Internalisation Proposal

EXPLANATORY MEMORANDUM AND NOTICE OF MEETING

20 APRIL 2011

This is an important document. You should read this Explanatory Memorandum and the accompanying Notice of Meeting (see Annexure II) in their entirety before making a decision as to how to vote on the resolutions. You should consult your professional advisor if you have any queries.

SparkInfrastructure

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IMPORTANT INFORMATION

NOTICE OF MEETING AND EXPLANATORY MEMORANDUM

This Notice of Meeting and Explanatory Memorandum (together, the **"Explanatory Memorandum"**), provides Spark Infrastructure Group (**"Spark Infrastructure"**) stapled securityholders (**"Securityholders"**) with information about resolutions to approve the proposal to internalise the management function of Spark Infrastructure (**"Proposal"** or **"Internalisation"**). The Proposal involves, among other things, the acquisition of shares in CKI RREEF JV Holdings Pty Limited (**"JVCo"**). Spark Infrastructure Management Limited (the **"Manager"**) and Spark RE (the Spark **"Responsible Entity"**) are wholly-owned subsidiary entities of JVCo. This Explanatory Memorandum also contains the Independent Expert's Report prepared by Lonergan Edwards & Associates Limited (**"Lonergan Edwards"**).

DEFINED TERMS

Capitalised terms used in this Explanatory Memorandum have the meaning given to them in the Glossary.

DISCLAIMER

This Explanatory Memorandum and the accompanying Notice of Meeting and enclosed personalised proxy forms are important and require your immediate attention. You should read these documents carefully and in their entirety before deciding how to vote on the Proposal.

This Explanatory Memorandum has been prepared by Spark Infrastructure based on information available to them. To the maximum extent permitted by law neither Spark Infrastructure nor any of its directors, officers, employees, agents, advisers or intermediaries, nor any other person accepts any liability for any loss arising from the use of this Explanatory Memorandum or its contents or otherwise arising in connection with it, including, without limitation, any liability arising from fault or negligence on their part.

The historical information in this Explanatory Memorandum is, or is based upon, information that has been released to the market. It should be read in conjunction with Spark Infrastructure's other periodic and continuous disclosure announcements including the Notice of Meeting and Explanatory Memorandum relating to the Restructure dated 3 November 2010 and other announcements to the Australian Stock Exchange (**"ASX"**) available at www.asx.com.au

The information in this Explanatory Memorandum remains subject to change without notice. Spark Infrastructure reserves the right to withdraw or vary the timetable for the Proposal without notice.

NO INVESTMENT ADVICE

This Explanatory Memorandum does not constitute financial product advice and does not and will not form any part of any contract for the acquisition of CKI RREEF JV Holdings Pty Limited.

This Explanatory Memorandum does not purport to contain all the information that a prospective investor may require in evaluating a possible investment in Spark Infrastructure nor does it contain all the information which would be required in a prospectus or product disclosure statement prepared in accordance with the requirements of the Corporations Act. This Explanatory Memorandum has been prepared without taking account of any person's investment objectives, financial situation or particular needs. Securityholders should make their own independent assessment of the information and should seek independent professional, financial and taxation advice before making any decision on how to vote in respect of the Proposal or any investment decision in relation to Spark Infrastructure.

RESPONSIBILITY FOR INFORMATION

Except as outlined below, the information contained in this Explanatory Memorandum has been provided by Spark Infrastructure and is its responsibility alone. Except as outlined below, none of Spark Infrastructure's directors, employees, officers, agents, advisers or intermediaries assume any responsibility for the accuracy or completeness of any such information.

To the maximum extent permitted by law, Spark Infrastructure and its affiliates, officers, employees, agents, advisers and intermediaries disclaim all liability that may otherwise arise due to any information contained in this Explanatory Memorandum being inaccurate or due to information being omitted from this Explanatory Memorandum, whether by way of negligence or otherwise.

None of Spark Infrastructure's advisers or intermediaries or any other person named in this Explanatory Memorandum other than Spark Infrastructure and its directors, have authorised or caused the issue, submission, despatch or provision of this Explanatory Memorandum and, except as outlined below, none of them makes or purports to make any statement in this Explanatory Memorandum and there is no statement in this Explanatory Memorandum which is based on any statement by any of them.

