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ANNUAL REPORT 2011

sparkinfrastructure

Spark Infrastructure

Annual report for the financial year ended 31 December 2011

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

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

Contents

Corporate Governance Statement

Background

Spark Infrastructure comprises a single listed trust. The trust is Spark Infrastructure Trust ("Trust"). The responsible entity of the Trust is Spark Infrastructure RE Limited ("Responsible Entity"). A unit in the Trust and a loan note issued by the Responsible Entity are each "stapled" together to form the "Stapled Securities" of Spark Infrastructure which trade on the ASX effectively as one security.

Corporate Governance

The Board is responsible for Spark Infrastructure's corporate governance including its policies and charters.

Spark Infrastructure's corporate governance policies are available on the Spark Infrastructure website at www.sparkinfrastructure.com/about/governance and are regularly reviewed by the Board. The key elements of Spark Infrastructure's governance framework are set out below. Spark Infrastructure has set out its governance framework with reference to the revised ASX Corporate Governance Principles and Recommendations ("Guidelines").

The Role of the Board And Management

Spark Infrastructure has adopted a Board Charter which sets out the functions and responsibilities of the Board. The role of the Board is to seek to optimise Spark Infrastructure's performance and increase Securityholder wealth. In doing so, its responsibilities include monitoring financial performance and prudent capital management, overseeing the activities of Spark Infrastructure and its policies and practices, overseeing the operation of Spark Infrastructure's system of internal controls and risk management, monitoring the performance of the Managing Director, and reporting to Securityholders.

Composition of the Board

The Board of Spark Infrastructure is comprised of a majority of independent directors. The Board consists of five independent or Non-Executive Directors plus the Managing Director.

The Chairman of the Board, Brian Scullin, is an independent Director. The role of the Chairman is not combined with the Managing Director and may not be so under the Board Charter.

Brian Scullin, Cheryl Bart, Anne McDonald, Keith Turner and Andrew Fay are independent or Non-Executive Directors. Laura Reed is the Managing Director.

The Directors bring a broad range of expertise, skills and experience from diverse backgrounds including those appropriate to the activities of Spark Infrastructure. The composition of the Board provides an appropriate balance of skills and experience with the additional rigour and assurance provided by a majority of independent directors. Each Director brings skills relevant to the successful conduct of the Spark Infrastructure business. These include, on a combined basis, experience in infrastructure, financial analysis and reporting skills, knowledge of the asset companies, experience in corporate activity such as mergers, acquisitions and structuring of transactions, experience in corporate governance and disclosure matters, and experience in financial services and licence obligations. The qualifications, experience and special responsibilities of Directors together with their appointment dates are set out in the Directors' Report at page 8.

Independence of Directors

Spark Infrastructure assesses the independence of its Directors having regard to the standard of independence set out at page 16 in the Guidelines. Spark Infrastructure believes that all of its independent or Non-Executive Directors act independently in the best interests of Spark Infrastructure. Each Director regularly notifies and discloses to the Board their interests including any matter relating to their independence. Each Director's security holding is set out in the Directors' Report at page 19. The Board operates independently of management and the Directors meet independently of management from time to time, as deemed appropriate. The independent or Non-Executive Directors are identified above and full details including their term as a Director are set out in the Directors' Report at page 8.

Appointment And Re-Election Of Board Members

As a consequence of the internalisation of its management function in 2011, the Board established a Remuneration and Nomination Committee. The Committee is comprised of independent Director members, and is chaired by the Chairman of the Board. Details of each Committee member's attendance at the Committee's meetings for the reporting period is set out in the Directors' Report at page 18. The role and responsibilities of the Committee are set out in its charter which is available on the Spark Infrastructure website: www.sparkinfrastructure.com/about/governance

In addition, as part of the internalisation transaction, a Governance Deed was entered into which, in conjunction with the company constitution, provides for Securityholders to elect the Directors to the Board. Where the requirement to appoint a Director arises or a vacancy exists, the Remuneration and Nomination Committee identifies candidates with the appropriate skill, expertise and experience to fulfil the role and makes recommendations to the Board. The Committee may use external consultants to assist it. The nominated candidate is then appointed by the Board but must stand for election by Securityholders at the next Annual General Meeting (unless he or she is the Managing Director). Further details of the nomination and appointment process is set out in Spark Infrastructure's Board Charter and the Remuneration and Nomination Committee Charter which are available on the Spark Infrastructure website: www.sparkinfrastructure.com/about/governance

The process for re-election of a Director is in accordance with company's constitution and Governance Deed which includes a process of rotation requiring that at each Annual General Meeting any Director holding office for three years or more or if no Director is due to stand for re-election the longest serving director, must retire and stand for re-election. Directors appointed during the year must retire and stand for election. These requirements for rotation and election of casual appointees do not apply to one Managing Director. The Board assesses the performance of each Director due to stand for re-election before each Annual General Meeting and decides whether to recommend to Securityholders that they vote in favour of the re-election of each director. Spark Infrastructure has letters of appointment with its Directors that set out the key terms and conditions of appointment. The letter of appointment states that, with the approval of the Chairman, Directors may seek independent professional advice at the expense of Spark Infrastructure, on any matter connected with the discharge of a Director's responsibilities as a member of the Board.

Board Meetings

The number of board meetings and directors' attendance at each meeting is set out in the Directors' Report at page 18. Directors are expected to devote appropriate time in preparing for each meeting and to attend and participate at scheduled Board and Committee meetings. Directors are also invited to attend site visits of the three Asset Companies. The Board may also hold meetings of Directors at the location of its investments to provide Directors with access to management of the Asset Companies.

Corporate Governance Statement (cont.)

Board Performance Review and Remuneration

Under the Board Charter, the Board is required to review its own performance, the performance of individual Directors and the performance of Board committees, at least annually. A description of Spark Infrastructure's performance evaluation process is available on the Spark Infrastructure website: www.sparkinfrastructure.com/about/governance

The Board conducts an annual evaluation of the performance and effectiveness of the Board as a whole and its committees. Performance of each Committee is discussed at first instance by the Committee with the results reported to and reviewed by the Board as part of its overall Board performance assessment. Results of the Board's evaluation including quantitative and qualitative analysis are compiled independently with the aggregate results reported to the Chairman for review and discussion with the Board.

The Chairman separately discusses individual performance with each Director from time to time. A Board and Committee evaluation process has taken place for the relevant year in accordance with the process outlined in this statement.

The maximum aggregate fees payable to Directors (other than the Managing Director) is $2,000,000 per annum across the Spark Infrastructure Group. Any increase to this limit must be approved by Securityholders at an annual general meeting.

Spark does not have an equity compensation scheme in place for its Directors and there are no retirement benefit schemes in existence (other than statutory superannuation). The directors' fees are reviewed from time to time by the Board and the Directors seek external advice to ensure the fees remain appropriately benchmarked. Fees and payments to Directors reflect the demands and responsibilities of directors.

Further details on each Director's remuneration and the Board's remuneration policy is set out in the Remuneration Report in the Directors' Report at page 23.

Induction and Continuing Education

The Board with management provides an orientation program for new Directors including discussions with management and provision of relevant material. Management from time to time provides presentations to the Board to afford Directors the opportunity to understand specific issues and their impact on the business. Directors also independently maintain their own knowledge and specific skills. Directors have unfettered access to management. The Company Secretary of Spark Infrastructure provides support and advice to the Board and is responsible for the corporate governance framework on a day to day basis.

Promote Ethical and Responsible Decision Making

Spark Infrastructure is committed to high standards of ethics and conduct on the part of its Directors and employees. Spark Infrastructure has established a Code of Conduct that applies to both Directors and employees. The Code of Conduct can be found on the Spark Infrastructure website: www.sparkinfrastructure.com/about/governance

Conflicts of Interest and Trading Policy

Spark Infrastructure's Code of Conduct requires Directors and employees to avoid conflicts of interest and where a conflict arises to ensure it is appropriately disclosed. Directors are expected to avoid any matter that conflicts with an interest of Spark Infrastructure. Directors are required to disclose their material personal interests relating to Spark Infrastructure including any matter that may conflict with their duties as a Director of the Board. This is an ongoing obligation. Directors comply with the provisions of the Corporations Act 2001 (Cth) regarding matters of material personal interest. In addition, Directors and employees are subject to the Corporations Act 2001 (Cth) restrictions on dealing in securities if they are in possession of inside information. Spark has also adopted a Trading Policy which applies to Directors and employees of Spark Infrastructure. Directors and employees are prohibited from trading in Spark Infrastructure securities during prescribed blackout periods prior to release of the Spark Infrastructure half year and full year results announcements. In addition, Directors and certain employees are required to notify their intention to trade in securities prior to trading at other times outside the blackout periods. Spark Infrastructure's Trading Policy is available on Spark Infrastructure's website: www.sparkinfrastructure.com/about/governance

Related Party Transactions

Spark Infrastructure may have related party transactions in any year. These transactions are consistent with Spark Infrastructure's constituent documents. Full details of Related Party Disclosures are set out in Note 24 to the Financial Statements.

Board and Committee Operations

To assist it to carry out its responsibilities the Board has established an Audit Risk and Compliance Committee and a Remuneration and Nomination Committee.

Spark Infrastructure previously had a separate Compliance Committee comprised of independent and external members which was established to satisfy the requirements of the Corporations Act 2001 (Cth) for the Spark Infrastructure Trust. Following completion of the internalisation of its management function in 2011 and the corresponding change to the board composition, the Board of Spark Infrastructure determined to combine the functions of the Compliance Committee with the Audit & Risk Management Committee, creating a new Audit Risk and Compliance Committee. The separate Compliance Committee was disbanded in July 2011.

The Remuneration and Nomination Committee was established and held its first meeting following completion of the internalisation.

The Board has adopted charters setting out the requirements regarding membership of each committee, responsibilities and other administrative matters.

Audit Risk and Compliance Committee

Spark Infrastructure's Audit Risk and Compliance Committee comprises two independent Director members and one Non-Executive Director. There are no executive members of the Committee. The Committee's independent chair is not the Chairman of the Board, and the Committee meets at least four times per year. The number of times the Committee met during the reporting period and each Committee member's attendance at those meetings is set out in the Directors' Report at page 18. The Audit Risk and Compliance Charter is available on the Spark Infrastructure website: www.sparkinfrastructure.com/about/governance

The members of the Audit Risk and Compliance Committee are Anne McDonald (Chair), Cheryl Bart, and Andrew Fay. The skills and experience of Audit Risk and Compliance Committee members is set out in the Directors' Report at page 8, including their financial background and proficiency. The Audit Risk and Compliance Committee's role and responsibilities are set out in its Charter. The Audit Risk and Compliance Committee is responsible for the oversight of management in the preparation of the financial statements and financial disclosures. In doing so, the Audit Risk and Compliance Committee relies on information provided by management and the external auditor. The Audit Risk and Compliance Committee is responsible for recommending the selection, evaluation and remuneration of the external auditor to the full Board together with assessment of the external auditor's independence.

The Committee meets with the external auditor without management present at least twice a year to allow an opportunity to discuss any matters that the Committee or the external auditor believes should be discussed privately. The Audit Risk and Compliance Committee ensures that the audit partner rotates at least every five years in accordance with the External Auditor procedures approved by the Board. The External Auditor Procedure is available on the Spark Infrastructure website: www.sparkinfrastructure.com/about/governance

The Audit Risk and Compliance Committee is responsible for assessing the performance of the internal audit function and its independence from management. The Committee meets at least annually with the internal auditor independently of management to discuss any matters that the Committee or internal auditor feel require discussion. The Board is responsible for overseeing the processes in place to manage risk. It has delegated the detailed performance of this function to the Audit Risk and Compliance Committee. The Committee and the Board have both approved Spark Infrastructure's Risk Management Policy. A summary of Spark Infrastructure's Risk Management Policy is available on Spark Infrastructure's website: www.sparkinfrastructure.com/about/governance

Continuous Disclosure

Spark Infrastructure seeks to ensure that Securityholders and the financial markets generally are informed of all major developments that impact its business. The Board has established a Disclosure Policy which is available on the Spark Infrastructure website: www.sparkinfrastructure.com/about/governance. Spark Infrastructure's Disclosure Policy together with supporting procedures are designed to ensure compliance the ASX listing rule 3.1 and all other laws about disclosure, compliance with Corporations Act requirements for financial reporting and Securityholder meetings, and prompt and transparent communications in all respects, especially with regard to financial results.

Communicating with Securityholders

Spark Infrastructure aims to communicate openly, honestly and on a timely basis with its Securityholders. Spark Infrastructure has developed a Communication Policy. Spark Infrastructure's website also contains information designed to assist Securityholders to understand Spark Infrastructure and keep abreast of latest developments. All ASX announcements are posted on the Spark Infrastructure website, as are web-casts of briefings to analysts and annual general meetings. Spark Infrastructure's Communication Policy is available on Spark Infrastructure's website: www.sparkinfrastructure.com/about/governance

Executive Performance and Remuneration

Senior executives reporting to the Managing Director have their roles and responsibilities defined in specific position descriptions.

The Board undertakes an annual assessment of senior executive performance. The assessment is undertaken with the assistance of the Managing Director, and the Remuneration and Nomination Committee. Senior Executives are assessed against group and individual performance targets. The overall performance of Spark Infrastructure, the senior executive's function and the individual performance of the executive are considered in assessing performance.

The Managing Director is not present when the Board, and Remuneration and Nomination Committee consider her performance and remuneration. Details of the assessment criteria for the Managing Director are contained in the Remuneration Report in the Directors' Report on page 25.

Details of senior executive remuneration (including equity-based share plans) are disclosed in the Remuneration Report in the Directors' Report on page 26.

Diversity

Spark Infrastructure believes that a diverse Board and management team allows it to be more innovative, flexible and to better respond to the needs of our Securityholders and all stakeholders. Gender diversity continues to be a key priority for Spark Infrastructure and reflects the revised Guidelines on diversity issued in June 2010. Spark Infrastructure is committed to having strong female representation within management and on the Board. Currently half the Directors on the Board are women, comprised of two women independent Directors and the Managing Director. The senior management team also includes a female General Counsel and Company Secretary. Spark Infrastructure is committed to ensuring the composition of its Board is appropriate. The Board Charter requires that the Board is comprised of Directors with a broad range of skills, experience and diversity including gender diversity. The Board has a Diversity Policy which can be found on the Spark Infrastructure website: www.sparkinfrastructure.com/about/governance. Spark Infrastructure has established a set of measurable objectives a summary of which is set out below together with performance against those objectives.

- The Board will discuss diversity goals and the diversity of its employees at least annually
- The Board will support the initiatives of the asset companies in which it invests (Asset Companies) in creating a diverse work force
- Spark Infrastructure will support the gender diversity initiatives of the Asset Companies
- Details of the diversity initiatives and performance of the Asset Companies are made available through the Asset Company websites
- The Board will seek to maintain an appropriate level of representation of women on the Board and at senior executive level and will encourage women to apply for role vacancies
- Spark Infrastructure will seek to have women Directors on the Board as vacancies and circumstances allow with the aim of achieving at least a 25% representation of independent Directors who are women
- Spark Infrastructure will encourage the appointment of women at senior executive level as circumstances allow
- The Board will review its Diversity Policy and these objectives at least annually

Meeting the Guidelines (ASX Corporate Governance Committee Principles)

Spark Infrastructure has complied with the Guidelines to the extent outlined in this statement. Where specific exceptions are noted, an explanation for non compliance has been provided.

Pursuant to Recommendation 7.2 of the Guidelines, management has reported to the Board on the effectiveness of Spark Infrastructure's management of its material business risks.

Pursuant to Recommendation 7.3 of the Guidelines, the Board has received the declarations under section 295A of the Corporations Act 2001 (Cth) and assurances from the Managing Director and Chief Financial Officer that those declarations are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Directors' Report

The Directors of Spark Infrastructure RE Limited ("Spark RE" or "Company") as responsible entity of Spark Infrastructure Trust ("Spark Trust") provide this financial report for the year ended 31 December 2011 ("Current Period") of Spark Trust and its Consolidated Entities ("Spark Infrastructure" or "Group").

In order to comply with the requirements of the Corporations Act 2001, the Directors report as follows:

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

Mr Brian Scullin [a] (Chairman)
Ms Laura Reed [b] (Managing Director)
Ms Cheryl Bart, *AO*
Mr Andrew Fay [c, d]
Ms Anne McDonald
Dr Keith Turner

Retired/resigned during 2011:

Mr Stephen Johns (retired 30 September 2011)
Mr Don Morley (retired 31 May 2011)
Mr Dominic Chan [d] (resigned 31 May 2011)
Mr John Dorrian [d] (resigned 31 May 2011)
Mr Andrew Hunter [d] (resigned 31 May 2011)

a Mr Brian Scullin was appointed a Director and Chairman Elect on 31 May 2011 and became Chairman on 30 September 2011.

b Ms Laura Reed was appointed as Managing Director on 31 May 2011.

c Mr Andrew Fay was re-elected as a Non-Executive Director by Securityholders at the Extraordinary General Meeting (EGM), with effect from 31 May 2011.

d The Internalisation of Spark Infrastructure's management arrangements was approved by Securityholders at the EGM held on 20 May 2011. Each of the Directors previously nominated by the Manager (Messrs Chan, Dorrian, Fay and Hunter) resigned from the Board with effect from completion of the Internalisation on 31 May 2011.

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

Mr Brian Scullin BEc

Director (appointed 31 May 2011) and Chairman (from 30 September 2011)

Mr Scullin is the Independent Non-Executive Chairman of BT Investment Management. He was appointed to the Board of BT Investment Management and as Chairman in September 2007. Mr Scullin has previously served as a Non-Executive Director of Dexus Property Group and State Super Financial Services. Mr Scullin served as a Non-Executive Director and RREEF nominee of the Spark Infrastructure Group from 1 November 2005 to 24 August 2007. During this time he was the Chairman of the Compliance Committee and a member of the Audit and Risk Management Committee.

Mr Scullin has more than 20 years' experience in the funds management industry in both Australia and Asia. Following a career in the Federal Government and politics, Mr Scullin was appointed the Executive Director of the Association of Superannuation Funds of Australia (ASFA) in 1987.

In 1993, Mr Scullin joined Bankers Trust, holding a number of senior positions, including President of Japan Bankers Trust. He was appointed Chief Executive Officer – Asia/Pacific for Deutsche Asset Management in 1999. He retired from that full time position in 2002, although remained a Non-Executive Director of Deutsche Asset Management until June 2007.

Mr Scullin has held many industry positions including Vice Chairman of the Financial Services Council (then known as IFSA), a part-time member of the Federal Government's Financial Reporting Council and a panel member for the Financial Industry Complaints Service. He is also a member of the BT Investment Management's Audit and Risk Management Committee and the Chairman of the Remuneration and Nominations Committee.

Listed Entity	Period directorship held
• Dexus Property Group	2005 to 2011
• BT Investment Management Limited	2007 to present

Ms Laura Reed BBus, MBA, FCPA

Managing Director (appointed 31 May 2011)

Ms Reed has over 20 years' experience working in various financial and commercial roles in the gas industry. Prior to joining Spark Infrastructure, she spent nine years at ASX listed gas distribution business Envestra Limited in a number of senior financial roles including CFO. She has an intimate knowledge of the utilities sector and extensive experience in all matters related to strategic planning, financial forecasting, treasury management and taxation. Ms Reed was appointed Chief Executive Officer of Spark Infrastructure in September 2008 after serving as Chief Financial Officer from February 2007.

Ms Reed has been a Non-Executive Director on the boards of ETSA Utilities ("ETSA") and CHEDHA Holdings ("CHEDHA"), CitiPower and Powercor, since August 2008. She is also on the Audit Committees, Risk and Compliance Committees and Remuneration Committees of the businesses.

Ms Reed did not hold any other listed entity directorships during the last three years.

Ms Cheryl Bart *AO*, BCom, LLB, FAICD

Independent Director (since November 2005)

Ms Bart is a lawyer and has been a Non-Executive Director on the board of ETSA since 1995. She has significant utilities industry experience and is Chairman of the Audit Committee of ETSA and a member of its Risk and Compliance Committee.

Ms Bart is a Director on the Board of the Australian Broadcasting Corporation, appointed on 3 June 2010. Ms Bart is also Chairman of ANZ Trustees Limited, the Environment Protection Authority (EPA), South Australian Film Corporation, the Adelaide Film Festival and the Alcohol Education and Rehabilitation Foundation.

Her other current directorship positions include Audio Pixels Holdings Limited (formerly Global Properties Limited). Her previous directorships include the Economic Development Board (SA), Sydney Ports Corporation, the Australian Sports Foundation, Soccer Australia, the Information Economy Advisory Board, Defence Industries Advisory Board (DIAB) and the William Buckland Foundation.

Ms Bart is a member of the Audit, Risk and Compliance Committee ("ARC").

Ms Bart was awarded the Order of Australia in the Australia Day Honours in January 2009.

Ms Bart has held the following directorships of other Australian listed entities within the last three years.

