



Friday, 1 April 2011

The Manager
Company Announcements
Australian Stock Exchange Limited
20 Bridge Street
SYDNEY NSW 2000

Dear Sir / Madam

SPARK INFRASTRUCTURE TO INTERNALISE MANAGEMENT FUNCTION

I enclose a statement announcing Spark Infrastructure's proposal to internalise its management function, subject to approval by Securityholders.

Spark Infrastructure will hold an analyst briefing to explain this initiative at 10.30am today. This can be viewed via webcast from its website at www.sparkinfrastructure.com

Yours faithfully,

A handwritten signature in blue ink, appearing to read "Alex Finley", with a large, stylized flourish extending from the end.

Alexandra Finley
Company Secretary

MEDIA RELEASE

Friday, 1 April 2011

SPARK INFRASTRUCTURE TO INTERNALISE MANAGEMENT FUNCTION

Spark Infrastructure has reached agreement with Cheung Kong Infrastructure ("CKI") and RREEF Infrastructure ("RREEF", a Deutsche Bank AG entity) to internalise its management function for a one-off upfront payment of \$49 million¹ ("Internalisation").

The Internalisation of the 25 year management agreement, which was due to expire in late 2030, was negotiated by the Independent Directors of Spark Infrastructure with CKI and RREEF and is subject to approval by Spark Infrastructure's Securityholders in May 2011.

"Since the time of the Strategic Review undertaken in 2010, the Independent Directors have kept the external management arrangements under review. Earlier this year the Independent Directors entered into detailed discussions with CKI and RREEF regarding Internalisation and we have now reached an acceptable commercial position. The Independent Directors strongly support Internalisation and believe it is in the best interests of Securityholders", said Mr Stephen Johns, Chairman of Spark Infrastructure.

The Independent Directors have commissioned an Independent Expert, Lonergan Edwards and Associates, to assess the Internalisation proposal. The Independent Expert's report has been submitted to ASIC and will be released to the market once final. The Independent Directors recommend that Securityholders vote for the Internalisation.

If approved by Securityholders, Internalisation will eliminate the payment of future base fees and potential performance fees to the Manager. Since the listing of Spark Infrastructure on the ASX in December 2005 a total of \$65.7 million in base fees and performance fees have been paid to the Manager². These fees would be replaced by the costs of internalised-management which are estimated to be around \$5 million per year.

The base fees currently payable to the Manager are calculated as a percentage of the Enterprise Value which is based on Spark Infrastructure's market capitalisation and the amount of external debt outstanding. Spark's Enterprise Value is anticipated to increase in the future thereby increasing the base fees over time, because:

- The Asset Companies in which Spark Infrastructure holds a 49% interest are entering an exciting period of growth that is expected to see their Regulated Asset Bases (RAB) grow from \$6.8 billion to around \$10 billion at the end of 2015 as a result of large capital expenditure programs.
- In addition Spark's net equity investment in the Asset Companies is expected to grow as they intend to reduce their gearing levels from the current level of around 80% net debt to RAB to around 75% in 2015.
- Both of these factors are expected to increase the size of Spark Infrastructure's balance sheet and may lead to an increase in Spark's market capitalisation.

While Spark Infrastructure has paid only one performance fee of \$16.5 million in 2008, the existing performance fee formula gives rise to potential material cashflow volatility which Internalisation will remove.

"Internalisation of the management function will create a self managed group with enhanced alignment of interests, continuity of management and greater autonomy over decision-making. The proposed change moves Spark Infrastructure to a more contemporary structure in line with recent market practice," added Mr Johns.

Funding of the proposal and confirmation of previous guidance

The Internalisation payment to CKI and RREEF is \$49 million. In addition, there is also expected to be a payment of approximately \$2.2 million for net working capital balances (i.e. predominantly cash or cash-settled balances) in the entities to be acquired at completion.

Internalisation will effectively be funded from Spark Infrastructure's distribution reinvestment plan (DRP) which is intended to be reactivated for the September 2011 distribution. The Directors do not intend to have the DRP underwritten. Further details will be provided closer to the date of the September distribution.

In the interim, the payment to CKI and RREEF will be funded from Spark's existing cash reserves made available by the capital raising completed last year. As part of its Repositioning in late 2010, Spark Infrastructure completed a \$295 million entitlement issue with approximately \$84 million of these proceeds retained to fund near term equity investment in the capital expenditure requirements of Spark Infrastructure's Asset Companies. The Internalisation payment will initially be funded from these monies which are to be replenished by the reactivation of the DRP.

Following the Internalisation, subject to business conditions and except for the operation of the DRP, the Independent Directors do not expect to raise further capital to fund the organic growth in the Asset Companies over the current five year regulatory period.

The proposed Internalisation is not expected to be dilutive to distributions to Securityholders and does not impact on existing distribution guidance. Consequently, the Independent Directors reaffirm their distribution guidance for 2011 of 9.25 cents per security announced in February 2011 and remain confident of growing distributions³ over the current five year regulatory period, subject to business conditions.

Securityholder approval

Completion of the Internalisation is conditional upon Securityholder's approval⁴. The Internalisation proposal will be put to Securityholders of Spark Infrastructure at an Extraordinary General Meeting to be held on the same day as the Annual General Meeting on 20 May 2011. An Explanatory Memorandum containing detailed information on the Internalisation, including a report from the Independent Expert, Lonergan Edwards and Associates, will be sent to Securityholders in April 2011.

Executive management team

If Internalisation is approved, the existing executive team will remain in place and their employment arrangements will be transferred to Spark Infrastructure. Specifically, Laura Reed will remain as the Chief Executive Officer and Rick Francis as the Chief Financial Officer. The Independent Directors also propose that a Long Term Incentive Plan (LTIP) be established after Internalisation to retain and further align the interests of the Executive team with Spark Infrastructure. The structure and related costs of any LTIP are yet to be determined.

Board of Directors

The Board of Spark Infrastructure currently comprises nine Directors, five of whom are Independent and four appointed by the Manager. Following the Internalisation, the four directors appointed by the Manager will retire from the Board. The overall composition of the Board is currently under review.

Independent Expert opinion

A copy of the Independent Expert's Report will be released to the ASX and included in the Notice of Meeting and Explanatory Memorandum that will be sent to Spark Infrastructure Securityholders prior to the Extraordinary General Meeting.

Independent Directors' recommendation

The Independent Directors of Spark Infrastructure have considered both the benefits and disadvantages associated with the Internalisation and believe that the benefits significantly outweigh the disadvantages. The benefits include the removal of base fee leakage and the potential payment of performance fees, the creation of a self managed group with enhanced alignment of interests, continuity of management and greater autonomy over decision-making. The Independent Directors are being advised by Investec Bank (Australia) Limited.

Accordingly, the Independent Directors believe that the Internalisation is in the best interests of Securityholders and recommend that Securityholders vote in favour of it.

Further Information:

Mario Falchoni
General Manager
Investor Relations & Corporate Affairs

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1. The Internalisation payment to CKI and RREEF is \$49 million. In addition, there is also expected to be a payment of approximately \$2.2 million for net working capital balances (i.e. predominantly cash or cash-settled balances) in the entities to be acquired at completion.
 2. An estimated base fee of \$3.5 million is expected to be paid for the five month period to the proposed Completion date of 31 May 2011
 3. Based on the final decisions of the Australian Energy Regulator and Asset Company business plans for the current five year regulatory periods
 4. Internalisation is subject to Securityholders approving it for all purposes including the Corporations Act and the Listing Rules by requisite majorities at a duly convened meeting of Securityholders.
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