2
Total Liabilities	\$ million	1,444.6	1,406.5	1,438.9	1,387.3	1,567.9
Total Equity	\$ million	1,638.4	1,805.8	2,076.8	2,137.3	2,156.4
Victoria Power Networks Key Metrics						
Total Revenue	\$ million	1,395.0	1,287.3	1,212.7	1,297.0	1,308.1
EBITDA	\$ million	854.1	831.6	780.4	900.9	939.9
Net Capital Expenditure	\$ million	507.6	495.7	463.9	406.6	466.3
RAB ²	\$ million	6,339	6,109	5,897	5,734	5,547
Net Debt to RAB	%	70.9	71.5	71.0	72.4	73.8
No. of Customers ('000's)	'000		1,140	1,125	1,108	1,094
Sa Power Networks Key Metrics						
Total Revenue	\$ million	1,228.3	1,106.5	1,047.3	1,066.4	1,140.7
EBITDA	\$ million	690.7	665.0	644.2	639.8	756.8
Net Capital Expenditure	\$ million	405.6	424.9	391.6	285.7	315.5
RAB ²	\$ million	4,340	4,207	4,052	3,953	3,929
Net Debt to RAB	%	70.9	75.0	73.1	71.4	71.9
No. of Customers ('000's)	'000		877	865	856	852
Transgrid Key Metrics³						
Total Revenue	\$ million	835.1	892.6	845.1	888.9	
EBITDA	\$ million	636.1	665.1	650.7	685.4	
Capital Expenditure	\$ million	493.3	271.3	331.5	206.4	
RCAB ²	\$ million	7,126	6,823	6,697.0	6,533.0	
Net Debt to RCAB	%	80.2%	80.7%	81.5%	85.0%	

1. Includes repayment of shareholder loans.

2. RAB and RCAB values are estimates.

3. 2016 results for TransGrid are based on special purpose financial statements for the period 12 November 2015 to 30 June 2016 and unaudited financial information for the period 1 July 2016 to 31 December 2016.