Listed Entity	Period directorship held
• Audio Pixels Holdings Limited (formerly Global Properties Limited)	2004 to present
• ANZ Trustees Limited	2006 to present

Mr Andrew Fay BAgEc (Hons), Dip Finsia

Non-Executive Director (since March 2010)

Mr Fay is a Director of BT Investment Management Limited and is Chairman of Deutsche Managed Investments Limited. He consults to the Dexus Property Group Ltd in the area of capital markets and advises Microbiogen Pty Ltd, a private company which operates in the renewable energy industry, on corporate development.

Until September 2010 he was Chairman of Deutsche Asset Management (Australia) Ltd (DeAM) and associated companies. Prior to that until January 2008 he was Head of DeAM following a 20 year career in the financial services sector. He joined DeAM in 1994 as part of the Australian Equities team and in the ensuing years held a number of positions including head of Australian Equities, Chief Investment Officer for Australia, Chief Investment Officer for Asia Pacific and in April 2005 was promoted to the position of Head of the Australian business.

From November 2006 to November 2007 he was an Alternate Director for the Spark Infrastructure Group and was also an Alternate Director for the Dexus Property Group from 2006 until 2009. For a period of four years until 2002 he was a member of the Investment and Financial Services Association (IFSA) Investment Committee. IFSA is an industry body which represents companies operating in the Australian Funds Management industry.

Prior to joining Deutsche, Mr Fay spent six years at AMP Global Investors working in the areas of Fixed Income, Economics and Australian Equities.

Mr Fay was appointed as a Director of CHEDHA, CitiPower and Powercor on 1 June 2011, and a Director of ETSA on 22 June 2011. He is also a member of the Remuneration Committees of the businesses.

Mr Fay is a member of the Audit, Risk and Compliance Committee ("ARC").

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

Listed Entity	Period directorship held
• Dexus Property Group (Alternate Director)	2006 to 2009
• BT Investment Management Limited	2011 to present

Directors' Report (cont.)

Ms Anne McDonald BEc, FCA

Independent Director (since January 2009)

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

Ms McDonald is a Non-Executive Director of listed entities, including the GPT Group and Speciality Fashion Group Limited. She is also a Non-Executive Director of Westpac Bank's Life and General Insurance businesses. Ms McDonald was a Director of the St Vincent's Healthcare Group retiring on 1 October 2010.

Ms McDonald is a Director of CHEDHA, CitiPower and Powercor. In addition, she is Chairman of the Audit Committee of CHEDHA and a member of its Risk and Compliance Committee.

Ms McDonald is Chair of the ARC.

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

Listed Entity	Period directorship held
• GPT Group	2006 to present
• Specialty Fashion Group Limited	2007 to present

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

Independent Director (since March 2009)

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

Dr Turner is Chair of Fisher and Paykel Appliances, Deputy Chair of Auckland International Airport, and a Director of Chorus, Solar City and several other early stage start up companies.

Dr Turner was appointed as a Director of ETSA, CHEDHA, CitiPower and Powercor on 17 November 2009.

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

Listed Entity	Period directorship held
• Auckland International Airport Limited	2004 to present
• Fisher & Paykel Appliances Holdings Limited	2010 to present

Company Secretary

Ms Alexandra Finley Dip Law, MLM

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

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

Principal Activities

The principal activity of Spark Infrastructure during the Financial Year was investment in regulated electricity distribution businesses in Victoria and South Australia (the "Asset Companies"). There has been no change in the principal activity during the Financial Year.

Internalisation

On 1 April 2011, Spark Infrastructure signed an Internalisation Agreement with Cheung Kong Infrastructure ("CKI") and RREEF Infrastructure ("RREEF") to internalise its management function for a one off upfront payment of $49.000 million plus $2.002 million for net working capital balances, which were predominantly cash or cash-settled balances in the entities acquired at completion.

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. The Internalisation was approved by Securityholders at an EGM held on 20 May 2011. The transaction was subsequently completed on 31 May 2011, at which time Spark Infrastructure acquired all the shares in CKI RREEF JV Holdings Limited, which was the holding company of Spark Infrastructure Management Limited ("Spark Manager") and Spark RE, from CKI and RREEF.

Stapled Securities

Spark Infrastructure Group is a stapled structure, wherein:

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

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

Review of Operations

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

	Financial Year Ended 31 December			Change Compared to Underlying 2010	
	Actual 2011 $'000	**Underlying 2011 $'000**	**Underlying 2010 $'000**	**$'000**	**%**
Interest Income from Associates	**81,645**	**81,645**	82,229	(584)	(0.7)
Share of Equity Accounted Profits	**206,243**	**206,045**	203,456	2,589	1.3
	287,888	**287,690**	285,685	2,005	0.7
Other Income – Interest	**2,523**	**2,523**	4,958	(2,435)	(49.1)
Total Income	**290,411**	**290,213**	290,643	(430)	(0.1)
Management Fees	**(3,504)**	**(3,504)**	(8,281)	4,777	57.7
Interest Expense – Other	**(10,834)**	**(10,834)**	(27,108)	16,274	60.0
General and Administrative Expenses	**(6,844)**	**(6,844)**	(15,236)	8,392	55.1
Internalisation Payment	**(49,000)**	**–**	–	–	–
Transaction Costs – Internalisation	**(2,487)**	**–**	–	–	–
Profit before Loan Note Interest	**217,742**	**269,031**	240,018	29,013	12.1
Loan Note Interest ("LNI")	**(93,371)**	**(93,371)**	(160,110)	66,739	41.7
Profit after Loan Note Interest	**124,371**	**175,660**	79,908	95,752	119.8
Income Tax Expense	**(41,791)**	**(8,730)**	(1,458)	(7,272)	(498.8)
Profit Attributable to Securityholders	**82,580**	**166,930**	78,450	88,480	112.8
Profit per security before LNI per security (cents)	**16.41¢**	**20.28¢**	21.95¢	(1.67)¢	(7.6)
Operating Cash Flow [1]	**188,956**	**188,956**	134,651	54,305	40.3
Total distributions for the year (cents)	**10.00¢**	**10.00¢**	13.54¢	(3.54)¢	(26.1)
Total distributions for the year ($'000)	**132,673**	**132,673**	160,093	(27,420)	(17.1)
Net Capital Expenditure – Asset Companies (100%)	**844,600**	**844,600**	673,600	171,000	25.4

1 Includes repayments of borrowings from Associates (CHEDHA) which are considered to be operating cashflows – 2011: Nil (2010: $0.326 million).

Underlying Results

The underlying income and profit summary reports the operating results of Spark Infrastructure after excluding certain non-cash and non-operating items which do not relate to the respective year's underlying performance ("Underlying Adjustments"). The Underlying Adjustments have been presented in accordance with the Australian Securities and Investment Commission ("ASIC") Regulatory Guide 230 "Disclosing non-IFRS financial information" issued in December 2011. Underlying Adjustments made are consistent between periods and in accordance with this ASIC guidance and the Directors have had these adjustments reviewed by the auditors of Spark Infrastructure. The Directors consider that the underlying results provide users of these reports with a clearer explanation of Spark Infrastructure's operating performance for the year. The following adjustments have been made to the reported results for 2011 in order to calculate the underlying results (2010 figures have been provided for comparative purposes):

	Impact on Share of Equity Accounted Profit		Impact on Net Profit after Tax Attributable to Securityholders	
Underlying Adjustments	**2011 $'000**	**2010 $'000**	**2011 $'000**	**2010 $'000**
Underlying Result	**206,045**	203,456	**166,930**	78,450
'Mark-to-Market' gain/(loss) on value of financial instruments in the Asset Companies which do not qualify for hedge accounting	**198**	(1,592)	**138**	(1,592)
Income tax expense on items recognised directly in equity in SIH No. 2 *	**–**	–	**(33,001)**	4,089
Internalisation Payment	**–**	–	**(49,000)**	–
Internalisation Transaction Costs	**–**	–	**(2,487)**	–
	198	(1,592)	**(84,350)**	2,497
Statutory Profit	**206,243**	201,864	**82,580**	80,947

* Spark Infrastructure Holdings No. 2 Pty Limited

Underlying Profit

The Underlying Profit before Loan Note Interest for the year ended 31 December 2011 ("Current Year") increased by 12.1% from $240.018 million to $269.031 million compared to the previous year. The improved performance was a result of continued strong performance of the Asset Companies, lower interest costs on senior debt, lower management fees due to Internalisation and lower general and administrative expenses.

Performance of the Asset Companies

The underlying share of equity accounted profit grew by 1.3% from $203.456 million to $206.045 million in the Current Year.

In ETSA, earnings before interest, tax, depreciation and amortisation ("EBITDA") increased by 8.6% from $660.616 million to $717.201 million. EBITDA excluding customer contributions and gifted assets revenue increased by 16.8% to $585.084 million while prescribed or regulated revenue increased by 17.0% to $695.980 million. This increase was principally due to higher tariffs ("DUoS"), which moved up following the start of the current 5-year regulatory period on 1 July 2010 and again from 1 July 2011, in part reflecting the favourable regulatory appeal outcomes. The total volume delivered decreased by 2.0% from 11,320 GWh to 11,093 GWh in the Current Year.

Non-prescribed revenue, which includes customer contributions, semi-regulated meter reading, and the provision of construction and maintenance services to third parties, increased by 4.5% from $306.070 million to $319.949 million. Customer contributions (including gifted assets) decreased by 17.3% to $132.117 million, reflecting the timing of works for the Port Stanvac desalination project, while other non-prescribed revenues increased by 28.4% from $146.261 million to $187.832 million, reflecting an increase in construction and maintenance activity.

Operating expenses increased by 24.2% to $298.728 million. This was due to increased costs in the regulated business (which have been approved by the Regulator for the new 5-year regulatory period which commenced on 1 July 2010 for ETSA), including additional vegetation management and Guaranteed Service Level payments due to storms, as well as additional costs underpinning the increased level of construction and maintenance revenues.

In CHEDHA, EBITDA decreased by 1.7% from $685.522 million to $674.052 million, reflecting lower regulated DUoS revenues and higher operating costs, partially offset by increases in Advanced Metering Infrastructure (i.e. smart meter) revenues and unregulated revenues. EBITDA excluding customer contributions and gifted assets revenue decreased by 1.1% to $592.248 million.

During the Current Year, DUoS revenue decreased by 2.1% to $627.486 million. Total volume delivered decreased by 1.9% from 16,888 GWh to 16,575 GWh, including reduced consumption in the domestic and small commercial segments which reflected the relatively mild weather conditions in the Current Year, the impact of the floods in Victoria and general subdued economic conditions. The reduction in volume was partially offset by increases in rates following the commencement of the new 5-year regulatory period. Tariffs in the Powercor business increased at the beginning of the year in accordance with the new regulatory determinations, whereas tariffs in CitiPower had a real reduction, which will revert to real increases in future years. Metering related revenue increased by 14.1% from $106.464 million to $121.500 million, reflecting the continued rollout of smart meters.

Non-prescribed revenue, which includes customer contributions, semi-regulated activities and other unregulated revenue such as the provision of network services to third parties, grew by 3.0% from $211.106 million to $217.528 million. Customer contributions and gifted assets revenue declined by 5.7% to $81.804 million. Other non-prescribed revenue increased by 9.1% from $124.367 million to $135.724 million, including additional third party network services activity.

Operating expenditure increased by 7.1% to $292.462 million, largely reflecting known cost increases related to the operations of the regulated businesses as allowed for in the current 5-year regulatory period which commenced on 1 January 2011 for CitiPower and Powercor.

Aggregated Asset Company depreciation and amortisation grew by 6.7% from $357.906 million to $381.888 million, reflecting the increase in the depreciable asset base, including the Advanced Metering Infrastructure ("AMI") rollout. The total net interest expense (i.e. including the impact from mark to market movements in interest rate hedges and subordinated debt interest) was higher than the prior year by 6.4%, increasing from $585.607 million to $623.210 million, reflecting additional senior debt in support of the regulated capital expenditure programme. Income tax expense (which is a non-cash item) decreased by 48.8% from $50.945 million to $26.072 million primarily due to lower pre-tax profits in CHEDHA.

Capital Expenditure

CHEDHA and ETSA continue to invest in the expansion of their regulated networks, improving asset performance and reliability, and for replacement of existing assets. During the Current Year, $844.600 million (Spark share: $413.854 million) was invested in capital expenditure on a net basis, i.e. after deducting customer contributions, an increase of 25.4% compared to $673.600 million (Spark share: $330.064 million) in the Prior Year. Capital expenditure is added to the Regulated Asset Base ("RAB") of the Asset Companies, which generates increased revenue in future periods.

CHEDHA is also investing significant capital in the rollout of the AMI programme. Of the $844.600 million invested in capex this year $180.600 million was invested in AMI, up from $139.000 million in the Prior Year.

Corporate Expenses and Loan Note Interest

The corporate expenses of Spark Infrastructure for the Current Year included interest on senior debt, other general expenses and base management fees relating to the period prior to Internalisation.

Interest expense on senior debt decreased in the Current Year by 60.0% from $27.108 million to $10.834 million, reflecting lower levels of senior debt as a result of strong cash distributions received from the Asset Companies and from the 2010 Entitlement Offer which saw a pay down of senior debt in the Prior Year.

General, administrative and employee expenses decreased in the Current Year by 55.1% from $15.236 million to $6.844 million. The Current Year expenses included costs of self-managing Spark Infrastructure from 31 May 2011, which came in slightly below the $5.000 million on an annualised basis projected at the time of Internalisation. The Prior Year expenses included $9.879 million of costs relating to Spark's Strategic Review undertaken during 2010.

The base management fee incurred was for the 5-month period up to Internalisation on 31 May 2011, and was calculated consistently with prior periods, with reference to the volume weighted average price ("VWAP") of Spark Infrastructure's stapled securities for the last 15 trading days of the quarter ended 31 March 2011 and the period ended 31 May 2011. Following Internalisation, base management fees have ceased and the potential for performance fees has been removed.

The Internalisation payment of $49.000 million, and $2.487 million in related transaction costs, have been taken to the profit and loss in the Current Year.

Directors' Report (cont.)

Loan note interest payable to Securityholders decreased by $66.739 million or 41.7% to $93.371 million for the year. This was as a result of the reduction in Loan Note principal from $1.25 to $0.65 per Loan Note approved by Securityholders as part of the Restructure on 31 December 2010.

Cashflow

Spark Infrastructure's cashflow from operating activities for the Current Year was $188.956 million which was 40.3% higher than the Previous Year of $134.651 million, which included a repayment of loan principal by CHEDHA of $0.326 million classified as an investing cashflow.

During the Current Year, CHEDHA paid $99.424 million of interest to Spark Infrastructure, which included unpaid 2010 sub-debt interest of $17.579 million. In total, interest received by Spark Infrastructure from CHEDHA was $34.741 million higher than in the Prior Year, reflecting the timing of interest payments deferred from 2010. Preferred partnership capital distributions and ordinary distributions received from ETSA of $111.775 million were received during the Current Year, $0.980 million higher than the Prior Year.

The Internalisation payment and related costs (totalling $51.487 million) was funded from cash on hand during the year.

Interest of $9.883 million was paid on senior debt in the Current Year, $16.784 million or 62.9% lower than the Prior Year, reflecting the lower levels of drawn senior debt during the Current Year.

Spark Infrastructure paid a final distribution for the year ended 31 December 2010 of $90.483 million to Securityholders on 15 March 2011, representing 6.82 cps on the expanded securityholder base, as a result of the rights issue in October 2010. An interim cash distribution of $63.019 million representing 4.75 cps was paid on 15 September 2011 in relation to the six months ended 30 June 2011.

Regulatory Asset Base ("RAB")

The estimated RAB for CHEDHA as at 31 December 2011 was $4.051 billion (100% basis), an increase of $380 million or 10.4% over the Prior Year. The estimated RAB for ETSA as at 31 December 2011 was $3.317 billion, an increase of $258 million or 8.4% over the Prior Year. Spark's aggregate 49% share of its Asset Companies' RAB balances was $3.611 billion, an increase of $313 million or 9.5% over the Prior Year.

Debt, Gearing and Hedging

Spark Infrastructure has $250.000 million of committed debt facilities, comprising a $165.000 million 3-year revolving facility (which is undrawn as at 31 December 2011) and an $85.000 million fully drawn 4-year term loan. The 3-year facility will mature in September 2013 and the 4-year facility in September 2014. Spark pays margins of 185 basis points and 205 basis points above the applicable bank bill swap rate on the 3-year and 4-year tranches respectively.

Spark Infrastructure's standalone net gearing ratio was 2.5% (2010: 1.6%) after taking into account cash on hand at 31 December 2011 of $27.901 million (excluding $5.000 million of cash held for Australian Financial Services Licensing purposes).

Spark Infrastructure's look-through net gearing (including A-IFRS movements in reserves), including its proportionate share of net debt of CHEDHA and ETSA, was 58.0% as at 31 December 2011 (2010: 54.7%).

Spark Infrastructure's net debt to RAB at the Asset Company level increased by 0.8% from 80.7% to 81.5% over the Current Year. The 75% net debt to RAB forecast is still expected to be reached by 2015.

As at 31 December 2011, Spark Infrastructure's standalone debt was fully hedged (2010: 100%) with interest rate swaps of $85.000 million expiring in September 2015, in line with the end of the current regulatory periods. On a proportionate basis, 97.5% of net debt (including Asset Company net debt) is hedged (2010: 99.4%). This substantially limits the impact of volatility in the movement of interest rates on the financial results of Spark Infrastructure and its Asset Companies.

Equity and Reserves

Total Equity including Loan Notes attributable to Securityholders decreased by $0.064 million during the Current Year to $2.171 billion at 31 December 2011. Net profit increased retained profits by $82.580 million during the year. Other movements also included: unfavourable mark-to-market movements in the value of interest rate derivatives in Spark Infrastructure of $3.630 million and in its Asset Companies of $80.909 million, which act as hedges on interest payable on borrowings; actuarial losses on defined benefit superannuation plans of the Asset Companies of $45.944 million; and a capital distribution paid during the year to Spark Infrastructure securityholders of $16.584 million (1.25 cps). The mark-to-market movements and actuarial losses are non-cash impacts and result from the application of Australian Accounting Standards.

Regulatory Appeals

In 2010, ETSA was granted a review by the Australian Competition Tribunal ("ACT") of the Australian Energy Regulator's ("AER") Final Decision regarding the value of imputation credits ("gamma") and the opening value of its RAB.

The ACT decided in May 2011 that the value of gamma will be 0.25 for ETSA's current 5-year regulatory period which commenced on 1 July 2010. Gamma determines the utilisation of franking credits in estimating the taxation allowance contained in the building blocks calculation of allowable revenues for regulated distribution businesses and therefore has an impact on revenue. The AER's Final Decision for ETSA issued in May 2010 stated gamma at 0.65. A lower gamma has a positive impact on revenue. On 25 May 2011, the AER confirmed that ETSA would be permitted to recover an additional $301.000 million in nominal unsmoothed revenue (Spark share: $147.490 million) over the current regulatory period. The increased revenue is due to the combined impact of ETSA's successful appeal on the level of its opening RAB together with the outcome of its appeal on gamma, being the change from 0.65 to 0.25. The additional revenue will be recovered over the four years from 1 July 2011. ETSA's operating results for the Current Year include a half year impact of this appeal outcome.

CitiPower and Powercor were also granted leave to appeal a number of matters contained in the AER's decision (including the value of gamma). In January 2012 the ACT decided in CitiPower and Powercor's favour with respect to appeals concerning the value of gamma and an adjustment to the Efficiency Carry-over amount to recognise additional costs incurred by the businesses to meet a change in legislation.

The ACT decisions on these matters will provide an additional estimated $120.000 million of revenue (Spark share: $58.800 million) in the current five year regulatory period to 2015. Recovery of this revenue is expected to occur over three years from 1 January 2013 in line with the commencement of CHEDHA's next pricing period.

A number of other matters also appealed by CitiPower and Powercor remain outstanding. The remaining matters are expected to be finalised shortly in accordance with the revised deadline provided by the ACT.

Impairment Testing

The Directors have undertaken a detailed review of the carrying values of Spark Infrastructure's assets at year end to determine whether any impairment has arisen, and are satisfied that no impairment existed at 31 December 2011. The discounted cash flow analysis undertaken as part of this review takes into account the current agreed Corporate Plans for Spark's Asset Companies, which reflect the impact of the final AER determinations issued during 2010 for the 5-year regulatory periods that commenced on 1 July 2010 for ETSA, and on 1 January 2011 for CitiPower and Powercor, and the subsequent regulatory appeal outcomes for ETSA. The CitiPower and Powercor partial outcomes with respect to their regulatory appeals were not taken into account in the impairment testing.

Future Growth

The Asset Companies are in the midst of an exciting period of growth. The AER has approved capital expenditure for the current 5-year regulatory periods that will drive increased growth in the RABs of the Asset Companies. Correspondingly, increased revenues of the Asset Companies have also been approved by the regulator. Funding of this capital expenditure in line with the AER's assumptions will lead to long term growth in Spark Infrastructure's equity investment in the Asset Companies' RABs, in which Securityholders are expected to benefit via their investment in Spark Infrastructure. Spark Infrastructure's strong balance sheet means it is well positioned to take advantage of these growth opportunities.

