Tuesday, 18 June 2013

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

Dear Sir / Madam

MOODY's CREDIT RATING OF POWERCOR

I have attached a statement issued by Moody's Investor Service in relation its rating of Powercor Australia and Spark Infrastructure's response to this statement.

Yours faithfully,

Alexandra Finley
Company Secretary

Spark Infrastructure RE Limited ABN 36 114 940 984
as Responsible Entity of Spark Infrastructure Trust (ARSN 116 670 725)
Level 25, 259 George Street Sydney NSW 2000 Australia
T +61 2 9086 3600 F +61 2 9086 3666
www.sparkinfrastructure.com

ASX RELEASE

Tuesday, 18 June 2013

Spark Infrastructure affirms positive outlook for Powercor despite Moody's downgrade

Spark Infrastructure remains comfortable with the outlook for Powercor Australia (Powercor), in which it holds a 49% interest, despite the statement yesterday by Moody's Investor Service which downgraded Powercor's rating from A3 to Baa1 with a negative outlook.

Moody's has cited concerns with a number of industry wide and company specific factors which may impact its earnings and financial metrics in the future. While Moody's expects Powercor to maintain a robust operational and financial profile, it has cited concerns mainly around the current ATO tax audits into its parent company, Victoria Power Networks, and the expected changes to the Australian regulatory regime.

Powercor is in the middle of its five year regulatory period with no regulatory reset until 1 January 2016, providing it with a significant degree of regulatory certainty and clear visibility of revenues within this timeframe. The applicable 2010 decision by the Australian Energy Regulator (AER) provides for strong growth in the Regulatory Asset Base (RAB) based on increased capital expenditure. Powercor has consistently funded this growth from operational cashflows while at the same time lowering its gearing, as measured by net debt to RAB.

Moreover, Powercor's success in a number of appeals against aspects of the 2010 regulatory decision has added significantly to its expected revenues with recovery of these cashflows having commenced from 1 January 2013. As a result, the second half of the regulatory period will see increasing regulated cashflows for Powercor from the approved real tariff increases, which will see an improvement in Powercor's credit metrics.

"Powercor's strong and growing cashflows have allowed it to simultaneously fund substantial growth in its network without the need for shareholder equity injections, to reduce its gearing level over time, and to support the payment of distributions to its shareholders. We expect this will remain the case for the remainder of the current regulatory period to 2015," said Rick Francis, Managing Director of Spark Infrastructure.

"We do not expect the change in Moody's rating of Powercor to have a material impact on its performance, nor do we expect any change in the quantum of Victoria Power Network's distributions to its shareholders, which includes Spark Infrastructure," he added.

Spark Infrastructure's previous distribution guidance is unchanged.

Further information:

Mario Falchoni
General Manager
Investor Relations and Corporate Affairs

Phone: 02 9086 3607
Mobile: 0418 401 415

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's lowers Powercor's rating to Baa1; Outlook negative

Global Credit Research - 17 Jun 2013

Sydney, June 17, 2013 -- Moody's Investors Service has today downgraded the senior unsecured rating of Powercor Australia LLC (Powercor) to Baa1 from A3. This concludes the review for possible downgrade initiated on March 28, 2013. The outlook on the rating is negative.

Powercor wholly owns Powercor Australia Ltd (PAL), the owner and operator of an electricity distribution network in Victoria, Australia. PAL services approximately 32% of the state's population from the western suburbs of Melbourne to the South Australian border.

RATINGS RATIONALE

"The rating downgrade reflects Powercor's weakened financial profile relative to the tolerance set for the previous A3 rating, and which Moody's expects will continue over the long term" says Mary Anne Low, a Moody's Analyst.

Powercor's financial metrics have been weakly positioned due mainly to its highly leveraged financial leverage, and weaker network revenues, which have driven lower EBITDA over the past two years. The previous A3 rating was based on Moody's expectation of a steady improvement to the firm's Funds from Operations (FFO) to debt over the longer term. However, the rating downgrade considers our view that the company could take a long time to strengthen its financial profile and deleverage to a level that would be appropriate for that rating. For that to occur, Powercor's FFO to debt would need to sustainably remain above 12%, which is now unlikely to occur in the long term. We expect the ratio to be around 10% for the fiscal year ending 31 December 2013.

The negative outlook reflects the uncertainty around future tax payments which may be required from the ultimate holding company of Powercor as a result of a tax assessment being considered by the Australian Taxation Office. "The magnitude of the financial impact of this tax assessment on the holding company, which is uncertain at this point, could be material," Low says, adding "the possible flow on financial impact, could weigh negatively on Powercor's rating."

Moody's will take into account countermeasures being considered by Powercor's shareholders to offset the potential tax liability, if or when it materializes. Moody's acknowledges the solid investment grade rating profile of Powercor's shareholders, which consist of Cheung Kong Infrastructure Holdings Ltd (CKI) and Power Assets Holdings Limited (PAH) (both unrated and owns 51% of Powercor) and Spark Infrastructure (rated Baa1; owns 49% of Powercor). All three parties hold investments in other energy infrastructure assets.

Fundamentally, and excluding the potential tax liability issue, Powercor should maintain a robust operational and financial performance which would be consistent with a Baa1-rated regulated electricity distribution network. Its business model benefits from monopoly-like market position, the essential function of its distribution network, and a fairly predictable regulated revenue over a five-year revenue-determination period. Having said that, the sector as a whole faces increased regulatory risk due to uncertainty associated with the rule changes enacted by the Australian Energy Market Commission in November 2012.

The outlook on the Baa1 rating could return to stable if there is a resolution of the uncertainty around tax adjustments, and evidence that any financial liability will not materially impact Powercor's debt coverage metrics.

The Baa1 rating is unlikely to be upgraded within the next two to three years due to Powercor's expected business and financial profile. Over the medium-to-longer term, the rating could be upgraded if there is evidence of a sustained improvement in financial performance, as indicated by FFO to interest of around 2.9-3.0 times and FFO to debt exceeding 12%.

On the other hand the rating could experience downward pressure if the company i) suffers a deterioration in its financial metrics, which could result from higher shareholder distributions and/or ii) experiences any adverse tax adjustments resulting in material loss of cash flows for Powercor. Key indicators which Moody's will look for include: FFO to interest declining below 2.3 times, and FFO to debt dropping below 8%, both on a consistent basis.

Additionally, the rating could also face downward pressure if there is a material shift in the regulated return setting philosophy, to be outlined in the rate of return guidelines by the regulator, expected to be released in November 2013.

Powercor's rating could also come under downward pressure upon a material negative change in the credit profile of its shareholders. A possible scenario is the investment activities of the parents leading to an increased risk of higher cash flow demands on Powercor.

The principal methodology used in this rating was Regulated Electric and Gas Networks published in August 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Mary Anne Low
Analyst
Infrastructure Finance Group
Moody's Investors Service Pty. Ltd.
Level 10
1 O'Connell Street
Sydney NSW 2000
Australia
JOURNALISTS: (612) 9270-8102
SUBSCRIBERS: (612) 9270-8100

Terry Fanous
Associate Managing Director
Infrastructure Finance Group
JOURNALISTS: (612) 9270-8102
SUBSCRIBERS: (612) 9270-8100

Releasing Office:
Moody's Investors Service Pty. Ltd.
Level 10
1 O'Connell Street
Sydney NSW 2000
Australia

JOURNALISTS: (612) 9270-8102
SUBSCRIBERS: (612) 9270-8100