During the current 5-year regulatory periods, which extend to mid-2015 for ETSA and to the end of 2015 for CHEDHA, the Asset Companies in total have net capital expenditure allowances from the AER of $3.735 billion (real 2010 dollars) (Spark share: $1.830 billion), equivalent to $747.000 million (real 2010 dollars) per annum (Spark share: $366.030 million). In addition, the AMI rollout programme in CHEDHA is expected to require a capital investment of approximately $630.000 million (Spark share: $308.700 million) from 2009 to 2013. Overall, based on the regulatory determinations, the combined RABs of the Asset Companies are expected to grow by an average of 8% per annum over the current 5-year regulatory periods. Assuming that this net growth in RAB is funded with 60% debt (in accordance with the AER's regulatory assumptions), Spark Infrastructure's equity investment in the Asset Companies' RABs would grow by approximately 14% per annum over the same period.

The Asset Companies continue to pursue non-prescribed business activities by providing highly skilled construction, maintenance and asset management services to customers in a range of industries and sectors including mining, electricity transmission and government, including defence and water projects. Whilst the non-prescribed business does not have the inbuilt protections of the regulated business, a large portion of this revenue is derived from long-term contracts with counterparties that own regulated assets, and hence the costs form part of their regulated cost base. Activity and margins in this area were robust in 2011.

Capital Management, Distributions and Distribution Reinvestment Plan

As an investment, Spark Infrastructure offers distribution yield and capital growth through Spark Infrastructure's equity investment in the Asset Companies' RAB.

Spark Infrastructure only pays out distributions which are fully supported by operating cashflows. Operating cashflows are reviewed at both the Spark Infrastructure level as well as on a look-through proportionate basis, i.e. including Spark Infrastructure's 49% share of the Asset Companies relevant operating cashflows. Operating cashflows are calculated after deducting an allowance for maintaining the Asset Companies' RABs. Distribution coverage from operating cashflows is assessed annually, while also taking into account the relevant 5-year regulatory period under which the Asset Companies are operating.

Distributions paid to Securityholders comprise interest income on the Loan Notes and can also include a return of capital on Units and income distributions from Spark Trust. Consistent with prior years, it is expected that a large part of distributions to Securityholders in the foreseeable future will comprise interest on the Loan Notes.

An interim cash distribution of 4.75 cps was paid on 15 September 2011 in relation to the six months ended 30 June 2011 and was comprised of 3.50 cps interest on the Loan Notes and 1.25 cps return of capital.

Distributions paid to Securityholders during the year were:

	Final 2010 distribution paid 15 March 2011		Interim 2011 distribution paid 15 September 2011		Total Distributions Paid	
	Cents per security	$'000	Cents per security	$'000	Cents per security	$'000
Interest on Loan Notes	6.82	90,483	3.50	46,435	10.32	136,919
Capital Distribution	–	–	1.25	16,584	1.25	16,584
Total	6.82	90,483	4.75	63,019	11.57	153,503

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

	2011		2010	
	Cents per security	$'000	Cents per security	$'000
Interim distribution paid	**4.75**	**63,019**	6.72	69,344
Final distribution proposed	**5.25**	**69,654**	6.82	90,483
Total	**10.00**	**132,673**	13.54	159,827

All distributions were unfranked and made by Spark Trust.

Spark Infrastructure has a Distribution Reinvestment Plan ("DRP") to enable Securityholders to reinvest their distributions into Securities. The Directors regularly assess the operation of the DRP and have determined that the DRP will remain suspended for the March 2012 distribution.

The Board has declared a final cash distribution of 5.25 cps for the six months ended 31 December 2011, payable on 15 March 2012, which consists of 3.55 cps interest on Loan Notes for the period and 1.70 cps return of capital. The distribution is unfranked and will be made by Spark Infrastructure Trust.

The Directors have provided distribution guidance of 10.50 cps for 2012, representing 5.0% growth on 2011.

Outlook

The Asset Companies have entered an exciting period of growth. The AER has approved capital expenditure over the five years to 2015 that will drive increased growth in the RABs of the Asset Companies. Correspondingly, increased revenues of the Asset Companies have also been approved by the regulator. Funding of this capital expenditure in line with the AER's assumptions will lead to long term growth in Spark Infrastructure's equity investment in the Asset Companies' RABs.

Given the recent commencement of the new regulatory periods for ETSA, CitiPower and Powercor, the Asset Companies are at a point in the regulatory cycle which offers a high degree of certainty.

The Directors look forward to the future with confidence, and subject to business conditions, believe that Spark will have the ability to grow distributions by between 3 to 5% per annum over the remainder of the current five year regulatory period. Spark will be targeting a payout ratio of approximately 80% of standalone operating cashflow for future distributions over the remainder of the current regulatory period to 2015.

Except for the possible reactivation of the DRP in the future, the Directors do not expect to raise further new equity capital to fund future organic growth in the Asset Companies over the current five year regulatory period.

Information Applicable to Registered Schemes

The fees paid to Spark Infrastructure RE Limited ("Spark RE") in respect of the period up to 31 May 2011, the responsible entity of Spark Trust, and its associates (including Directors) are disclosed in Note 24 to the consolidated financial statements. Following Internalisation no further fees are payable/required by Spark RE.

Spark RE does not hold any Stapled Securities. The number of Stapled Securities at the beginning and end of the Current Year is disclosed in Note 14 to the consolidated financial statements.

Significant Changes in State of Affairs

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

Subsequent Events

The Directors of Spark RE are not aware of any other matter or circumstance not otherwise dealt with in this report that has significantly affected or may significantly affect the operations or the state of affairs in the period since 31 December 2011.

Future Developments

Disclosure of information regarding likely developments in the operations of Spark Infrastructure not otherwise disclosed elsewhere in this report is likely to result in unreasonable prejudice. Accordingly, such information has not been disclosed in this report.

Environmental Regulations

Spark Infrastructure is not subject to any environmental regulations. However, the Asset Companies are subject to various environmental regulations. The Directors are not aware of any material breaches of those regulations by the Asset Companies.

Non-Audit Services

Details of amounts paid or payable to the external auditor for non-audit services provided during the Current Year are outlined in Note 17 to the consolidated financial statements.

The Directors are satisfied that the non-audit services provided by the auditor are compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are of the opinion that the services as disclosed in Note 17 to the consolidated financial statements do not compromise the external auditor's independence, based on advice received from the Audit, Risk and Compliance Committee, for the following reasons:

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

Indemnification of Officers and Auditors

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

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

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

Options over Securities

No options have been granted over the unissued Units of the Trust or Stapled Securities of Spark Infrastructure.

Directors' Meetings

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

During the Current Year, 8 Board meetings, 4 Audit and Risk Management Committee ("ARMC") meetings, 1 Audit Risk and Compliance Committee ("ARC") meeting, 3 Compliance Committee meetings and 4 Remuneration and Nomination Committee ("RemCo") meetings of the Company were held. References to meetings "Held" means the number of meetings a Director was eligible to attend. Further, 2 Due Diligence Committee ("DDC") and 6 Independent Board Committee ("IBC") meetings were held in relation to the Internalisation process.

	Board of Directors		**Board Sub-Committee**		**ARMC/ARC**		**Compliance Committee**		**RemCo**	
	Held	**Attended**	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Mr Brian Scullin [a]	3	3	–	–	–	–	–	–	4	4
Ms Laura Reed [b]	3	3	1	1	–	–	–	–	–	–
Ms Cheryl Bart, *AO*	8	7	–	–	5	4	–	–	–	–
Mr Andrew Fay [c,f]	8	8	–	–	3	3	–	–	–	–
Ms Anne McDonald	8	8	1	1	5	5	3	3	4	4
Dr Keith Turner	8	8	–	–	–	–	–	–	1	1
Retired/Resigned during 2011:										
Mr Stephen Johns [d]	6	5	–	–	–	–	–	–	2	1
Mr Don Morley [e]	5	5	–	–	2	2	–	–	–	–
Mr John Dorrian [f]	5	4	–	–	2	2	–	–	–	–
Mr Dominic Chan [f]	5	2	–	–	–	–	–	–	–	–
Mr Andrew Hunter [f]	5	1	–	–	2	0	–	–	–	–

a Mr Brian Scullin was appointed a Director and Chairman Elect on 31 May 2011 and became Chairman on 30 September 2011.

b Ms Laura Reed was appointed as Managing Director on 31 May 2011.

c Mr Andrew Fay was re-elected as a Non-Executive Director by Securityholders at the Extraordinary General Meeting (EGM), with effect from 31 May 2011.

d Mr Stephen Johns retired on 30 September 2011.

e Mr Morley retired on 31 May 2011.

f The Internalisation of Spark Infrastructure's management arrangements was approved by Securityholders at the EGM held on 20 May 2011. Each of the Directors previously nominated by the Manager (Messrs Chan, Dorrian, Fay and Hunter) resigned from the Board with effect from completion of the Internalisation on 31 May 2011.

Directors' Stapled Security Holdings

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

2011 **Directors**	**Opening Balance 1 January 2011 (No.)**	**Net Movement Acquired/ (Disposed) (No.)**	**Closing Balance 31 December 2011 (No.)**
Mr Brian Scullin [a]	–	–	–
Ms Cheryl Bart, *AO*	160,714	–	160,714
Mr Andrew Fay [c,f]	50,000	100,000	150,000
Ms Anne McDonald	40,000	–	40,000
Dr Keith Turner	–	50,000	50,000
Ms Laura Reed [b]	–	17,500	63,785
Retired/resigned during 2011:			
Mr Stephen Johns [d]	424,285	–	–
Mr Don Morley [e]	295,713	–	–
Mr John Dorrian [f]	175,407	–	–
Mr Dominic Chan [f]	–	–	–
Mr Andrew Hunter [f]	–	–	–

a Mr Brian Scullin was appointed Chairman Elect on 31 May 2011 and became Chairman on 1 October 2011

b Ms Laura Reed was elected as Managing Director by Securityholders at the Extraordinary General Meeting ("EGM"), with effect from 31 May 2011. Ms Reed's shareholding balance prior to becoming a Director was 46,285.

c Mr Andrew Fay was elected as a Non-Executive Director by Securityholders at the EGM, with effect from 31 May 2011

d Mr Stephen Johns retired on 30 September 2011

e Mr Morley retired on 31 May 2011

f The Internalisation of Spark Infrastructure's management arrangements was approved by Securityholders at the EGM held on 20 May 2011. Messrs Chan, Dorrian, Fay and Hunter resigned from the Board with effect from completion of the Internalisation on 31 May 2011

The relevant interest of each Director of Spark Infrastructure in respect of the previous financial year was as follows:

2010 **Directors**	**Opening Balance 1 January 2010 (No.)**	**Net Movement Acquired/ (Disposed) (No.)**	**Closing Balance 31 December 2010 (No.)**
Mr Stephen Johns	355,000	69,285	424,285
Ms Cheryl Bart, *AO*	125,000	35,714	160,714
Mr John Dorrian	136,428	38,979	175,407
Mr Dominic Chan [c]	–	–	–
Mr Andrew Fay [d]	–	50,000	50,000
Mr Andrew Hunter	–	–	–
Mr Hing Lam Kam [a]	–	–	–
Mr Timothy Keith [b]	–	–	–
Ms Anne McDonald	–	40,000	40,000
Mr Don Morley	225,000	70,713	295,713
Dr Keith Turner	–	–	–

a Mr Kam retired 28 May 2010.

b Mr Keith resigned 15 March 2010.

c Alternate Director for Mr Kam until 28 May 2010. Appointed as Director on 28 May 2010.

d Appointed 31 March 2010.

Executive Security holdings

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

Name	Balance at 31 May 2011	Changes during period	Balance at 31 Dec 2011
Laura Reed	46,285	17,500	63,785
Rick Francis	10,000	–	10,000
Alexandra Finley	–	–	–

Auditor's Independence Declaration

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 30.

Rounding of Amounts

As permitted by ASIC Class Order 98/0100 dated 10 July 1998, amounts in the Directors' Report and the financial report have been rounded to the nearest thousand dollars, unless otherwise indicated.

Remuneration Report

Audited Remuneration Report

This remuneration report explains Spark's approach to remuneration and sets out key 2011 remuneration details for the Directors of the Responsible Entity and Group Executives of Spark.

Group Executive remuneration details are provided from 31 May 2011, the date which Spark internalised its management function and at which time the Group Executives became directly employed by Spark. Before this date, Spark's Group Executives were employed and remunerated by Spark Infrastructure Management Ltd, the external manager of the Group up until 31 May 2011.

The people currently in these positions are listed below:

Directors of Responsible Entity

Brian Scullin	Chair of Board and Chair of Remuneration and Nomination Committee
Cheryl Bart *AO*	
Andrew Fay	
Keith Turner	
Anne McDonald	Chair of Audit, Risk and Compliance Committee
Laura Reed	Chief Executive Officer and Managing Director

Group Executives

Laura Reed	Chief Executive Officer and Managing Director
Rick Francis	Chief Financial Officer
Alexandra Finley	General Counsel and Company Secretary

Remuneration and Nomination Committee ("RemCo")

The Spark Infrastructure RemCo was established on 12 April 2011 and first met on 27 July 2011. The RemCo assists and advises the Board on the remuneration framework, policies and practices for Spark Directors and employees. The framework is designed to attract, retain and motivate employees and to align employee interests with the creation of securityholder wealth. The framework has regard to Spark's and the individual executive's performance and aligns with current governance and legal requirements. The RemCo charter is available on the Spark website at www.sparkinfrastructure.com

The members of RemCo during the period in which it operated were:

- Stephen Johns (Chair until date of retirement on 30 September 2011);
- Brian Scullin (Chair from 30 September 2011);
- Anne McDonald; and
- Keith Turner (from 3 November 2011).

The RemCo has access to internal and external resources, such as the advice of Spark's auditors, solicitors or other independent advisers (including external consultants and specialists). The RemCo may seek advice in relation to any matters pertaining to the powers or duties of the RemCo or the responsibilities of the RemCo.

The RemCo comprises a minimum of 3 Non-Executive directors. Non-committee members, including members of management may attend all or part of a meeting of the RemCo at the invitation of the RemCo Chair. The Company Secretary must attend all RemCo meetings as minute secretary.

The RemCo met four times during the period. The RemCo meets as often as the RemCo members deem necessary in order to fulfil their role. However, it is intended that the RemCo will meet at least twice a year.

Remuneration advisers

During 2011, PriceWaterhouseCoopers ("PWC") were appointed by the Chairman of the RemCo to provide CEO and executive remuneration benchmarking data to Spark. The appointment was in the context of RemCo working on the establishment of a long term incentive plan for the Managing Director and executive team. The benchmarking data was based on two peer groups, being:

- companies with similar market capitalisation to Spark; and
- companies in similar industries as Spark, specifically listed infrastructure.

PWC was engaged directly on instruction by RemCo, reported directly to RemCo and were independent and free from influence from key management personnel.

Remuneration Report (cont.)

Board and Committee Remuneration Policy

The remuneration of Spark's Directors is benchmarked to the remuneration of Directors of comparable enterprises periodically based on advice of an independent external consulting firm. A broad cross section of parameters is used by the external firm in determining comparable entities, including:

- Market capitalisation;
- Revenue; and
- Total assets.

The Directors' remuneration also takes into consideration the following matters:

- Fee levels for all Non-Executive Directors to be positioned between the median and the 75th percentile of the general market comprising comparable board roles in listed companies within the range of half to twice the market capitalisation, revenue and total assets of Spark;
- The Chairman's fee to be in the range of 2.0 and 2.5 times of the base Non-Executive Directors fee;
- The Chairman of a board Committee shall be eligible to receive a Committee chair fee in addition to the base Non-Executive Director fee;
- Members of board committees shall be eligible to receive a Committee membership fee in addition to the base Non-Executive Director fee, set at half the fee of the Committee Chair; and
- In setting the fees applicable to Committee chairs and Committee members, the Board takes into account the relative workloads of committees.

The Directors and Board Committee members are paid a fixed remuneration as disclosed below. None of the remuneration is linked to the financial performance of Spark or its security price.

The current annual remuneration, including post-employment benefits payable to Directors, is as follows:

Role	$
Chairman	225,000
Non-Executive Director	100,000
Additional fee for enhanced responsibility:	
— Chairman of Audit, Risk and Compliance Committee	20,000
— Audit, Risk and Compliance Committee member	10,000
— Chairman of RemCo	20,000
— RemCo member	10,000

Compliance Committee

The Compliance Committee was established in 2006 and included external members, who were appointed to provide specialist knowledge and expertise and to meet the independence requirements for the Committee under the Corporations Act.

At its meeting on 20 May 2011, the Spark Board resolved to combine the Compliance Committee with the Audit and Risk Management Committee (ARMC) and dissolve the separate Compliance Committee. The last Compliance Committee meeting as a separate Committee was held on 21 July 2011. The membership of the ARMC comprised three independent directors, and the Committee Chair is Anne McDonald who had been a member of the Compliance Committee since December 2008. A new Charter for the combined Audit, Risk and Compliance Committee (ARC) has been approved by the Board and is available on the Spark website at www.sparkinfrastructure.com

The table below sets out remuneration paid to members of the Compliance Committee prior to its dissolution.

Compliance Committee (to 27 July 2011)	$
Chairman of Compliance Committee (external member)	35,000
Compliance Committee member (external member)	30,000
Compliance Committee member (Independent Non-Executive Director of the Board)	10,000
Management members	nil

Non-Executive Directors' appointment

Non-Executive Directors are subject to election by security holders at the first AGM after their initial appointment by the Board. In addition, each Non-Executive Director must stand for re-election by security holders every three years.

The RemCo develops and reviews the process for selection, appointment and re-election of Non-Executive Directors as well as developing and implementing a process for evaluating the performance of the Board, Board committees and Directors individually. Letters of appointment for the Non-Executive directors, which are contracts for service but not contracts of employment, have been put in place. These letters confirm that the Non-Executive Directors have no right to compensation on the termination of their appointment for any reason, other than for unpaid fees and expenses for the period actually served. The Non-Executive Directors do not participate in Spark's Short Term or Long Term Incentive plans.

Directors' remuneration for the year

The fees and other benefits provided to the Non-Executive Directors by Spark during the year and during the prior year are set out in the table below. Any contributions to personal superannuation or pension funds on behalf of Non-Executive Directors are deducted from their overall fee entitlements.

Ms Laura Reed, Spark's Chief Executive Officer and Managing Director, is an executive Director and receives no additional remuneration in her role as a Director over and above her executive remuneration detailed below.

Actual remuneration for the year

Actual remuneration received by Non-Executive Directors during the year is outlined in the table below:

Directors		Short term Employment Benefits Directors' Fees $	Post-Employment Benefits Superannuation $	Total $
Chairman				
Mr Brian Scullin	**2011**	**90,327**	**6,916**	**97,243**
	2010	–	–	–
Mr Scullin was appointed on 31 May 2011 as Chairman Elect and appointed Chairman on 30 September 2011. Mr Scullin was a member of RemCo from 31 May 2011 and appointed Chair on 30 September 2011.				
Non-Executive Directors				
Ms Cheryl Bart, *AO*	**2011**	**100,917**	**9,083**	**110,000**
	2010	100,917	9,083	110,000
Ms Bart was a member of the Audit and Risk Management Committee ("ARMC") throughout 2010 and 2011.				
Mr Andrew Fay	**2011**	**97,021**	**8,732**	**105,753**
	2010	69,059	6,215	75,274
Mr Fay was appointed on 31 March 2010 and was a member of the ARMC from 31 May 2011.				
Ms Anne McDonald	**2011**	**117,651**	**10,589**	**128,240**
	2010	142,202	12,798	155,000
Ms McDonald was a member of the Compliance Committee during 2011. Ms McDonald was a member of the ARMC during 2010 and 2011 and was appointed Chair of the ARMC on 31 May 2011. Ms McDonald was a member of RemCo from 12 April 2011. Ms McDonald was a member of the Due Diligence Committee during 2010, in relation to which she was paid a fee of $35,000.				
Dr Keith Turner	**2011**	**101,616**	**–**	**101,616**
	2010	100,000	–	100,000
Dr Turner was a member of the Remuneration Committee from 3 November 2011.				

Remuneration Report (cont.)

Directors		Short term Employment Benefits Directors' Fees $	Post-Employment Benefits Superannuation $	Total $
Directors who have resigned or retired				
Mr Stephen Johns	**2011**	**166,006**	**7,744**	**173,750**
	2010	210,170	14,830	225,000
Mr Johns was Chairman of the Board until 30 September 2011 and of RemCo from 12 April 2011 to 30 September 2011, when he retired from the Board.				
Mr Don Morley	**2011**	**45,922**	**4,133**	**50,055**
	2010	142,202	12,798	155,000
Mr Morley was Chair of the ARMC until 31 May 2011, when he retired from the Board. Mr Morley was Chair of the Due Diligence Committee during 2010, in relation to which he was paid a fee of $35,000.				
Mr Andrew Hunter	**2011**	**45,884**	**–**	**45,884**
	2010	110,000	–	110,000
Mr Hunter was a member of the ARMC until his resignation from the Board on 31 May 2011. Fees for Mr Hunter were paid to CKI.				
Mr Dominic Chan	**2011**	**41,712**	**–**	**41,712**
	2010	59,066	–	59,066
Mr Chan was a member of the ARMC until his resignation from the Board on 31 May 2011. Fees for Mr Chan were paid to CKI.				
Mr John Dorrian	**2011**	**45,884**	**–**	**45,884**
	2010	110,000	–	110,000
Mr Dorrian was a member of the ARMC until his resignation from the Board on 31 May 2011. Fees for Mr Dorrian were paid to RREEF.				
Mr Hing Lam Kam	2010	40,934	–	40,934
Mr Kam retired on 28 May 2010. Fees for Mr Kam were paid to CKI.				
Mr Timothy Keith	2010	20,342	–	20,342
Mr Keith resigned on 15 March 2010. Fees for Mr Keith were paid to RREEF.				
Total	**2011**	**852,940**	**47,197**	**900,137**
	2010	1,104,892	55,724	1,160,616

In addition to the directors' fees set out under Remuneration of Directors, Ms Cheryl Bart, Ms Anne McDonald, Dr Keith Turner and Mr Andrew Fay were entitled to directors' fees as representatives of Spark Infrastructure on the Boards of ETSA Utilities and CHEDHA (the Asset Company Boards) as set out below. These fees were paid by the Asset Companies.

During 2011 and 2010 Ms Bart was entitled to Director's fees totalling $100,000 as a Director on the ETSA Board comprised as follows:

- Non-Executive Director – annual fee of $75,000
- Chair of Audit Committee –annual fee of $15,000
- Member of Risk Management and Compliance Committee – annual fee of $10,000

During 2011 and 2010 Ms McDonald was entitled to Director's fees totalling $100,000 as a Director on the CHEDHA Board comprised as follows:

- Non-Executive Director – annual fee of $75,000
- Chair of Audit Committee –annual fee of $15,000
- Member of Risk Management and Compliance Committee – annual fee of $10,000

During 2011 and 2010 Dr Keith Turner was entitled to Director's fees of $150,000 as a Director on the Boards of ETSA Utilities and CHEDHA comprised as follows:

- Non-Executive Director of the CHEDHA Board – annual fee of $75,000
- Non-Executive Director of the ETSA Board – annual fee of $75,000

During the year Mr Andrew Fay was entitled to pro rata annual Director's fees of $170,000 as a Director on the Boards of ETSA Utilities and CHEDHA comprised as follows:

- Non-Executive Director of the CHEDHA Board – annual fee of $75,000 (appointed 1 June 2011)
- Member of CHEDHA Remuneration Committee – annual fee of $10,000 (appointed 9 August 2011)
- Non-Executive Director of the ETSA Board – annual fee of $75,000 (appointed 22 June 2011)
- Member of ETSA Remuneration Committee – annual fee of $10,000 (appointed 22 June 2011)

Executive Remuneration Strategy

Spark's remuneration policy objectives are to:

- ensure Spark's remuneration structures are equitable and aligned with the long-term interests of Spark and its securityholders;
- attract and retain skilled executives;
- structure short and long term incentives that are challenging and linked to the creation of sustainable securityholder returns;
- ensure any termination benefits are justified and appropriate; and
- comply with applicable legal requirements and appropriate standards of governance.

Fixed remuneration is determined by reference to appropriate benchmark information, taking into account an individual's responsibilities, performance, qualifications and experience. Remuneration is targeted at market median levels. The benchmark used in relation to the year ended 31 December 2011 was a sub-group of Australian listed entities with similar market capitalisations and in similar industry sectors.

The Board initially set Fixed Annual Remuneration ("FAR") and short term incentives for the Group Executives at the time of the Internalisation. Subsequent to the Internalisation a review of Spark's executive remuneration was undertaken, with advice being obtained from external remuneration consultants.

Remuneration is divided into those components which are not directly linked to contribution and performance (FAR) and those components which are variable and directly linked to the delivery of personal Key Performance Indicators ("KPIs") and Spark's key business objectives including financial performance and security holder value creation ('at risk' remuneration).

Remuneration Mix

Remuneration mix for senior executives is structured as a mix of FAR and 'at risk' short and long-term incentive opportunities. FAR generally consists of base salary and benefits at a guaranteed level. The proportion of fixed versus 'at risk' remuneration varies at different levels within Spark, reflecting the varying capacity of employees to influence Spark's operational performance and returns to securityholders.

In addition to FAR, a significant element of Group Executives' maximum potential remuneration is required to be at risk. Currently, 'at risk' remuneration is provided to Group Executives and certain other executives through the operation of both a Short Term Incentive ("STI") Plan and Long Term Incentive ("LTI") Plan.

The components of executive remuneration are as follows:

Remuneration component	Purpose	Delivery
Fixed Annual Remuneration	To reflect the market value of the role and the individual's skills and experience	Total of base salary (includes cash, superannuation guarantee levy, vehicles and parking) and incidental benefits paid in monthly instalments
'At Risk' components		
Short-term incentive opportunity	To reward strong performance against the achievement of specific business objectives	Cash-based incentive based on a mix of key performance indicators paid annually, after the end of the financial year
Long-term incentive opportunity	To link executive reward with securityholder value	Cash-settled incentive based on achievement of board mandated total securityholder return ('TSR'), performance conditions, paid after a 3-year performance and vesting period

An individual's maximum potential remuneration may be achieved only where they have achieved and surpassed challenging KPIs.

Remuneration Report (cont.)

Executive Service Contracts as at 1 January 2012

Group Executive	Contract Type & Any Special Terms	FAR $	STI Opportunity (% of FAR)	LTI Opportunity (% of FAR)	Notice/Termination Period[a]
Laura Reed Managing Director and Chief Executive Officer	Permanent	650,000	60%	60%	6 months/6 months
Rick Francis Chief Financial Officer	Permanent	445,000	50%	50%	6 months/6 months
Alexandra Finley Company Secretary	Permanent	261,250	40%	40%	3 months/3 months

a Notice/termination period refers to the number of months' notice required to be given by Spark to the employee and by the employee to Spark respectively.

The other key terms of the contractual arrangements for each of the key management personnel are set out below:

Name and title and commencement date	Term and termination provisions/benefits
Laura Reed Managing Director since 31 May 2011 Chief Executive Officer since 5 September 2008	– On termination with cause, Spark Infrastructure will pay any FAR due and owing at the date of termination and any accrued entitlements. – On redundancy or termination without cause, Spark Infrastructure will pay an additional 52 weeks FAR, a bonus at the discretion of the Board and any accrued leave entitlements. Spark Infrastructure will also pay any FAR due and owing, including any STI and LTI not yet vested at the date of redundancy or termination.
Rick Francis Chief Financial Officer since 1 February 2009	– On termination with cause, Spark Infrastructure will pay any FAR due and owing at the date of termination and any accrued leave entitlements. – On redundancy or termination without cause, Spark Infrastructure will pay an additional 52 weeks FAR (including STI and LTI), the STI and LTI for the current year of service and any accrued leave entitlements. Spark Infrastructure will also pay any FAR due and owing including any STI and LTI not yet vested at the date of redundancy or termination.
Alexandra Finley General Counsel and Company Secretary since 1 September 2008	– No defined term.

Short Term Incentives for 2011

The STI plan is designed to put a proportion of executive remuneration 'at risk' against meeting individual and Group KPIs linked to various financial and non-financial measures, such as:

- various financial and compliance based measures including cost control, asset management, investment management, capital management and maintenance of controls and compliance environments; and
- non-financial and strategic measures such as stakeholder and investor relations, strategy, special projects and people management and culture.

No STI payments were made between date of Internalisation on 31 May 2011 and 31 December 2011. However, Group Executives and certain other executives are eligible to receive STI payments annually from early 2012 subject to individual and corporate performance. The payments made in January 2012, set out below, reflect performance between 1 June 2011 and 31 December 2011. Subject to the Board's discretion, potential STI opportunities range up to 60% of FAR, which for 2011 was adjusted to reflect the pro-rata 7 month period to which they relate.

For 2011, the STI outcomes are shown in the table below for all Group Executives:

Executive	STI earned ($)	STI forfeited ($)	STI achieved (% of Opportunity)	STI forfeited (% of Opportunity)
Laura Reed	260,400	–	120.0	–
Rick Francis	115,000	8,958	92.8	7.2
Alexandra Finley	50,000	8,333	85.7	14.3

The STI earned by Ms Reed was determined by the RemCo having regard to her excellent performance during 2011.

There are no comparatives as Spark did not directly employ any executives in 2010.

Long term incentives for 2011

To link executive reward with securityholder value and to enhance executive retention, a LTI plan was implemented during 2011. Advice was sought from remuneration advisers with respect to the appropriate structure and quantum of LTI opportunity for Spark executives.

Total Securityholder Return ("TSR") has been chosen by the Board as the key performance benchmark for the determination of the LTI. The target LTI opportunity is the same as the relevant executive's STI opportunity. It is intended that LTI opportunities be allocated on an annual basis. The LTI plan is a cash-based 'phantom' security plan, whereby notional reference securities are granted that track the value of Spark's security price over a 3-year performance and vesting period. The reference securities allocated under the LTI plan are not actual Spark securities, but the number of notional securities with a value equivalent to the LTI initial target opportunity. LTI allocations do not entitle participants to vote at securityholder meetings. Cash-equivalent distributions on the notional securities are tracked throughout the vesting period. Upon vesting, the cash equivalent distributions, corresponding to the number of securities that vested, is also paid to participants as a one-off payment. No cash equivalent distributions are paid prior to vesting, nor on any notional units that do not ultimately vest.

Participants must remain employed by Spark to access any vesting benefit. The treatment of unvested LTI notional securities on termination of employment will vary based on whether the executive is a qualifying or non-qualifying leaver as assessed by the Board. The terms of the LTI plan are available on the Spark website at www.sparkinfrastructure.com.

The start date for the FY2011 LTI allocation is 1 June 2011, which aligned with the start of self-management of Spark following Internalisation. The performance period for the FY2011 LTI allocation will be 2 years and 7 months (ending 31 December 2013), reflecting the part year in 2011 following Internalisation. Future awards will be tracked over a 3-year performance period starting at the beginning of the relevant financial year. Each reference security is valued at a market based 'starting security price', being the 30 trading days' volume weighted average market price ("VWAP") of a Spark stapled security immediately prior to the start of the performance period. The 'closing security price' for TSR purposes will be the VWAP of Spark's securities in the 30 trading days' period prior to the end of the performance period.

Relative TSR performance is separately assessed against two peer groups, being:

- companies in the S&P ASX 200 index (50% weighting); and
- Spark's key peers in the gas, electricity and multi-utilities sector, being APA Group, DUET Group, Envestra, Hastings Diversified Utilities Fund and SP Ausnet (50% weighting).

For the ASX 200 peer group component, pro-rata vesting on a straight line basis arises between the 51st percentile (50% vesting) and 100th percentile (vesting capped at 150%). No amount would vest if performance was below the 51st percentile relative to the ASX 200 peer group. Similarly, relative TSR performance ranking against the key sector peers will result in vesting ranging between 0% and 150%.

The LTI opportunity for 2011 was adjusted to reflect the pro-rata 7 month period to which it relates. Notional TSR achievement for the 7 months from 1 June 2011 to 31 December 2011 has been determined against the two reference groups as 94%.

The allocation of reference securities in respect of 2011 for all key management personnel were as follows:

Executive	Notional Reference Securities No.	Fair Value of liability recognised in 2011 $
Laura Reed	–	–
Rick Francis	103,298	33,335
Alexandra Finley	48,611	15,687

No LTI opportunity for 2011 was granted to Ms Reed due to her announced retirement.

Notional securities were allocated under the LTI plan at a market based 30 trading day VWAP value of $1.20 and valued at year end at $1.31 per security. The value attributed for the 7 month period represents the fair value of the expense for the period, taking into account the notional vesting percentage based on performance to date, the VWAP of the reference securities at the end of the period and the cash distributions paid to date on the notional vesting number of reference securities.

Current LTI reference units outstanding

The following table sets out the number of reference securities that have been allocated to Group Executives at 31 December 2011 but have not yet vested or been paid, and the years in which they may vest:

		Vesting Year		
Key Management Personnel	**Total Notional Reference Securities No.**	**31 Dec 2011**	**31 Dec 2012**	**31 Dec 2013**
Laura Reed	–	–	–	–
Rick Francis	103,298	–	–	103,298
Alexandra Finley	48,611	–	–	48,611

There are no comparatives because Spark did not directly employ any executives in 2010.

No amounts have vested as at 31 December 2011. No options or other equity instruments are issued to Spark employees or Directors under the LTI plan.

Aggregate remuneration in respect of the 7 month period ended 31 December 2011

The table below includes amounts in respect of the period since Internalisation, being 1 June 2011 to 31 December 2011, including:

- amounts paid during 2011;
- other non-cash benefits received;
- STI amounts earned during 2011 and paid January 2012; and
- a fair value of LTI awards expensed in respect of the period, noting that that these LTI awards are still subject to performance and vesting conditions and will not vest until 31 December 2013, if at all:

Group Executive	**Salary $**	**STI earned $**	**Other non-cash benefits $**	**Post-employment benefits (Superannuation) $**	**LTI expense $**	**Total 2011 $**
Laura Reed	358,779	260,400	–	21,023	–	640,202
Rick Francis	238,762	115,000	9,158	21,339	33,335	417,594
Alexandra Finley	136,679	50,000	9,158	12,260	15,687	223,784
Total	**734,220**	**425,400**	**18,316**	**54,622**	**49,022**	**1,281,580**

Actual remuneration received during the 7 month period ended 31 December 2011

The following table outlines the actual remuneration received by key management personnel during 2011:

Group Executive	**Salary $**	**STI paid $**	**Other non-cash benefits $**	**Post-employment benefits (Superannuation) $**	**LTI paid $**	**Total paid 2011 $**
Laura Reed	358,779	–	–	21,023	–	379,802
Rick Francis	238,762	–	9,158	21,339	–	269,259
Alexandra Finley	136,679	–	9,158	12,260	–	158,097
Total	**734,220**	**–**	**18,316**	**54,622**	**–**	**807,158**

Amounts in the table above cover the period since Internalisation, 1 June 2011 to 31 December 2011.

There are no comparatives because Spark did not directly employ any executives in 2010.

Performance of Spark Infrastructure

The following table provides details of Spark Infrastructure's performance for the last five years:

Financial Year Ended 31 December	2011 $'000	2010 $'000	2009 $'000	2008 $'000	2007 $'000
Underlying Profit before Loan Note Interest	269,032	240,018	224,038	190,355	179,554
Operating Cashflow	188,956	134,651	196,923	181,877	180,422
Underlying Profit after tax attributable to Securityholders	166,929	78,450	81,435	34,320	36,889
Security Price ($)	1.38	1.13	1.38	1.30	1.98
Distribution per security (cents)	10.00	13.54	13.56	18.51	18.06

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

On behalf of the Directors:

B Scullin
Chairman

L Reed
Managing Director

Sydney
24 February 2012

Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Spark Infrastructure RE Limited
as responsible entity for Spark Infrastructure Trust
259 George Street
Sydney NSW 2000

24 February 2012

Dear Directors

Spark Infrastructure Trust

In accordance with section 307C of the Corporations Act 2001, I provide the following declaration of independence to the directors of Spark Infrastructure RE Limited as responsible entity for 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 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

BJ Pollock

BJ Pollock
Partner
Chartered Accountants

Directors' Declaration

The Directors declare that:

(a) in the Directors' opinion, there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable;

(b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Trust and the Consolidated Entity;

(c) the Directors have been given the declarations required by section 295A of the *Corporations Act 2001*; and

(d) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1 to the financial statements.

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

On behalf of the Directors:

B Scullin
Chairman

L Reed
Managing Director

Sydney
24 February 2012

Consolidated Statement of Comprehensive Income

for the Financial Year Ended 31 December 2011

	Notes	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Income from associates:			
— share of equity profits	7 (c)	**206,243**	201,864
— interest income	3 (a)	**81,645**	82,229
Other income – interest		**2,523**	4,958
		290,411	289,051
Management fees	24 (c)	**(3,504)**	(8,281)
Interest expense – other	3 (b)	**(10,834)**	(27,108)
General and administrative expenses	3 (c)	**(6,844)**	(15,236)
Internalisation Payment	29	**(49,000)**	–
Internalisation Transaction Costs	29	**(2,487)**	–
Profit before Income Tax and Loan Notes Interest		**217,742**	238,426
Interest expense – Loan Notes		**(93,371)**	(160,110)
Profit before Income Tax attributable to Securityholders		**124,371**	78,316
Income tax (expense)/benefit	4	**(41,791)**	2,631
Net Profit attributable to Securityholders		**82,580**	80,947
Other comprehensive (loss)/income:			
Cash flow hedges – (loss)/gain on interest rate swaps		**(5,186)**	3,479
Share of associates' other comprehensive income:			
— (Loss)/gain on hedges		**(115,584)**	60,525
— actuarial (loss) on defined benefit plans		**(65,634)**	(10,254)
Income tax benefit/(expense) related to components of other comprehensive income		**55,921**	(16,125)
Other comprehensive (loss)/income for the Financial Year		**(130,483)**	37,625
Total comprehensive (loss)/income for the Financial Year		**(47,903)**	118,572
Net profit attributable to Securityholders:			
— equity holders of the parent entity [a]		**82,580**	3,401
— non-controlling interest in other Spark Infrastructure Stapled Entities		**–**	77,546
		82,580	80,947
Total comprehensive (loss)/income attributable to Securityholders:			
— equity holders of the parent entity		**(47,903)**	28,085
— non-controlling interest in other Spark Infrastructure Stapled Entities		**–**	9,540
		(47,903)	118,572
Earnings per Security			
Weighted average number of stapled securities (No'000)		**1,326,734**	1,093,436
Profit before income tax and loan notes interest ($'000)		**217,742**	238,426
Basic earnings per security before income tax and loan notes interest (cents)		**16.41¢**	21.81¢
Earnings used to calculate earnings per security ($'000)		**82,580**	80,947
Basic earnings per security based on net profit attributable to Securityholders (cents)	18	**6.22¢**	7.40¢

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

a The parent entity changed from Spark Infrastructure Holdings No. 1 Pty Limited to Spark Infrastructure Trust on 31 December 2010.

Notes to the financial statements are included on pages 36 to 72.

Consolidated Statement of Financial Position

as at 31 December 2011

	Notes	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Current Assets			
Cash and cash equivalents	27 (a)	**32,901**	89,275
Receivables from associates	5	**11,233**	29,011
Other current assets	6	**634**	632
Total Current Assets		**44,768**	118,918
Non-Current Assets			
Property, Plant and Equipment	9	**311**	–
Investments in associates:			
— Investments accounted for using the equity method	7 (d)	**1,525,438**	1,612,188
— Loans to associates	8	**745,601**	745,601
Total Non-Current Assets		**2,271,350**	2,357,789
Total Assets		**2,316,118**	2,476,707
Current Liabilities			
Payables	10	**3,702**	8,610
Loan Note interest payable to Securityholders		**47,099**	90,647
Other financial liabilities	13	**–**	79
Total Current Liabilities		**50,801**	99,336
Non-Current Liabilities			
Payables	10	**184**	–
Loan Notes attributable to Securityholders	11	**836,786**	836,766
Interest bearing liabilities	12	**82,867**	121,815
Deferred tax liabilities	4	**5,995**	20,082
Other financial liabilities	13	**5,665**	401
Total Non-Current Liabilities		**931,497**	979,064
Total Liabilities		**982,298**	1,078,400
Net Assets		**1,333,820**	1,398,307
Equity			
Equity attributable to Parent Entity			
— Issued capital	14	**1,116,749**	1,133,333
— Reserves	15	**(48,336)**	36,203
— Retained earnings	16	**265,407**	228,771
Total Equity		**1,333,820**	1,398,307
Total Equity attributable to Securityholders is as follows:			
Total Equity		**1,333,820**	1,398,307
Loan Notes attributable to Securityholders		**836,786**	836,766
Total Equity and Loan Notes		**2,170,606**	2,235,073

Notes to the financial statements are included on pages 36 to 72.

Consolidated Statement of Changes in Equity

for the Financial Year Ended 31 December 2011

2010	Notes	Issued Capital $'000	Hedging Reserve $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2010		429,808	(8,600)	155,002	576,210
Net profit for the financial year		–	–	80,947	80,947
Other comprehensive income for the year, net of income tax	15,16	–	44,803	(7,178)	118,572
Total comprehensive income for the financial year		–	44,803	73,769	118,572
Transactions resulting from restructure of Loan Notes and associated issue costs to Equity:					
— Transfer of Loan Notes principal to equity		724,325	–	–	724,325
— Transfer of associated Issue costs to equity		(20,800)	–	–	(20,800)
Balance at 31 December 2010	14	703,525	–	–	703,525
		1,133,333	36,203	228,771	1,398,307

2011					
Balance at 1 January 2011		**1,133,333**	**36,203**	**228,771**	**1,398,307**
Net profit for the financial year		**–**	**–**	**82,580**	**82,580**
Other comprehensive income for the year, net of income tax	15,16	**–**	**(84,539)**	**(45,944)**	**(130,483)**
Total comprehensive (loss)/income for the financial year		**–**	**(84,539)**	**36,636**	**(47,903)**
Capital distributions	14	**(16,584)**	**–**	**–**	**(16,584)**
Balance at 31 December 2011		**1,116,749**	**(48,336)**	**265,407**	**1,333,820**

Notes to the financial statements are included on pages 36 to 72.

Consolidated Statement of Cash Flows

for the Financial Year Ended 31 December 2011

	Notes	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Cash Flows from Operating Activities			
Distribution from associates – preferred partnership capital		**69,635**	69,635
Dividends received – associates		**42,140**	41,160
Interest received – associates		**99,424**	64,683
Interest received – other		**2,817**	4,752
Interest paid – other		**(9,883)**	(26,667)
Management fees		**(3,989)**	(8,297)
Other		**(11,188)**	(10,941)
Net Cash Inflow Related to Operating Activities	27 (c)	**188,956**	134,325
Cash Flows from Investing Activities			
Purchase of property, plant & equipment		**(335)**	–
Internalisation payment		**(49,000)**	–
Internalisation – payment for net working capital		**(2,002)**	–
Internalisation transaction costs		**(2,487)**	–
Internalisation Repayment of loan from RREEF		**(2,500)**	–
Internalisation – cash acquired as part of net working capital		**4,497**	–
Repayment of borrowings by associates		**–**	326
Net Cash (Outflow)/Inflow Related to Investing Activities		**(51,827)**	326
Cash Flows from Financing Activities			
Proceeds from issue of securities		**–**	294,823
Payment of Issue Costs		**–**	(10,371)
Repayment of external borrowings		**(40,000)**	(525,000)
Proceeds from external borrowings		**–**	225,000
Payments of external borrowing costs		**–**	(4,250)
Distributions to Securityholders:			
— Loan Note interest		**(136,919)**	(139,927)
— Capital distributions		**(16,584)**	–
Net Cash Outflow Related to Financing Activities		**(193,503)**	(159,725)
Net Decrease in Cash and Cash Equivalents for the Financial Year		**(56,374)**	(25,074)
Cash and cash equivalents at beginning of the Financial Year		**89,275**	114,349
Cash and Cash Equivalents at end of the Financial Year	27 (a)	**32,901**	89,275

Notes to the financial statements are included on pages pages 36 to 72.

Notes to the Financial Statements

for the Financial Year Ended 31 December 2011

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.

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

On 31 December 2010, the Restructure was completed which resulted in a simplification of the corporate structure from a five stapled structure to a single holding company structure with a dual stapled security. Prior to this date, the consolidated financial statements of Spark Infrastructure consisted of Spark Infrastructure Holdings No.1 Pty Limited and the entities it controlled, Spark Infrastructure Holdings No.2 Pty Limited, Spark Infrastructure Holdings International Limited and Spark Infrastructure Trust. Following the Restructure, the consolidated financial statements of Spark Infrastructure consist of Spark Infrastructure Trust and its controlled entities.

Information in respect of the parent entity in this financial report relates to Spark Infrastructure Trust. The financial information for the parent entity, disclosed in Note 30 has been prepared on the same basis as the financial statements for the consolidated entity.

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.

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

The financial report was authorised for issue by the Directors of Spark Infrastructure RE limited ("Spark RE") on 24 February 2012.

Adoption of new and revised Standards

The following new and revised Standards and Interpretations have been adopted in the current financial year and are of relevance in these consolidated financial statements:

Amendments to AASB 7 "Financial Instruments: Disclosure" – effective for annual reporting periods beginning on or after 1 January 2011, clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. There are no financial or disclosure implications for the Group.

Amendments to AASB 101 "Presentation of Financial Statements" – effective for annual reporting periods beginning on or after 1 January 2011, clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. There are no financial or disclosure implications for the Group.

Amendments to AASB 107 "Statement of Cashflows" – effective for annual reporting periods beginning on or after 1 January 2011, specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. There are no financial or disclosure implications for the Group.

Standards and Interpretations in issue not yet adopted

Certain standards, amendments and interpretations that are on issue but not yet effective have not been applied in the preparation of this report. The principle standard and amendment of relevance is:

AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvement Project*. The amendments to AASB 2009-5 specify amendments resulting from the IASB's annual improvement project to various Australian Accounting Standards and Interpretations.

Interpretation 19 *"Extinguishing Financial Liabilities with Equity Instruments"*. This Interpretation provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular, the equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss. To date, the Group has not entered into transactions of this nature.

Spark Infrastructure does not expect that any adjustments will be necessary as a result of applying these revised accounting Standards and Interpretations.

1. Summary of Accounting Policies (continued)

Significant Accounting Policies

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

(a) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Trust and its controlled entities as at 31 December 2011. Control is achieved where the Trust has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where control of an entity is obtained during the financial period, its results are included in the Consolidated Statement of 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.

(b) 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.

(c) 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.

(d) 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.

(e) Cash and Cash Equivalents

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

(f) 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.

(g) Derivative Financial Instruments

Spark Infrastructure enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps. Further details are disclosed in Note 28.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised immediately in the profit and loss unless the derivative is designated and is effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. Spark Infrastructure designates certain derivatives as hedges of the fair value of recognised assets, liabilities or firm commitments ("fair value hedges"), or hedges of highly probable forecast transactions ("cash flow hedges").

The fair value of hedging derivatives is classified as a non-current asset/liability if the remaining maturity of the hedge relationship is more than 12 months and as a current asset/liability if the remaining maturity is less than 12 months.

Hedge Accounting

At the inception of the hedge relationship, Spark Infrastructure documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, Spark Infrastructure documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 28 contains details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in Note 15.

1. Summary of Accounting Policies (continued)

Significant Accounting Policies (continued)

(g) Derivative Financial Instruments (continued)

Fair Value Hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit and loss immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit and loss from that date.

Cash Flow Hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in the hedging reserve recorded in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss in the same line of the statement of comprehensive income as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

(h) Financial Instruments

Debt and Equity Instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

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 equity instruments and which would not have been incurred had those Stapled Securities (including Loan Notes) not been issued.

Interest, Dividends and Distributions

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

(i) Goods and Services Tax

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

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

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

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

(j) Impairment of Tangible and Intangible Assets

At each reporting date, Spark Infrastructure reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, Spark Infrastructure estimates the recoverable amount of the cash-generating unit to which the asset belongs.

1. Summary of Accounting Policies (continued)

Significant Accounting Policies (continued)

(j) Impairment of Tangible and Intangible Assets (continued)

Recoverable amount is the higher of fair value less costs to sell, and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or the cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(k) Employee Benefits

Wages, Salaries, Annual Leave and Other Employee Benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and other employee benefits expected to be settled within twelve 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 Company'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 discounted using market yields at the reporting date on government bonds that have maturity dates approximating to the terms of the Company's obligations.

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.

Long Term Incentives (Cash-settled share based payments transactions)

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

(l) 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.

1. Summary of Accounting Policies (continued)

Significant Accounting Policies (continued)

(l) Income Tax (continued)

Deferred Tax (continued)

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.

Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

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 liabilities and assets 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

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

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

Tax Consolidation Legislation

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

Taxation of financial arrangements

The Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009 (TOFA legislation) was applicable to the tax consolidated groups for tax years beginning 1 January 2011. The TOFA legislation is not expected to have a material effect on the tax expense of the tax consolidated groups. The Restructure was implemented on 31 December 2010, and as such does not fall under the TOFA regime. No election was made to bring pre-commencement financial arrangements into the TOFA regime.

(m) 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 Consolidated 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.

1. Summary of Accounting Policies (continued)

Significant Accounting Policies (continued)

(m) Investments in Associates (continued)

Spark Infrastructure's share of its associates' post-acquisition profits or losses is recognised in the profit and loss, and its share of post-acquisition movements in equity (such as actuarial gains) 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.

(n) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see 1d above). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed (see Note 10).

(o) Loans and Receivables

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

(p) Property, Plant and Equipment

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The estimated useful lives for the current period are as follows:

- Software 4 years
- Leasehold Improvements 5 – 20 years
- Equipment 20 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(q) Revenue Recognition

Dividend and Interest Revenue

Dividend 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.

1. Summary of Accounting Policies (continued)

Significant Accounting Policies (continued)

(r) Investments in Subsidiaries

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

(s) Critical Accounting Estimates and Judgements

The preparation of this 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.

The key accounting estimates and judgements used in the preparation of this report are as follows:

- **Accounting for Acquisitions**

On 15 December 2005, Spark Infrastructure acquired a 49% interest in each of three electricity distribution businesses, CitiPower and Powercor in Victoria (combined business referred to as CHEDHA) and ETSA in South Australia. Spark Infrastructure is required to reflect its equity accounted investments in the three businesses by reference to its share of the fair value of the net assets of the businesses. This assessment of fair value by Spark Infrastructure resulted in a notional increase in the carrying value of certain depreciable assets and amortisable intangible assets (i.e. licences), which are depreciated/amortised over the estimated useful life of such assets, extending up to 200 years. As a result of this, the share of Spark Infrastructure's equity accrued profits has been adjusted by additional depreciation and amortisation arising from the increase in the carrying value.

- **Impairment of Assets**

At each reporting date, Spark Infrastructure tests whether there are any indicators of impairment. Each Associate, being ETSA and CHEDHA, is regarded as a separate cash generating unit for the purposes of such testing. If any indicators are identified, a discounted cashflow analysis is undertaken.

Substantial changes to external market conditions over the past three years and regulatory reset processes have the potential to impact asset values and Spark Infrastructure regards these as potential indicators of impairment. Accordingly, impairment testing was undertaken to confirm that the carrying value of assets do not exceed their respective recoverable values. The following key parameters were used in testing for impairment:

- Cashflow projections, based on financial forecasts approved by management containing assumptions about business conditions, growth in regulated asset base ("RAB") and future regulatory returns, over a period of 10 years with an appropriate terminal value based on RAB multiples for regulated activities and EBITDA multiples for unregulated activities;
- Growth rates for volume of electricity delivered are based on observed historical values and studies undertaken by independent experts; and
- Appropriate discount rates specific to the individual assets.

Cashflow projections for a 10 year period are deemed appropriate as electricity distribution assets are long life assets.

During 2011, the Australian Competition Tribunal ("ACT") ruled in ETSA's favour with respect to appeals regarding the level of ETSA's opening RAB and the value of gamma included in the AER's 2010 Distribution Determination for ETSA for the regulatory period 2010-2015. Subsequently, the Australian Energy Regulator ("AER") confirmed that ETSA was able to recover additional revenue over the current regulatory period, with recovery having commenced from 1 July 2011. These outcomes have been incorporated in impairment testing. In January 2012, the ACT also ruled in favour of CitiPower and Powercor in respect of their appeals relating to the value of gamma and an adjustment to the efficiency carry-over amount contained in their respective Distribution Determinations issued in 2010. The ACT decisions on these matters provide an additional $120.0 million of revenue (Spark share: $58.8 million) in the current five year regulatory period to 2015, with recovery expected to occur over three years from 1 January 2013. This impact has been considered in impairment testing. A number of other matters also appealed by CitiPower and Powercor remain outstanding, with the ACT expected to finalise all matters shortly. No further impacts of the matters subject to ongoing appeal have been taken into account in the impairment testing as at 31 December 2011.

1. Summary of Accounting Policies (continued)

Significant Accounting Policies (continued)

(s) Critical Accounting Estimates and Judgements (continued)

- **Deferred Tax Assets**

Deferred Tax Assets are recognised to the extent that it is probable that there are sufficient taxable amounts available against which deductible temporary differences or unused tax losses and tax offsets can be utilised and they are expected to reverse in the foreseeable future. As at 31 December 2011, an amount of $18.364 million (2010: $30.117 million) has not been recognised on the basis that the above recognition criteria was not met.

- **Working Capital Deficiency**

These consolidated financial statements have been prepared on a going concern basis. Spark Infrastructure currently has a working capital deficiency of $6.033 million as at 31 December 2011 (2010: $19.582 million, surplus). Excluding the accrual for the loan note interest owing to Securityholders of $47.099 million, which is due for payment on 15 March 2012, Spark Infrastructure would have had a surplus working capital balance of $41.066 million. Further distributions are expected to be received from Spark Infrastructure's Asset Companies prior to this amount becoming payable.

Spark Infrastructure also has funding capacity from committed undrawn bank facilities of $165.000 million as at 31 December 2011.

(t) Rounding of Amounts

As Spark Infrastructure is an entity of the kind referred to in ASIC Class Order 98/0100, relevant amounts in these consolidated financial statements and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise indicated.

2. Segment Information

AASB 8 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. Two segments are reported, CHEDHA – which represents the 49% interest in two electricity distribution businesses in Victoria (i.e. CitiPower and Powercor) and ETSA – which represents the 49% interest in the electricity distribution business in South Australia.

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

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

	CHEDHA		ETSA Utilities		Corporate		Total	
	2011 $'000	2010 $'000	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000
Segment Cashflows								
Net cashflows	**99,424**	65,009	**111,775**	110,795	**(15,177)**	(19,238)	**196,022**	156,566
Net Interest paid							**(7,066)**	(21,915)
Total Operating Cashflows [a]							**188,956**	134,651

a Includes repayments of borrowings from Associates (CHEDHA) which are considered to be operating cashflows – 2011: Nil (2010: $0.326 million).

Notes to the Financial Statements (cont.)

for the Financial Year Ended 31 December 2011

2. Segment Information (continued)

	CHEDHA		ETSA Utilities		Corporate		Total	
	2011 $'000	2010 $'000	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000
Segment Revenue								
Share of equity accounted profits	**21,470**	33,425	**184,773**	168,439	**–**	–	**206,243**	201,864
Interest income – associates	**81,645**	82,229	**–**	–	**–**	–	**81,645**	82,229
Segment revenue	**103,115**	115,654	**184,773**	168,439	**–**	–	**287,888**	284,093
Interest revenue							**2,523**	4,958
Total Revenue							**290,411**	289,051
Segment Results								
Segment contribution	**103,115**	115,654	**184,773**	168,439	**(10,348)**	(23,517)	**277,540**	260,576
Internalisation Payment and Transaction Costs							**(51,487)**	–
Net Interest expense							**(8,311)**	(22,150)
Profit for the period before Loan Note Interest and Income Tax							**217,742**	238,426
Interest on Loan Notes							**(93,371)**	(160,110)
Income tax benefit/(expense)							**(41,791)**	2,631
Net profit							**82,580**	80,947

	CHEDHA		ETSA Utilities		Corporate		Total	
	2011 $'000	2010 $'000	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000
Segment Assets								
Investment accounted using equity method	**272,756**	322,502	**1,252,682**	1,289,686	**–**	–	**1,525,438**	1,612,188
Loan to Associates	**745,601**	745,601	**–**	–	**–**	–	**745,601**	745,601
Receivables from Associates	**11,233**	29,011	**–**	–	**–**	–	**11,233**	29,011
Other	**–**	–	**–**	–	**634**	632	**634**	632
Property, Plant & Equipment	**–**	–	**–**	–	**311**	–	**311**	–
Total Segment Assets	**1,029,590**	1,097,114	**1,252,682**	1,289,686	**945**	632	**2,283,217**	2,387,432
Unallocated Assets								
Cash and cash equivalents							**32,901**	89,275
Total Assets							**2,316,118**	2,476,707

2. Segment Information (continued)

	CHEDHA		ETSA Utilities		Corporate		Total	
	2011 $'000	2010 $'000	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000	**2011 $'000**	2010 $'000
Segment Liabilities								
Liabilities	**–**	–	**–**	–	**3,571**	8,188	**3,571**	8,188
Unallocated Liabilities								
Loan Notes							**836,786**	836,766
Interest bearing debt							**82,867**	121,815
Other liabilities							**53,079**	91,549
Deferred tax liabilities							**5,995**	20,082
Total Liabilities							**982,298**	1,078,400

3. Profit for the Financial Year

(a) Income

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Income from associates:		
— Share of equity accounted profits	**206,243**	201,864
— Interest income	**81,645**	82,229
	287,888	284,093

(b) Expenses

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Interest expense – other:		
— Interest and other associated costs on senior debt	**10,834**	27,108

(c) General and Administrative Expenses

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Staff costs – short term benefits	1,093	–
Staff costs – post employment benefits	92	–
Staff costs – Incentives	571	–
Total staff costs	1,756	–
Directors' fees – short term benefits	853	1,105
Directors' fees – post employment benefits	47	56
Repositioning Costs	–	9,879
Depreciation	24	–
Other expenses	4,164	4,196
	6,844	15,236

4. Income Taxes

(a) Income Tax Recognised in Profit or Loss

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Tax (expense)/benefit comprises:		
Current tax (expense)/benefit	**(2,316)**	8,570
Deferred tax expense relating to temporary differences	**(38,619)**	(5,939)
Adjustments recognised in current year in relation to the current tax of prior years	**(856)**	–
Current tax (expense)/benefit	**(41,791)**	2,631
Attributable to:		
Continuing operations	**(41,791)**	2,631

The accounting profit for the year can be reconciled to income tax (expenses)/benefit as follows:

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Profit from continuing operations	**124,371**	78,316
Income tax expense calculated at 30%	**(37,311)**	(23,495)
Effect of expenses that are not deductible in determining taxable profit	**(15,446)**	–
Tax effect on operating results of the Trust (Note 1(l))	**1,392**	(1,365)
Offsets from unused tax losses brought to account	**21,567**	35,305
Tax losses not yet brought to account	**(11,993)**	(7,814)
Income tax (expenses)/benefit	**(41,791)**	2,631

The tax rate of 30% used above is the current Australian corporate tax rate. There has been no change in the corporate tax rate during the Financial Year.

(b) Income Tax Recognised Directly in Equity

The following deferred tax benefit/(expense) was recognised directly in equity during the financial year:

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
— Revaluations of financial instruments treated as cash flow hedges	**1,556**	(1,043)
— Share of associates' reserves recognised directly in equity	**54,365**	(15,082)
	55,921	(16,125)

(c) Deferred Tax Balances

Deferred tax assets comprise:

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Tax losses – revenue	**74,616**	131,521
Temporary differences:		
— Cash flow hedges (movement)	**1,700**	144
— Security issue costs	**1,141**	318
	77,457	131,983

4. Income Taxes (continued)

(c) Deferred Tax Balances (continued)

Deferred tax liabilities comprise:

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Temporary differences:		
— investment in associates	(83,452)	(152,065)
Net deferred tax liability recognised in the financial statements	(5,995)	(20,082)

(d) Unrecognised Deferred Tax Balances

The following deferred tax assets have not been brought to account as assets:

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Tax losses – revenue	18,364	30,117

Tax Consolidation

Relevance of Tax Consolidation to Spark Infrastructure

SIH No.1, SIH No.2, and SIH No.3 and their wholly owned Australian resident 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 26.

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.

CHEDHA Holdings Pty Ltd ("CHEDHA")

In December 2010 the Australian Taxation Office ("ATO") advised that their Large Business Audit in relation to the financing structure/arrangements of the CKI/HEI Electricity Distribution Holdings (Australia) Pty Limited consolidated group (a subsidiary of CHEDHA), has been completed and that certain tax adjustments are required, which are material. The Large Business Audit related to the tax years 31 December 2000 to 31 December 2005 inclusive, which were prior to Spark Infrastructure's acquisition of its 49% interest in CHEDHA. No determinations or assessments have been issued by the ATO. CHEDHA has sought legal advice. CHEDHA disagrees with the ATO's position and based on all available information is of the opinion that no adjustments are required, and will vigorously defend its position.

ETSA Utilities Partnership

The ATO is also undertaking an audit and is in discussion with ETSA Utilities on a number of matters. The principal matters under discussion relate to the income tax treatment of the rent instalments under the land lease, financing arrangements and the tax treatment of capitalised direct internal labour and motor vehicle costs. The ATO's view is that the arrangements are non-deductible, as outlined in various position papers. ETSA Utilities has obtained advice from its tax advisors that supports its current tax treatments and has responded to these papers disagreeing with the ATO's conclusions. Based on all available information and advice, ETSA Utilities is of the opinion that no adjustments are required, and will vigorously defend its position.

Notes to the Financial Statements (cont.)

for the Financial Year Ended 31 December 2011

5. Receivables from Associates

	31 Dec 2011 $'000	31 Dec 2010 $'000
CHEDHA	11,233	29,011

Receivables from Associates relates to interest receivable on loans. These receivables are expected to be settled in full within the next 12 months.

6. Other Current Assets

	31 Dec 2011 $'000	31 Dec 2010 $'000
Prepayments	253	263
Other receivables	381	369
	634	632

7. Investments Accounted for Using the Equity Method

(a) Investments in Associates

		Ownership Interest (%)		
Name of Entity	**Principal Activity**	**2011**	**2010**	**Country of Incorporation/Formation**
CHEDHA	Ownership of electricity distribution networks in Victoria	49	49	Australia
ETSA Utilities Partnership	Ownership of an electricity distribution network in South Australia	49	49	Australia

(b) Share of Assets and Liabilities of Associates

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Current assets	268,305	236,393
Non-current assets	5,391,553	5,079,600
Total assets	5,659,858	5,315,993
Current liabilities	326,045	555,484
Non-current liabilities	4,269,821	3,615,477
Total liabilities	4,595,866	4,170,961
Net assets before ETSA Utilities Preferred Partnership Capital	1,063,992	1,145,032
ETSA Utilities Preferred Partnership Capital	622,300	622,300
Net assets applicable to Spark Infrastructure	1,686,292	1,767,332

7. Investments Accounted for Using the Equity Method (continued)

(c) Share of Revenue and Expenses of Associates

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Revenue – distribution	648,498	605,651
Revenue – semi-regulated, metering and unregulated	218,078	184,513
Customer contributions and gifted assets [a]	104,821	120,809
Operating revenue	971,397	910,973
Revenue – transmission	240,315	212,557
	1,211,712	1,123,530
Expenses	(1,022,496)	(926,506)
Profit before income tax	189,216	197,286
Income tax expense	(12,775)	(24,963)
Net profit accounted for using the equity accounting method	176,441	172,061
Additional share of profits from preferred partnership capital [b]	35,514	35,514
	211,955	207,575
Additional depreciation/amortisation charge [c]	(5,712)	(5,711)
	206,243	201,864

a Customer contributions and gifted assets are booked as revenue in their entirety upfront by the Asset Companies in accordance with Australian accounting standards. The accounting for customer contributions and gifted assets under the accounting standards requires that the full amount be brought to account upfront as fixed assets and revenue by the Asset Companies, notwithstanding that the assets do not generate any regulatory returns in the future or any additional cash earnings. In turn, this leads to higher equity accounted income being reported by Spark Infrastructure and an increased carrying value of its investment in Associates.

The increased carrying value of these assets in the Asset Companies will result in a higher depreciation expense over their expected economic life, which can range from 40 to 70 years, and correspondingly will lead to lower equity accounted profits being reported by Spark Infrastructure over the same time period. As a consequence of the timings of the above accounting treatment, an additional accounting adjustment (expense) may be required in the future should the assets future recoverable amount (as determined under the accounting standards) be determined to be less than its accounting carrying value due to this timing mis-match.

b Under the partnership agreement, Spark Infrastructure is entitled to an additional share of profit in ETSA Utilities.

c Relates to depreciation and amortisation of the fair value on uplift of assets on acquisition.

(d) Movement in Carrying Amounts

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Carrying amount at beginning of the Financial Year	1,612,188	1,470,848
Share of profits after income tax	206,243	201,864
Preferred partnership distribution received	(69,635)	(69,635)
Dividends received – associates	(42,140)	(41,160)
Share of associates' comprehensive income recognised directly in equity	(181,218)	50,271
Carrying amount at end of the Financial Year	1,525,438	1,612,188

(e) Commitments for Expenditure and Contingent Liabilities

Spark Infrastructure's share of commitments for expenditure and contingent liabilities are provided in Note 20 and Note 22 respectively.

8. Loans to Associates – interest bearing

	31 Dec 2011 $'000	31 Dec 2010 $'000
Loan to Associates – interest bearing	745,601	745,601

100 year loan to CHEDHA at a fixed interest rate of 10.85% per annum. The loan is repayable at the discretion of the borrower.

9. Property, Plant and Equipment

	31 Dec 2011 $'000	31 Dec 2010 $'000
Cost		
Balance at the beginning of the Financial Year	–	–
Additions	335	–
Balance at the end of the Financial Year	335	–
Accumulated Depreciation		
Balance at the beginning of the Financial Year	–	–
Depreciation charge	24	–
Balance at the end of the Financial Year	24	–
Carrying amounts		
Net book value at the end of the Financial Year	311	–

10. Payables

	31 Dec 2011 $'000	31 Dec 2010 $'000
Current Payables		
GST payable	1,407	1,380
Payables to related parties	–	2,008
Lease Incentive	40	–
Other payables	2,255	5,222
	3,702	8,610

	31 Dec 2011 $'000	31 Dec 2010 $'000
Non-Current Payables		
Lease Incentive	184	–
	184	–

11. Loan Notes Attributable to Securityholders

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Balance at beginning of the Financial Year	**836,766**	1,256,792
Issue of Loan Notes under Entitlement Offer [a]	–	294,823
Issue costs associated with Loan Notes	–	(11,363)
Write back of deferred discount [b]	**20**	39
Reallocation of discount on securities issued under the DRP	–	1,807
Repayment of Loan Notes [c]	–	(724,325)
Reallocation of issue costs [d]	–	18,993
Balance at end of the Financial Year	**836,786**	836,766

a In 2010 $294.823 million was raised from the Entitlement Offer, the value for which was allocated entirely to Loan Notes.

b The deferred discount represents the difference between the Loan Notes face value of $1.25 and the price of securities issued under the DRP in September 2009 of $1.0862. The deferred discount is written back over the remaining term of the Loan Notes.

c The Restructure comprised a partial repayment of the Loan Notes with the amount repaid applied to the issue of additional Units to Securityholders. The partial repayment resulted in a reduction in the face value outstanding on the Loan Notes from $1.25 to $0.65 and each Loan Note carries a correspondingly reduced interest entitlement from the date of the Restructure.

d A proportion of Loan Note issue costs arising from both the Entitlement Offer and the original Loan Notes issued at the Initial Public Offering ("IPO") have been reallocated to equity following implementation of the Restructure on 31 December 2010.

12. Interest Bearing Liabilities

	31 Dec 2011 $'000	31 Dec 2010 $'000
Syndicated bank loan at amortised cost (Non-Current)	**85,000**	125,000
Unamortised costs	**(2,133)**	(3,185)
	82,867	121,815

On 10 September 2010 Spark entered into 3-year revolving facilities of $165.000 million (fully undrawn as at 31 December 2011) and a fully drawn 4-year term loan of $85.000 million. These facilities mature on 10 September 2013 and 10 September 2014 respectively. The loans are unsecured.

13. Other Financial Liabilities

	31 Dec 2011 $'000	31 Dec 2010 $'000
Fair value of interest rate swaps (Current)	–	79
Fair value of interest rate swaps (Non-Current)	**5,665**	401

14. Issued Capital

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Balance at beginning of the Financial Year	1,133,333	429,808
Capital distribution [a]	(16,584)	–
Reclassification from Loan Notes (net of costs) [b]	–	703,525
Balance at end of the Financial Year	1,116,749	1,133,333

a A capital distribution of 1.25cps was paid to securityholders on 15 September 2011.

b The Restructure comprised a partial repayment of the Loan Notes which resulted in a reduction in the Face Value outstanding on the Loan Notes with the amount repaid applied to the issue of additional Units to Securityholders. The reclassification from Loan Notes is net of allocation costs assigned to equity. The units carry one vote per unit and the right to distributions. Each stapled security comprises a Unit and a Loan Note issued by Spark Trust. Under the terms of the Loan Note Trust Deed, the application price for a stapled security is first allocated to the principal amount of a Loan Note.

Fully Paid Stapled Securities	Year Ended 31 Dec 2011 No. '000	Year Ended 31 Dec 2010 No. '000
Balance at beginning of the Financial Year	1,326,734	1,031,911
Issue of Stapled Securities under Entitlement Offer [c]	–	294,823
Issue of Stapled Securities and subsequent consolidation under the restructure	–	–
Balance at end of the Financial Year	1,326,734	1,326,734

c All proceeds of the Entitlement Offer were ascribed to the stapled Loan Notes – refer Note 11a.

15. Reserves

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Cash Flow Hedging Reserve		
Balance at beginning of the Financial Year	36,203	(8,600)
(Loss)/gain recognised:		
Interest rate swaps [a]	(5,186)	3,479
Deferred tax benefit/(expense)	1,556	(1,044)
	(3,630)	2,435
Share of associates' (losses)/gains on hedges [a]	(115,584)	60,525
Deferred tax benefit/(expense)	34,675	(18,157)
Balance at end of the Financial Year	(48,336)	36,203

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

16. Retained Earnings

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Balance at beginning of the Financial Year	228,771	155,002
Net profit after tax for the Financial Year	82,580	80,947
Share of associates' actuarial loss recognised directly in retained earnings [a]	(65,634)	(10,254)
Related tax benefit	19,690	3,076
Balance at end of the Financial Year	265,407	228,771

a Actuarial gains or losses on defined benefit superannuation plans operated by CHEDHA and ETSA Utilities (the Associates) are recognised directly in Retained Earnings.

17. Remuneration of External Auditor

	Year Ended 31 Dec 2011 $	Year Ended 31 Dec 2010 $
Audit and review of financial report	**222,592**	261,513
Tax advice	**169,969**	92,452
Other services:		
— Other accounting services	**32,750**	25,500
— Repositioning related services [a]	**25,000**	1,066,164
	450,311	1,445,629

a Services were provided as part of the Strategic Review, Restructuring and Equity raising.

The auditor of Spark Infrastructure is Deloitte Touche Tohmatsu.

18. Earnings per Security ("EPS") [a]

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Profit before income tax and Loan Note interest	**217,742**	238,426
Weighted average number of securities ('000) [b]	**1,326,734**	1,093,436
Basic earnings per security before income tax and Loan Note interest (cents)	**16.41¢**	21.81¢
Earnings used to calculate EPS	**82,580**	80,947
Basic earnings per security based on net profit attributable to Securityholders (cents)	**6.22¢**	7.40¢

a Basic EPS is the same as diluted EPS.

b The 2010 weighted average number of securities reflects quotation on the ASX of new stapled securities issued as a result of the Entitlement Offer on 11 October 2010 (177,327,900) and 29 October 2010 (117,494,964).

19. Distribution Paid and Payable

	2011		2010	
	Cents per Security	**Total $'000**	Cents per Security	Total $'000
Distribution Paid:				
Interim distribution in respect of year ended 31 December 2011 paid on 15 September 2011 (2010: 15 September 2010):				
Interest on Loan Notes	**3.50**	**46,435**	6.72	69,344
Capital Distribution	**1.25**	**16,584**	–	–
	4.75	**63,019**	6.72	69,344
Distribution Payable/Proposed:				
Final distribution in respect of the year ended 31 December 2011 payable on 15 March 2012 (2010: 15 March 2011):				
Interest on Loan Notes	**3.55**	**47,099**	6.82	90,749
Capital Distribution	**1.70**	**22,555**	–	–
	5.25	**69,654**	6.82	90,749
Total paid and payable	**10.00**	**132,673**	13.54	160,093

The distributions are unfranked and are made by the Spark Trust.

20. Commitments for Expenditure

(a) Capital Expenditure commitments

	31 Dec 2011 $'000	31 Dec 2010 $'000
Share of associates' capital expenditure commitments		
— Not longer than 1 year	35,011	38,593
— Longer than 1 year and not longer than 5 years	19,324	56,386
	54,335	94,979

(b) Other Expenditure Commitments

	31 Dec 2011 $'000	31 Dec 2010 $'000
Share of associates' other expenditure commitments		
— Not longer than 1 year	2,976	2,771
— Longer than 1 year and not longer than 5 years	11,035	10,617
— Longer than 5 years	10,744	13,347
	24,755	26,735

There are no capital expenditure or other expenditure commitments in Spark Infrastructure other than those shown in Note 21.

21. Operating Lease Arrangements

Spark has entered into operating leases that relate to the office premises and information technology. Office premises are located at 259 George Street, Sydney 2000. A new rental lease for the premises was signed on 10 May 2011. The term of the lease is 6 years commencing from 1 July 2011. The landlord provided a rental incentive of $0.600 million. Spark Infrastructure has nominated to take some of the incentive as a contribution towards fit-out works, with the remainder as rent abatement on a straight line basis over the term of the lease. The Group does not have an option to purchase the leased premises or assets at the expiry of the lease periods.

a) Payments recognised as an expense

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
— Minimum lease payments	210	–
	210	–

b) Non-cancellable operating lease commitments

— Not longer than 1 year	454	–
— Longer than 1 year and not longer than 5 years	1,745	–
— Longer than 5 years	207	–
	2,406	–

c) Liabilities recognised in respect of non-cancellable operating leases

Lease incentives (Note 10)		
— Current	40	–
— Non-current	184	–
	224	–

22. Contingent Liabilities and Contingent Assets

Contingent Liabilities

	31 Dec 2011 $'000	31 Dec 2010 $'000
Share of associates' contingent liabilities	**11,458**	10,681
	11,458	10,681

The contingent liabilities relate to guarantees provided to various parties by CHEDHA and ETSA Utilities. There are no contingent liabilities or contingent assets in the Spark Infrastructure Group.

23. Key Management Personnel Compensation

(a) Directors

The persons listed below were Directors of the Company during the year:

Mr Brian Scullin (Chairman since 30 September 2011, appointed 31 May 2011)
Ms Laura Reed
Ms Cheryl Bart, *AO*
Ms Anne McDonald
Mr Andrew Fay
Dr Keith Turner

Retired/Resigned during 2011:

Mr Stephen Johns (Chairman, retired 30 September 2011)
Mr Don Morley (retired 31 May 2011)
Mr Dominic Chan (resigned 31 May 2011)
Mr John Dorrian (resigned 31 May 2011)
Mr Andrew Hunter (resigned 31 May 2011)

Remuneration

The aggregate remuneration paid to Directors of Spark Infrastructure is set out below:

	2011 $	2010 $
Directors' fees – short term benefits	**852,940**	1,104,892
Directors' fees – post employment benefits [a]	**47,197**	55,724
	900,137	1,160,616

a Post employment benefits relate to Superannuation Guarantee Contributions.

The remuneration paid to Directors during 2011 is shared between SIH No. 1, SIH No. 2, SIH No. 3 and the Trust based upon a self-management allocation. The Trust's share of the remuneration was $180,027 for the 2011 Financial Year.

The remuneration paid to Directors during 2010 and prior years was shared equally by the three operating companies being SIH No. 1, SIH No. 2 and the Trust. The Trust's share of the remuneration was $386,872 for the 2010 Financial Year.

During the 2010 period Mr Morley and Ms McDonald received fees totalling $35,000 each as members of the Due Diligence Committee involved in the Entitlement Offer and Restructure. These fees were recommended by the Independent Board Committee, which comprised all 5 Independent Directors and were approved by the full Board (with Mr Morley and Ms McDonald abstaining from voting).

In addition to the directors' fees set out under Remuneration of Directors, Ms Cheryl Bart, Ms Anne McDonald, Dr Keith Turner and Andrew Fay were entitled to directors' fees as representatives of Spark Infrastructure on the ETSA Utilities and CHEDHA Boards (the Asset Company Boards) as set out below. These fees were paid by the Asset Companies.

During the period Ms Bart was entitled to Director's fees totalling $100,000 as a Director on the ETSA boards comprised as follows:

- Non-Executive Director – annual fee of $75,000
- Chair of Audit Committee – additional annual fee of $15,000
- Member of Risk Management & Compliance Committee – annual fee of $10,000

23. Key Management Personnel Compensation (continued)

(a) Directors (continued)

During the period Ms McDonald was entitled to Director's fees totalling $100,000 as a Director on the CHEDHA boards comprised as follows:

- Non-Executive Director – annual fee of $75,000
- Member of Audit Committee – annual fee of $10,000
- Chair of Audit Committee – additional annual fee of $5,000
- Member of Risk Management & Compliance Committee – annual fee of $10,000

During the period Dr Keith Turner was entitled to annual Director's fees of $150,000 as a Director on the ETSA Utilities and CHEDHA boards comprised as follows:

- Non-Executive Director of the CHEDHA board – annual fee of $75,000
- Non-Executive Director of the ETSA board – annual fee of $75,000

During the period Andrew Fay was entitled to pro rata annual Director's fees of $170,000 as a Director on the ETSA Utilities and CHEDHA boards comprised as follows:

- Non-Executive Director of the CHEDHA board – annual fee of $75,000 (appointed 1 June 2011)
- Member of CHEDHA Remuneration Committee – annual fee of $10,000 (appointed 9 August 2011)
- Non-Executive Director of the ETSA board – annual fee of $75,000 (appointed 22 June 2011)
- Member of ETSA Remuneration Committee – annual fee of $10,000 (appointed 22 June 2011)

Ms Laura Reed, Spark's Chief Executive Officer and Managing Director, is an executive Director and receives no additional remuneration in her role as a Director over and above her executive remuneration detailed in Note 23(b).

The fees and payments to Directors reflect the demands and responsibilities as Directors.

The Directors' fees are reviewed annually by the Board and are subject to an aggregate fees pool limit of $2,000,000 per annum (inclusive of superannuation). Any increase to this limit will be submitted to the Securityholders at an Annual General Meeting for approval. The Directors do not receive securities, options or any performance related incentives. The Alternate Directors are not paid any fees.

Details of remuneration (including superannuation) of each Director paid or accrued in respect of the Financial Year are set out below:

Directors		Short term Employment Benefits Directors' Fees $	Post-Employment Benefits Superannuation $	Total $
Chairman				
Mr Brian Scullin [a,f]	**2011**	**90,327**	**6,916**	**97,243**
	2010	–	–	–
Non-Executive Directors				
Ms Cheryl Bart, *AO* [b]	**2011**	**100,917**	**9,083**	**110,000**
	2010	100,917	9,083	110,000
Mr Andrew Fay [b,c]	**2011**	**97,021**	**8,732**	**105,753**
	2010	69,059	6,215	75,274
Ms Anne McDonald [b,e,f,g]	**2011**	**117,651**	**10,589**	**128,240**
	2010	142,202	12,798	155,000
Dr Keith Turner [f]	**2011**	**101,616**	**–**	**101,616**
	2010	100,000	–	100,000

23. Key Management Personnel Compensation (continued)

(a) Directors (continued)

Directors		Short term Employment Benefits Directors' Fees $	Post-Employment Benefits Superannuation $	Total $
Directors who have retired/resigned:				
Mr Stephen Johns [h]	**2011**	**166,006**	**7,744**	**173,750**
	2010	210,170	14,830	225,000
Mr Andrew Hunter [b,d]	**2011**	**45,884**	**–**	**45,884**
	2010	110,000	–	110,000
Mr Don Morley [b,g,i]	**2011**	**45,922**	**4,133**	**50,055**
	2010	142,202	12,798	155,000
Mr Dominic Chan [a]	**2011**	**41,712**	**–**	**41,712**
	2010	59,066	–	59,066
Mr John Dorrian [b,d]	**2011**	**45,884**	**–**	**45,884**
	2010	110,000	–	110,000
Mr Hing Lam Kam [d,j]	2010	40,934	–	40,934
Mr Timothy Keith [d,k]	2010	20,342	–	20,342
Total	**2011**	**852,940**	**47,197**	**900,137**
	2010	1,104,892	55,724	1,160,616

a Mr Scullin was appointed a Director and Chairman Elect on 31 May 2011 and became Chairman on 30 September 2011.

b Ms Bart, Mr Dorrian, Mr Hunter, Ms McDonald and Mr Morley were members of the Audit and Risk Management Committee. Mr Morley was Chair up until 31 May 2011. Ms McDonald was chair from 31 May 2011. Mr Fay became a member of the Audit, Risk and Compliance Committee from 31 May 2011.

c Mr Fay was appointed on 31 March 2010.

d The Directors' fees for Mr Hunter and Mr Kam were paid to CKI, while the fees for Mr Keith and Mr Dorrian were paid to RREEF Infrastructure.

e Ms McDonald was also a member of the Compliance Committee (a sub-committee of the Board) during 2011.

f Ms McDonald, Mr Scullin and Mr Turner are members of the Remuneration Committee.

g Ms McDonald and Mr Morley were paid $35,000 each for Due Diligence responsibilities during 2010.

h Mr Johns retired on 30 September 2011.

i Mr Morley retired on 31 May 2011.

j Mr Kam retired on 28 May 2010.

k Mr Keith resigned on 15 March 2010.

Ms Reed was elected as a Director by Securityholders at the Extraordinary General Meeting ("EGM") on 20 May 2011, and appointed as Managing Director with effect from 31 May 2011. Her remuneration is declared with other KMP.

The remuneration of Spark Infrastructure's Directors is benchmarked to the remuneration of Directors of comparable enterprises periodically using an independent external consulting firm. A broad cross section of parameters is used by the external firms in determining comparable entities, including:

- Market capitalisation;
- Revenue; and
- Total assets.

The Directors' remuneration also takes into consideration the following matters:

- Fee levels for all Non-Executive Directors to be positioned between the median and the 75th percentile of the general market comprising comparable board roles in listed companies within the range of half to twice the market capitalisation, revenue and total assets of Spark Infrastructure;
- The Chairman's fee to be in the range of 2.0 and 2.5 times that of Non-Executive Directors;
- The Chairman of board committees (other than the Chairman of the Board) shall be eligible to receive a Committee chair fee in addition to the base Non-Executive Director fee;
- Members of board committees shall be eligible to receive a Committee membership fee in addition to the base Non-Executive Director fee, set at half the fee of the Committee chair (excluding the Compliance Committee which has an external chair); and
- In setting the fees applicable to Committee chairs and Committee members, the Board is to consider the relative workloads of committees.

23. Key Management Personnel Compensation (continued)

(a) Directors (continued)

The Directors and Board Committee members are paid a fixed remuneration as disclosed above. None of the remuneration is linked to the financial performance of Spark Infrastructure or its security price.

The annual remuneration, including post-employment benefits payable to Directors, is as follows:

Role	$
Chairman	225,000
Non-Executive Director	100,000
Additional fee for enhanced responsibility:	
— Chairman of ARC	20,000
— ARC member	10,000
— Chairman of Compliance Committee (External specialist appointment and not a Spark Infrastructure Director)	35,000
— Compliance Committee Member (External specialist appointment and not a Spark Infrastructure Director)	30,000
— Compliance Committee Member (Independent Director on the Board)	10,000

a The Compliance Committee held its last meeting on 21 July 2011 and merged with the Audit & Risk Management Committee to become the Audit, Risk and Compliance Committee.

The table includes remuneration paid to external specialist members of the Compliance Committee who are appointed to provide specialist knowledge and expertise and to meet the independence requirements for the Committee under the Corporations Act.

(b) Remuneration of Executives

Remuneration

The aggregate remuneration paid to Key Executives of Spark Infrastructure is set out below:

	2011 $	2010 $
Key Executives – short term benefits [a]	1,177,936	–
Key Executives – post employment benefits [b]	54,622	–
	1,232,558	–

a Includes STI accrued at 31 December 2011 paid in January 2012.

b Post-employment benefits relate to Superannuation Guarantee Contributions.

Spark's remuneration policy objectives are to:

- ensure Spark's remuneration structures are equitable and aligned with the long-term interests of Spark and its securityholders;
- attract and retain skilled executives;
- structure short and long term incentives that are challenging and linked to the creation of sustainable securityholder returns;
- ensure any termination benefits are justified and appropriate; and
- comply with applicable legal requirements and appropriate standards of governance.

Fixed remuneration is determined by reference to appropriate benchmark information, taking into account an individual's responsibilities, performance, qualifications and experience. Remuneration is targeted at market median levels. The benchmark used in relation to the year ended 31 December 2011 was a sub-group of Australian listed entities with similar market capitalisations and in similar industry sectors.

The Board initially set Fixed Annual Remuneration ("FAR") and short term incentives for the Group Executives at the time of the Internalisation. Subsequent to the Internalisation a review of Spark's executive remuneration was undertaken, with advice being obtained from external remuneration consultants.

Remuneration is divided into those components which are not directly linked to contribution and performance (FAR) and those components which are variable and directly linked to the delivery of personal Key Performance Indicators ("KPIs") and Spark's key business objectives including financial performance and security holder value creation ('at risk' remuneration).

Remuneration mix

Remuneration mix for senior executives is structured as a mix of FAR and 'at risk' short and long-term incentive opportunities. FAR generally consists of base salary and benefits at a guaranteed level. The proportion of fixed versus 'at risk' remuneration varies at different levels within Spark, reflecting the varying capacity of employees to influence Spark's operational performance and returns to securityholders.

23. Key Management Personnel Compensation (continued)

(b) Remuneration of Executives (continued)

In addition to FAR, a significant element of Group Executives' maximum potential remuneration is required to be at risk. Currently, 'at risk' remuneration is provided to Group Executives and certain other executives through the operation of both a Short Term Incentive ("STI") Plan and Long Term Incentive ("LTI") Plan.

The components of executive remuneration are as follows:

Remuneration component	Purpose	Delivery
Fixed Annual Remuneration	To reflect the market value of the role and the individual's skills and experience	Total of base salary (includes cash, superannuation guarantee levy, vehicles and parking) and incidental benefits paid in monthly instalments
'At Risk' components		
Short-term incentive opportunity	To reward strong performance against the achievement of specific business objectives	Cash-based incentive based on a mix of key performance indicators paid annually, after the end of the financial year
Long-term incentive opportunity	To link executive reward with securityholder value	Cash-settled incentive based on achievement of board mandated total securityholder return ('TSR'), performance conditions, paid after a 3-year performance and vesting period

An individual's maximum potential remuneration may be achieved only where they have achieved and surpassed challenging KPIs.

Executive Service Contracts as at 1 January 2012

Group Executive	Contract Type & Any Special Terms	FAR $	STI Opportunity (% of FAR)	LTI Opportunity (% of FAR)	Notice/Termination Period[a]
Laura Reed Managing Director and Chief Executive Officer	Permanent	650,000	60%	60%	6 months/6 months
Rick Francis Chief Financial Officer	Permanent	445,000	50%	50%	6 months/6 months
Alexandra Finley Company Secretary	Permanent	261,250	40%	40%	3 months/3 months

a Notice/termination period refers to the number of months' notice required to be given by Spark to the employee and by the employee to Spark respectively.

The other key terms of the contractual arrangements for each of the key management personnel are set out below:

Name and title and commencement date	Term and termination provisions/benefits
Laura Reed Managing Director since 31 May 2011 Chief Executive Officer since 5 September 2008	– On termination with cause, Spark Infrastructure will pay any FAR due and owing at the date of termination and any accrued entitlements. – On redundancy or termination without cause, Spark Infrastructure will pay an additional 52 weeks FAR, a bonus at the discretion of the Board and any accrued leave entitlements. Spark Infrastructure will also pay any FAR due and owing, including any STI and LTI not yet vested at the date of redundancy or termination.
Rick Francis Chief Financial Officer since 1 February 2009	– On termination with cause, Spark Infrastructure will pay any FAR due and owing at the date of termination and any accrued leave entitlements. – On redundancy or termination without cause, Spark Infrastructure will pay an additional 52 weeks FAR (including STI and LTI), the STI and LTI for the current year of service and any accrued leave entitlements. Spark Infrastructure will also pay any FAR due and owing including any STI and LTI not yet vested at the date of redundancy or termination.
Alexandra Finley General Counsel and Company Secretary since 1 September 2008	– No defined term.

23. Key Management Personnel Compensation (continued)

(b) Remuneration of Executives (continued)

Short Term Incentives for 2011

The STI plan is designed to put a proportion of executive remuneration 'at risk' against meeting individual and Group KPIs linked to various financial and non-financial measures, such as:

- Various financial and compliance based measures including cost control, asset management, investment management, capital management and maintenance of controls and compliance environments; and
- Non-financial and strategic measures such as stakeholder and investor relations, strategy, special projects and people management and culture.

No STI payments were made between date of Internalisation on 31 May 2011 and 31 December 2011. However, Group Executives and certain other executives are eligible to receive STI payments annually from early 2012 subject to individual and corporate performance. The payments made in January 2012, set out below, reflect performance between 1 June 2011 and 31 December 2011. Subject to the Board's discretion, potential STI opportunities range up to 60% of FAR, which for 2011 was adjusted to reflect the pro-rata 7 month period to which they relate.

For 2011, the STI outcomes are shown in the table below for all Group Executives:

Executive	STI earned ($)	STI forfeited ($)	STI achieved (% of Opportunity)	STI forfeited (% of Opportunity)
Laura Reed	260,400	–	120.0	–
Rick Francis	115,000	8,958	92.8	7.2
Alexandra Finley	50,000	8,333	85.7	14.3

The STI earned by Ms Reed was determined by the RemCo having regard to her excellent performance during 2011.

There are no comparatives as Spark did not directly employ any executives in 2010.

Long term incentives for 2011

To link executive reward with securityholder value and to enhance executive retention, a LTI plan was implemented during 2011. Advice was sought from remuneration advisers with respect to the appropriate structure and quantum of LTI opportunity for Spark executives.

Total Securityholder Return ("TSR") has been chosen by the Board as the key performance benchmark for the determination of the LTI. The target LTI opportunity is the same as the relevant executive's STI opportunity. It is intended that LTI opportunities be allocated on an annual basis. The LTI plan is a cash-based 'phantom' security plan, whereby notional reference securities are granted that track the value of Spark's security price over a 3-year performance and vesting period. The reference securities allocated under the LTI plan are not actual Spark securities, but the number of notional securities with a value equivalent to the LTI initial target opportunity. LTI allocations do not entitle participants to vote at securityholder meetings. Cash-equivalent distributions on the notional securities are tracked throughout the vesting period. Upon vesting, the cash equivalent distributions, corresponding to the number of securities that vested, is also paid to participants as a one-off payment. No cash equivalent distributions are paid prior to vesting, nor on any notional units that do not ultimately vest.

Participants must remain employed by Spark to access any vesting benefit. The treatment of unvested LTI notional securities on termination of employment will vary based on whether the executive is a qualifying or non-qualifying leaver as assessed by the Board. The terms of the LTI plan are available on the Spark website at www.sparkinfrastructure.com

The start date for the FY2011 LTI allocation is 1 June 2011, which aligned with the start of self-management of Spark following Internalisation. The performance period for the FY2011 LTI allocation will be 2 years and 7 months (ending 31 December 2013), reflecting the part year in 2011 following Internalisation. Future awards will be tracked over a 3-year performance period starting at the beginning of the relevant financial year. Each reference security is valued at a market based 'starting security price', being the 30 trading days' volume weighted average market price ("VWAP") of a Spark stapled security immediately prior to the start of the performance period. The 'closing security price' for TSR purposes will be the VWAP of Spark's securities in the 30 trading days' period prior to the end of the performance period.

23. Key Management Personnel Compensation (continued)

(b) Remuneration of Executives (continued)

Relative TSR performance is separately assessed against two peer groups, being:

- companies in the S&P ASX 200 index (50% weighting); and
- Spark's key peers in the gas, electricity and multi-utilities sector, being APA Group, DUET Group, Envestra, Hastings Diversified Utilities Fund and SP Ausnet (50% weighting).

For the ASX 200 peer group component, pro-rata vesting on a straight line basis arises between the 51st percentile (50% vesting) and 100th percentile (vesting capped at 150%). No amount would vest if performance was below the 51st percentile relative to the ASX 200 peer group. Similarly, relative TSR performance ranking against the key sector peers will result in vesting ranging between 0% and 150%.

The LTI opportunity for 2011 was adjusted to reflect the pro-rata 7 month period to which it relates. Notional TSR achievement for the 7 months from 1 June 2011 to 31 December 2011 has been determined against the two reference groups as 94%.

The allocation of reference securities in respect of 2011 for all key management personnel were as follows:

Executive	Notional Reference Securities No.	Fair Value of liability recognised in 2011 $
Laura Reed	–	–
Rick Francis	103,298	33,335
Alexandra Finley	48,611	15,687

No LTI opportunity for 2011 was granted to Ms Reed due to her announced retirement.

Notional securities were allocated under the LTI plan at a market based 30 trading day VWAP value of $1.20 and valued at year end at $1.31 per security. The value attributed for the 7 month period represents the fair value of the expense for the period, taking into account the notional vesting percentage based on performance to date, the VWAP of the reference securities at the end of the period and the cash distributions paid to date on the notional vesting number of reference securities.

Current LTI reference units outstanding

The following table sets out the number of reference securities that have been allocated to Group Executives at 31 December 2011 but have not yet vested or been paid, and the years in which they may vest:

		Vesting Year		
Key Management Personnel	Total Notional Reference Securities # No.	31 Dec 2011	31 Dec 2012	31 Dec 2013
Laura Reed	–	–	–	–
Rick Francis	103,298	–	–	103,298
Alexandra Finley	48,611	–	–	48,611

There are no comparatives because Spark did not directly employ any executives in 2010.

No amounts have vested as at 31 December 2011. No options or other equity instruments are issued to Spark employees or Directors under the LTI plan.

23. Key Management Personnel Compensation (continued)

(b) Remuneration of Executives (continued)

Aggregate remuneration in respect of the 7 month period ended 31 December 2011

The table below includes amounts in respect of the period since Internalisation, being 1 June 2011 to 31 December 2011, including:

- Amounts paid during 2011;
- Other non-cash benefits received;
- STI amounts earned during 2011 and paid January 2012; and
- a fair value of LTI awards expensed in respect of the period, noting that that these LTI awards are still subject to performance and vesting conditions and will not vest until 31 December 2013, if at all:

Group Executive	Salary $	STI earned $	Other non-cash benefits $	Post-employment benefits (Superannuation) $	LTI expense $	Total 2011 $
Laura Reed	358,779	260,400	–	21,023	–	640,202
Rick Francis	238,762	115,000	9,158	21,339	33,335	417,594
Alexandra Finley	136,679	50,000	9,158	12,260	15,687	223,784
Total	734,220	425,400	18,316	54,622	49,022	1,281,580

Actual remuneration received during the 7 month period ended 31 December 2011

The following table outlines the actual remuneration received by key management personnel during 2011:

Group Executive	Salary $	STI paid $	Other non-cash benefits $	Post-employment benefits (Superannuation) $	LTI paid $	Total paid 2011 $
Laura Reed	358,779	–	–	21,023	–	379,802
Rick Francis	238,762	–	9,158	21,339	–	269,259
Alexandra Finley	136,679	–	9,158	12,260	–	158,097
Total	734,220	–	18,316	54,622	–	807,158

Amounts in the table above cover the period since Internalisation, 1 June 2011 to 31 December 2011.

There are no comparatives because Spark did not directly employ any executives in 2010.

24. Related Party Disclosures

(a) Directors

Details of the Directors remuneration are disclosed in Note 23(a).

Security Holdings

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

2011 Directors	Opening Balance 1 January 2011 (No.)	Net Movement Acquired/ (Disposed) (No.)	Closing Balance 31 December 2011 (No.)
Mr Brian Scullin [a]	–	–	–
Ms Cheryl Bart, *AO*	160,714	–	160,714
Mr Andrew Fay [c,f]	50,000	100,000	150,000
Ms Anne McDonald	–	40,000	40,000
Dr Keith Turner	–	50,000	50,000
Ms Laura Reed [b]	–	17,500	63,785
Retired/resigned during 2011:			
Mr Stephen Johns [d]	424,285	–	–
Mr Don Morley [e]	40,000	–	–
Mr Andrew Hunter [f]	–	–	–
Mr Dominic Chan [f]	295,713	–	–
Mr John Dorrian [f]	175,407	–	–

a Mr Scullin was appointed Chairman Elect on 31 May 2011 and became Chairman on 1 October 2011.

b Ms Reed was elected as Managing Director by Securityholders at the Extraordinary General Meeting ("EGM"), with effect from 31 May 2011. Ms Reed's shareholding balance prior to becoming a Director was 46,285.

c Mr Fay was elected as a Non-Executive Director by Securityholders at the EGM, with effect from 31 May 2011.

d Mr Johns retired 30 September 2011.

e Mr Morley retired 31 May 2011.

f The Internalisation of Spark Infrastructure's management arrangements was approved by Securityholders at the EGM held on 20 May 2011. Messrs Chan, Dorrian, Fay and Hunter resigned from the Board with effect from completion of the Internalisation on 31 May 2011.

24. Related Party Disclosures (continued)

(a) Directors (continued)

Security Holdings (continued)

The relevant interest of each Director of Spark Infrastructure in respect of the previous financial year was as follows:

2010 Directors	Opening Balance 1 January 2010 (No.)	Net Movement Acquired/ (Disposed) (No.)	Closing Balance 31 December 2010 (No.)
Mr Stephen Johns	355,000	69,285	424,285
Ms Cheryl Bart, *AO*	125,000	35,714	160,714
Mr John Dorrian	136,428	38,979	175,407
Mr Dominic Chan [c]	–	–	–
Mr Andrew Fay [d]	–	50,000	50,000
Mr Andrew Hunter	–	–	–
Mr Hing Lam Kam [a]	–	–	–
Mr Timothy Keith [b]	–	–	–
Ms Anne McDonald	–	40,000	40,000
Mr Don Morley	225,000	70,713	295,713
Dr Keith Turner	–	–	–

a Retired 28 May 2010.
b Resigned 15 March 2010.
c Alternate Director for Mr Kam until 28 May 2010. Appointed as Director on 28 May 2010.
d Appointed 31 March 2010.

(b) Executives

Details of the Executives remuneration are disclosed in Note 23(b).

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

Name	Opening Balance 31 May 2011 No.	Net Movement Acquired/ (Disposed) (No.)	Closing Balance 31 December 2011 (No.)
Laura Reed	63,785	–	63,785
Rick Francis	10,000	–	10,000
Alexandra Finley	–	–	–

There are no comparatives because Spark Infrastructure did not directly employ any executives in 2010.

24. Related Party Disclosures (continued)

(c) Manager

As provided in Note 29, Spark Infrastructure internalised the operations of the Manager on 31 May 2011. In future periods there will be no further base fees or performance fees payable. Prior to 31 May 2011 Spark Infrastructure had a Management Agreement with the Manager to provide management services. The services provided included development of financial and investment strategy, preparation of investment proposals for approval by the Board, development of proposals for debt and equity raising and management of day to day operations.

The Manager was entitled to a base fee and a performance fee. The base fee was calculated at 0.5% of the enterprise value of Spark Infrastructure up to $2.443 billion plus 1.0% of any amount over $2.443 billion.

During the period to 31 May 2011 an amount of $3.504 million (FY 2010: $8.281 million) was paid to the Manager in base fees.

Performance Fee

As part of the Internalisation agreement no performance fee was payable for the period up to 31 May 2011 (2010: nil).

(d) Responsible Entity

The responsible entity of Spark Trust is Spark RE. As provided in Note 29 Spark Infrastructure acquired Spark RE on 31 May 2011 and ceased paying any fees to Spark RE. During the period to 31 May 2011 an amount of $41,667 (2010: $100,000) was paid to Spark RE for acting as trustee.

(e) Key Management Personnel ("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 along with their remuneration in Note 23. Shareholding details are disclosed in Note 24(b).

(f) Other Related Parties

The other related parties include:

- associates;
- subsidiaries; and
- entities within Spark Infrastructure.

Associates

The details of ownership interests in associates are provided in Note 7. The details of interest receivable and loans provided to associates are detailed in Notes 5 and 8 respectively. Details of interest income on these loans are detailed in Note 3(a).

Subsidiaries

The details of ownership interest in subsidiaries are provided in Note 26. The terms of the tax sharing and tax funding agreements entered into by SIH No. 1, SIH No. 2 and SIH No. 3 with their subsidiaries are provided in Note 4.

Entities within Spark Infrastructure

There are loans receivable by the Trust from other entities within Spark Infrastructure, being Spark Infrastructure (Victoria) Pty Limited, Spark Infrastructure (SA) Pty Limited, and Spark Infrastructure Holdings No.3 Pty Limited.

25. Subsequent Events

There were no events, other than those described in this report, that have arisen since the end of the Financial Year that have significantly affected or may significantly affect the operations of Spark Infrastructure.

26. Controlled Entities

Entity	Country of Incorporation	2011 Equity Holdings (%)	2010 Equity Holdings (%)
Controlled entities of Spark Infrastructure Trust:			
— Spark Infrastructure Holdings No. 1 Pty Limited (SIH No.1)[a]	Australia	100	100
— Spark Infrastructure Holdings No. 2 Pty Limited (SIH No. 2)[a]	Australia	100	100
— Spark Infrastructure Holdings No. 3 Pty Limited (SIH No. 3)[a,e]	Australia	100	100
Controlled entity of SIH No. 1:[a]			
— Spark Infrastructure (Victoria) Pty Limited b	Australia	100	100
Controlled entities of SIH No. 2:[a]			
— Spark Infrastructure (South Australia) Pty Limited[c]	Australia	100	100
— Spark Infrastructure SA (No 1) Pty Limited[c]	Australia	100	100
— Spark Infrastructure SA (No 2) Pty Limited[c]	Australia	100	100
— Spark Infrastructure SA (No 3) Pty Limited[c]	Australia	100	100
Controlled entities of SIH No. 3:[a]			
— Spark Infrastructure Holdings No. 4 Pty Limited (SIH No.4)[d,f]	Australia	100	–
— Spark Infrastructure Holdings No. 5 Pty Limited (SIH No. 5)[d]	Australia	100	–
— Spark Infrastructure RE Ltd[d]	Australia	100	–
— Spark Infrastructure Management Ltd[d]	Australia	100	–

a Head entity of a tax consolidated group.

b An entity within a tax consolidated group with SIH No. 1 as the head entity.

c An entity within a tax consolidated group with SIH No. 2 as the head entity.

d An entity within a tax consolidated group with SIH No. 3 as the head entity.

e SIH No. 3 changed its name from Spark Infrastructure Holdings International Limited and became a proprietary limited company at 31 May 2011.

f SIH No. 4 changed its name from CKI RREEF JV Holdings Pty Limited at 31 May 2011.

27. Notes to the Statement of Cash Flows

(a) Reconciliation of Cash and Cash Equivalents

For the purposes of the Statement of Cashflows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents as at the end of the Financial Year as shown in the Statement of Cashflows is reconciled to the related items in the Statement of Financial Position as follows:

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Cash on hand and at bank	17,203	5,888
Cash at bank held for AFSL purposes[1]	5,000	–
Cash at call	10,698	83,387
Cash and Cash Equivalents	32,901	89,275

1 Quarantined cash to meet the Responsible Entity's Australian Financial Services Licence financial requirements. This cash is not available for day-to-day operating purposes

(b) Committed Financing Facilities

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Syndicated unsecured bank loan facilities:		
— Amount used	85,000	125,000
— Amount unused	165,000	125,000
	250,000	250,000

27. Notes to the Statement of Cash Flows (continued)

(b) Committed Financing Facilities (continued)

Committed Finance Facility maturities are:

- September 2013: $165.000 million 3-year revolving facility
- September 2014: $85.000 million 4-year term loan

(c) Reconciliation of Profit for the Financial Year to Net Cash inflows related to Operating Activities:

	Year Ended 31 Dec 2011 $'000	Year Ended 31 Dec 2010 $'000
Net profit after tax	**82,580**	80,947
Addback/(subtract):		
Loan Note interest expense	**93,371**	160,110
Non-cash interest expense	**1,072**	266
Internalisation Expenses	**51,487**	–
Non-cash amortisation expense	**24**	40
Increase/(decrease) in tax balances	**41,791**	(2,145)
Share of profits of associates (less dividends/distribution)	**(94,468)**	(91,068)
Changes in net assets and liabilities:		
(Increase)/decrease in current receivables	**18,048**	(16,054)
Increase/(decrease) in current payables	**(4,949)**	2,229
Net cash inflow related to operating activities	**188,956**	134,325

(d) Bank Guarantee facility:

A bank guarantee of $0.420 million equivalent to 12 months' rent and share of outgoings plus GST has been provided to the Landlord in respect of Spark Infrastructure's office lease. A bank guarantee of $0.020 million has been provided to ASIC as a performance bond on behalf of Spark Infrastructure Management Limited.

28. 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 the internal auditors on a regular basis.

Spark Infrastructure's activities expose it primarily to the financial risks of changes in interest rates. Spark Infrastructure enters into interest rate swaps to manage its exposure to interest rate movements, including interest rate swaps, forward interest rate contracts and interest rate options. Spark Infrastructure has no exposure to foreign currency.

(b) Capital Risk Management

The capital structure of Spark Infrastructure comprises debt, 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 2011 was $2,170.606 million (2010: $2,235.073 million) comprising $836.786 million (2010: $836.766 million) in Loan Notes and $1,333.820 million (2010: $1,398.307 million) in equity attributable to the Securityholders.

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 debt covenants under the senior debt facility require, inter alia, that the gearing at Spark Infrastructure does not exceed 30% and on a consolidated basis (including its proportionate share of debt of the Asset Companies) the gearing does not exceed 75% at any time. During the Financial Year, Spark Infrastructure complied with all of its debt covenants.

28. Financial Instruments (continued)

(b) Capital Risk Management (continued)

Spark Infrastructure holds a 49% interest in CHEDHA and ETSA Utilities and as such, does not control these businesses and is not in a position to determine their distribution policy. Further, the revenue of the Asset Companies is significantly reliant on the regulatory determinations of the AER. This could in turn impact on distributions received by Spark Infrastructure.

(c) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1.

(d) Categories of Financial Instruments

	31 Dec 2011 $'000	31 Dec 2010 $'000
Financial assets		
Cash & Cash Equivalents	**32,901**	89,275
Receivables from Associates	**11,233**	29,011
Loans to Associates	**745,601**	745,601
Financial liabilities		
Payables	**3,886**	8,610
Loan Note interest payable	**47,099**	90,647
Derivative instruments in designated hedge accounting relationships	**5,665**	480
Loans at amortised cost	**82,867**	121,815
Loan Notes at amortised cost	**836,786**	836,766

(e) Financial Market Risk

The principal financial market risk that Spark Infrastructure is exposed to is interest rate risk. Note 28(f) below discusses the strategy adopted to manage this risk. Spark Infrastructure does not have any other financial market risk.

Further, the revenue of the Asset Companies is significantly reliant on the regulatory determinations of the AER. This could in turn impact on distributions received by Spark Infrastructure.

(f) Interest Rate Risk Management

Spark Infrastructure is exposed to interest rate risk as it borrows funds at floating interest rates. The risk is managed principally through the use of interest rate swap contracts.

Interest Rate Swap Contracts

Under interest rate swap contracts, Spark Infrastructure agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable Spark Infrastructure to mitigate the risk of changing interest rates on debt held. The fair values of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below. The average interest rate is based on the outstanding balances at the end of the Financial Year.

As Spark Infrastructure's interest bearing liabilities are either at a fixed rate of interest or are currently significantly hedged to a fixed rate of interest, any movement in interest rates in the Financial Year would have had a minimal impact on the net profit attributable to Spark Infrastructure.

The sensitivity analysis contained in the table below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at reporting date. The impact of a 100 basis points ("bps") movement has been selected as this is considered reasonable given the current level of both short and long term Australian dollar interest rates.

28. Financial Instruments (continued)

(f) Interest Rate Risk Management (continued)

Interest Rate Sensitivity Analysis

Gain/(loss)	Net Profit ($'000)		Other Comprehensive Income ($'000)	
100 bps increase in interest rate	**2011**	**2010**	**2011**	**2010**
Variable Rate	**(850)**	(1,250)	**–**	–
Derivatives in hedging relationships	**850**	1,000	**2,851**	5,579
Total	**–**	(250)	**2,851**	5,579

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

	Notional Principal Amount		Fair Value Amount		Outstanding Floating for Fixed Contracts	
Average Contracted Fixed Interest rate	**2011 (%)**	**2010 (%)**	**2011 $'000**	**2010 $'000**	**2011 $'000**	**2010 $'000**
Less than 1 year	**–**	5.30	**–**	100,000	**–**	(79)
1 to 3 years	**–**	–	**–**	–	**–**	–
4 to 5 years	**5.98**	5.98	**85,000**	85,000	**(5,665)**	(401)
			85,000	185,000	**(5,665)**	(480)

All interest rate swap contracts on behalf of Spark Infrastructure have 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.

The interest rate swap contracts, exchanging floating rate interest amounts for fixed rate interest amounts, are designated and effective as cash flow hedges. The floating rate on the interest rate swaps is the Bank Bill Swap Bid Rate ("BBSY"), which is used as the basis of pricing financial instruments in Australia. Spark Infrastructure settles the difference between fixed and floating interest rates on a net basis.

(g) Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to Spark Infrastructure. Spark Infrastructure's credit risk arises from cash held on deposit. 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 are spread amongst approved counterparties to minimise risk to any single counterparty.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

(h) Liquidity Risk Management

Spark Infrastructure manages liquidity by maintaining adequate cash reserves and banking facilities and continuously monitoring forecast and actual cash flows. Details of undrawn facilities are provided in Note 27.

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.

28. Financial Instruments (continued)

(h) Liquidity Risk Management (continued)

Liquidity and Interest Risk Tables (continued)

2011	Weighted average effective interest rate % pa	Less than 1 month $'000	1-3 Months $'000	3 months to 1 Year $'000	2-5 Years $'000	5+ Years $'000	Total $'000
Payables	–	–	3,672	30	161	23	3,886
Interest bearing liabilities [a]	8.03	–	315	6,511	103,770	–	110,596
Loan Notes attributable to Securityholders [b]	10.85	–	47,099	46,436	374,139	9,186,971	9,654,645
Total		–	51,086	52,977	478,070	9,186,994	9,769,127

2010	Weighted average effective interest rate % pa	Less than 1 month $'000	1-3 Months $'000	3 months to 1 Year $'000	2-5 Years $'000	5+ Years $'000	Total $'000
Payables	–	–	8,610	–	–	–	8,610
Interest bearing liabilities [a]	7.31	–	422	8,717	156,347	–	165,486
Loan Notes attributable to Securityholders [b]	10.85	–	90,647	46,436	371,486	9,176,592	9,685,161
Total		–	99,679	55,153	527,833	9,176,592	9,859,257

a Effective interest rate reflects hedged rate.

b The Loan Notes have a term of 100 years, maturing in 2105. 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.

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. No change was made at that date to either the interest rate or the 5 year reset period. For future reset periods, any change (if made) to the interest rate is based on 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 90 years of the Loan Notes post 30 November 2015 (the next reset date), however the actual rate for each reset period will be subject to finalisation at future points in time.

The amounts disclosed in the tables above reflect undiscounted amounts for interest for the remaining 94 years of the Loan Notes plus the outstanding principal due in 2105. The outstanding principal as at 2011 was $0.65 per Loan Note (2010: $0.65 per Loan Note). The Responsible Entity may defer interest payments, by notice to the Note Trustee and Noteholders. Interest continues to accrue on any outstanding amount. All outstanding interest must be paid on the next reset date, except to the extent that monies are owing by a Stapled Entity to any bank, financial institution or other entity providing financial accommodation (secured or unsecured) for over $5.000 million. Deferral of interest payments, and non-payment on a reset date in the circumstances described above, does not constitute a default.

(i) Fair Value of Financial Instruments

The Directors consider that the carrying amount of financial assets and financial liabilities recorded in these consolidated financial statements approximates their fair values.

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair values of derivative instruments, included in hedging assets and liabilities, are calculated using market values. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

28. Financial Instruments (continued)

(i) Fair Value of Financial Instruments (continued)

The only financial instruments measured subsequent to initial recognition at fair values are the derivative instruments in designated hedge accounting relationships. The fair value measurements are derived from observable inputs other than quoted prices. These are deemed to be level 2 fair value measurements in accordance with AASB 139.

29. Internalisation – Acquisition of CKI RREEF JV Holdings Pty Limited

On 31 May 2011 2011, Spark Infrastructure completed the acquisition of all the shares in CKI RREEF JV Holdings Pty Limited (subsequently renamed Spark Infrastructure Holdings No. 4 Pty Limited), which was the holding company of Spark Infrastructure's previous external Manager (Spark Infrastructure Management Limited) and Spark Infrastructure Trust's responsible entity (Spark Infrastructure RE Limited) from CKI and RREEF for a one-off upfront payment of $49.000 million and a payment of $2.002 million for the net working capital balances (i.e. predominantly cash or cash settled balances).

Consideration transferred:

	$'000
Cash	
Internalisation Payment	49,000
Payment for net working capital balances	2,002
	51,002

In addition, Spark Infrastructure incurred one-off transaction costs of $2.487 million. The Internalisation Payment of $49.000 million and the transaction costs of $2.487 million have been recognised directly in the profit and loss in the Current Period and disclosed as separate items in the Consolidated Statement of Comprehensive Income.

The assets acquired and liabilities assumed at the date of acquisition were as follows:

	$'000
Current Assets	
Cash	4,497
Receivables	1,468
	5,965
Current Liabilities	
Payables	1,463
Loan from RREEF	2,500
	3,963
Payment for Net Working Capital Balances	2,002
Total Consideration paid	51,002
Less: cash balances acquired	(4,497)
Net cash outflow arising on acquisition	46,505
Repayment of Loan from RREEF post-acquisition	2,500
	49,005

Pro-forma impact of acquisition on the results of the Group

Had the Internalisation been effected on 1 January 2011, the underlying profit for the year attributable to Securityholders from continuing operations would have been $167.291 million. The Directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on a full year basis and to provide a reference point for comparison in future periods. These pro-forma numbers exclude any notional performance fee calculation.

29. Internalisation – Acquisition of CKI RREEF JV Holdings Pty Limited (continued)

Pro-forma impact of acquisition on the results of the Group (continued)

	Year Ended 31 Dec 2011 $'000
Underlying Profit as reported	166,930
Add back: Management fees paid to ex-Manager	3,504
Less: 5 months of self-management expenses (annualised cost $5.000 million)	(2,080)
Less: 5 months of interest income foregone on the $51.000 million Internalisation payments (assuming 5% interest rate)	(1,063)
Pro-forma Underlying Profit	167,291

30. Parent entity financial information

(a) Summary financial information

The following aggregate amounts are disclosed in respect of the Parent, Spark Infrastructure Trust:

Financial Position	31 Dec 2011 $'000	31 Dec 2010 $'000
Current assets	109,723	197,702
Non-current assets	1,916,872	1,917,387
Total assets	2,026,595	2,115,089
Current liabilities	47,151	90,709
Non-current liabilities	832,828	865,819
Total liabilities	879,979	956,528
Net Assets	1,146,616	1,158,561
Equity		
Issued capital	1,116,748	1,133,332
Retained earnings	29,868	25,229
Total equity	1,146,616	1,158,561
Financial Performance		
Net profit/(loss) for the year	4,639	(4,550)
Other comprehensive income	–	–
Total comprehensive loss for the Financial Year	4,639	(4,550)

(b) Guarantees entered into by the Parent Entity

The Parent Entity has not provided any financial guarantees in respect of bank guarantees and loans of subsidiaries or any unsecured guarantees at 31 December 2011 (2010: nil).

(c) Contingent liabilities of the parent entity

The Parent Entity did not have any contingent liabilities as at 31 December 2011 (2010: nil).

(d) Contractual commitments for the acquisition of property, plant and equipment by the parent entity

As at 31 December 2011, the Parent Entity had no contractual commitments (2010: nil).

31. Additional Information

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

Level 25, 259 George Street
Sydney NSW 2000
Australia

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

DX: 10307SSE
Tel: +61 (0) 2 9322 7000
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Independent Auditor's Report to the members of Spark Infrastructure Trust

Report on the Financial Report

We have audited the accompanying financial report of Spark Infrastructure Trust (the 'Trust'), which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Trust and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 23 to 67.

Directors' Responsibility for the Financial Report

The directors of the trustee 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Deloitte.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Spark Infrastructure Trust, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Spark Infrastructure Trust is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 21 of the directors' report for the year ended 31 December 2011. The directors of the trustee are responsible for the preparation and presentation of the Remuneration Report and have voluntarily complied 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.

Opinion

In our opinion the Remuneration Report of Spark Infrastructure Trust for the year ended 31 December 2011, complies with section 300A of the *Corporations Act 2001*.

Report on Non-IFRS Financial Information

We have audited the non-IFRS financial information disclosed as 'Underlying Results' included in page 7 of the directors' report for the year ended 31 December 2011. The directors of the trustee are responsible for the preparation and presentation of the non-IFRS financial information in accordance with the basis of preparation described in the directors' report in the section entitled 'Underlying Results' on page 7. Our responsibility is to express an opinion on the non-IFRS financial information, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte.

Opinion

In our opinion, the non-IFRS financial information disclosed as ‘Underlying Results’ included in page 7 of the directors’ report for the year ended 31 December 2011, is prepared, in all material respects, in accordance with the basis of preparation set out in the directors’ report in the section entitled ‘Underlying Results’ on page 7.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

BJ Pollock
Partner
Chartered Accountants
Sydney, 24 February 2012

Additional ASX Disclosures

ASX requires certain disclosures to be made in the annual report, which are set out below.

Stapling

As a part of the usual conditions of listing a stapled structure ASX reserves the right to remove the Spark Infrastructure Trust (the Stapled Entity) from the official list if:

- any of the securities cease to be "stapled" to the corresponding securities of the Stapled Entity; or
- any security is issued by the Stapled Entity which is not stapled to corresponding securities of the Stapled Entity.

Divestment of securities

Certain provisions in the Constitution of Spark Infrastructure Trust and Note Trust Deed (the Stapled Entity Constitutions) permit the divestment of securities in limited circumstances. These are summarised below.

Designated Foreign Holders

In certain circumstances Spark Infrastructure may divest a foreign holder of their Stapled Securities. This may occur where Spark Infrastructure wishes to issue or transfer a further security which is to be stapled to the already existing Stapled Securities ("New Attached Security"), but the issue of the New Attached Security to certain foreign holders would be unreasonable in Spark Infrastructure's opinion. In that case, rather than issue New Attached Securities to those foreign holders, Spark Infrastructure may instead divest those foreign holders of their existing Stapled Securities.

Spark Infrastructure may cause New Attached Securities to be stapled provided certain conditions are satisfied including:

- the New Attached Security is (or will be) officially quoted;
- the ASX has indicated that it will approve the stapling of the New Attached Security to the Stapled Securities;
- the Stapled Entity (excluding the issuer of the New Attached Security) has agreed to the stapling of the New Attached Security to the Stapled Security and that the stapling of the New Attached Security is in the best interest of holders as a whole and is consistent with the then investment objectives of Spark Infrastructure;
- the constituent documents for the New Attached Security have provisions giving effect to the stapling;
- the issuer of the New Attached Security has agreed to enter into the Accession Deed;
- where the New Attached Security is partly-paid, or approved from holders is required to the transaction, approval of the holders has been obtained; and
- the number of New Attached Securities issued is identical to the number of Stapled Securities on issue.

The issue/transfer of a New Attached Security to a foreign holder may require compliance with legal and regulatory requirements in the foreign jurisdiction. Subject to applicable ASIC relief, the provisions in the Stapled Entity Constitutions relating to the stapling of securities provide that Spark Infrastructure will have the ability to determine that a Foreign Investor (a holder whose address in the register is in a place other than Australia) is a Designated Foreign Holder and divest that Designated Foreign Holder of their Stapled Securities where Spark Infrastructure determines that it is unreasonable to issue or transfer New Attached Securities to such holders, having regard to the following criteria:

- the number of Foreign Investors in the foreign place;
- the number and the value of New Attached Securities that may be issued or transferred to the Foreign Investors in the foreign place; and
- the cost of complying with legal requirements and the requirements of any relevant regulatory authority applicable to the issue or transfer of the New Attached Securities in the foreign place.

Where Designated Foreign Holders are divested of their Stapled Securities they will receive the proceeds of sale of those Stapled Securities (net of transaction costs including without limitation any applicable brokerage, stamp duty and other taxes or charges) as soon as practicable after the sale.

Stapled Securities are issued on terms under which each investor who is or becomes a Designated Foreign Holder agrees to the above terms and irrevocably appoints each Stapled Entity as that holder's agent and attorney to do all acts and things and execute all documents which Spark Infrastructure considers necessary, desirable or reasonably incidental to effect the above actions.

Excluded US Persons

The Stapled Securities have not been, and will not be, registered under the US Securities Act and none of the Stapled Entities have been, or will be, registered under the US Investment Company Act. Accordingly, the securities may not be offered, sold or resold in, the United States or to, or for the account or benefit of US Persons except in accordance with an available exemption from, or a transaction not subject to, the registration requirements of the US Securities Act, the US Investment Company Act and applicable United States state securities laws[1].

In order to at all times qualify for the exemptions, the provisions of the Stapled Entity Constitutions dealing with stapling of securities provide that where a holder is an Excluded US Person:

- the Stapled Entity may refuse to register a transfer of Stapled Securities to that Excluded US Person; or
- the Excluded US Person may be requested to sell their Stapled Securities and if they fail to do so within 30 Business Days, to be divested of their Stapled Securities and to receive the proceeds of sale (net of transaction costs including without limitation any applicable brokerage, stamp duty and other taxes or charges) as soon as practicable after the sale.

In addition, the provisions in the Stapled Entity Constitutions relating to the stapling of securities provide that a holder may be required to complete a statutory declaration in relation to whether they (or any person on whose account or benefit it holds Stapled Securities) are an Excluded US Person. Any holder who does not comply with such a request can be treated as an Excluded US Person.

Stapled Securities are issued on terms under which each holder who is or becomes an Excluded US Person agrees to the above terms and irrevocably appoints the Stapled Entity as that holder's agent and attorney to do all acts and things and execute all documents which Spark Infrastructure considers necessary, desirable or reasonably incidental to effect the above actions.

1 Stapled Securities are not permitted to be held by or for the account or benefit of any US person (as defined in Rule 902 of Regulation S under the US Securities Act, as amended) who is not both a qualified institutional buyer (QIB) (as defined in Rule 144A of the US Securities Act) and also a qualified purchaser (QP) (as defined in Section 2(a)(51) of the US Investment Company Act, as amended and the rules and regulations of the Securities and Exchange Commission promulgated thereunder). The Stapled Entity may determine that an investor is an Excluded US Person, if it considers the investor is a US person that is not both a QIB and a QP, or holds or will hold Stapled Securities for the account or benefit of any UP person who is not both a QIB and a QP.

Securityholder Information

SPARK INFRASTRUCTURE	FULLY PAID STAPLED SECURITIES (TOTAL) As of 31 Dec 2011		
Range of Units Snapshot	**Composition : ORD**		
Range	**Total holders**	**Units**	**% of Issued Capital**
1 – 1,000	968	544,276	0.04
1,001 – 5,000	4,962	16,316,040	1.23
5,001 – 10,000	4,750	37,312,089	2.81
10,001 – 100,000	8,598	228,725,943	17.24
100,001 – 9,999,999,999	391	1,043,835,916	78.68
Rounding			**0.00**
Total	**19,669**	**1,326,734,264**	**100.00**

Unmarketable Parcels			
	Minimum Parcel Size	**Holders**	**Units**
Minimum $ 500.00 parcel at $ 1.3750 per unit	364	286	17829

www.colliercreative.com.au

CORPORATE CONTACT DETAILS

Registered Office

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W: sparkinfrastructure.com

Managing Director
LAURA REED

Chief Financial Officer
RICK FRANCIS

Investor Relations
MARIO FALCHONI

Company Secretary
ALEXANDRA FINLEY

Security Registry

Computershare Investor Services
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