IMPORTANT INFORMATION CONT.

Lonergan Edwards has provided and is responsible for the information contained in the Independent Expert's Report. Neither Spark Infrastructure nor any of its directors, officers, employees, agents, advisers or intermediaries assumes any responsibility for the accuracy or completeness of the information contained in the Independent Expert's Report which accompanies this Explanatory Memorandum. The Independent Expert does not assume any responsibility for the accuracy or completeness of the information contained in this Explanatory Memorandum other than that contained in Annexure I.

ASIC AND ASX INVOLVEMENT

A copy of this Explanatory Memorandum (including the Independent Expert's Report) has been provided to ASIC.

A final copy of this Explanatory Memorandum has been lodged with the ASX.

None of ASIC, ASX and their respective officers take any responsibility for the contents of this Explanatory Memorandum.

DISCLOSURES REGARDING FORWARD-LOOKING STATEMENTS

This Explanatory Memorandum contains "forward-looking statements". Forward-looking statements include those containing such words as 'anticipate', 'estimates', 'should', 'could', 'may', 'will', 'expects', 'plans', or similar expressions. Indications of and guidance or outlook on future revenues, distributions or financial position and performance or return or growth in underlying investments are also forward-looking statements. These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond Spark Infrastructure's control, and may involve elements of subjective judgment and assumptions as to future events which may or may not be correct and which may cause actual results to differ materially from those expressed in the statements contained in this Explanatory Memorandum. You should not place undue reliance on these forward-looking statements having regard to the fact that the outcome may not be achieved. These forward-looking statements are based on information available to Spark Infrastructure as of the date of this Explanatory Memorandum.

Subject to any continuing obligations under the Corporations Act or the Listing Rules, Spark Infrastructure does not give any undertaking to update or revise any forward-looking statements after the date of this Explanatory Memorandum to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any such statement is based.

CURRENCY

Unless stated otherwise, all dollar values are in Australian dollars (A$) and financial data is presented as at 31 December 2010.

DATE

This Explanatory Memorandum is dated 20 April 2011.

CHAIRMAN'S LETTER

SPARK INFRASTRUCTURE

Dear Securityholder,

BACKGROUND

In September 2010, I wrote to Spark Infrastructure Securityholders concerning the proposed Repositioning of Spark Infrastructure, which resulted from the Strategic Review announced in February 2010. The Repositioning comprised two elements – a $295 million Entitlement Offer and a Restructure to simplify the ownership and security structure of Spark Infrastructure. The Entitlement Offer was strongly supported by Securityholders who also voted overwhelmingly in favour of the Restructure, which became effective in December 2010.

As part of the Strategic Review, the Independent Board Committee considered Internalisation of the management function. Spark Infrastructure is currently managed externally by entities which are directly or indirectly owned 50:50 by Cheung Kong Infrastructure Holdings Limited (**"CKI"**) and RREEF Infrastructure (**"RREEF"**).

Internalisation would result in Spark Infrastructure acquiring these entities and, as a result, management of Spark Infrastructure would be transferred from the Manager (and indirectly CKI and RREEF) to Spark Infrastructure itself. On conclusion of the Strategic Review, an Internalisation proposal with suitable commercial conditions had not been achieved and accordingly Internalisation was not pursued as part of the Restructure. We noted at the time, however, that we would continue to give consideration to Internalisation subject to suitable commercial terms being achieved.

Earlier this year the Independent Directors entered into detailed discussions with CKI and RREEF regarding Internalisation. On Friday 1 April 2011, we were pleased to announce that Spark Infrastructure had reached agreement with CKI and RREEF on terms for Internalisation, including suitable commercial terms as to price and transaction structure, to internalise the management of Spark Infrastructure, subject to Securityholder approval.

The purpose of this booklet is to explain the Internalisation proposal and provide Securityholders with the information required in deciding how to vote.

IMPACT OF THE INTERNALISATION PROPOSAL

If the Proposal for Internalisation is approved by Spark Infrastructure Securityholders then:

// Spark Infrastructure will acquire a number of entities (including the holding company of the Manager and Responsible Entity, JVCo) from CKI and RREEF for a one-off upfront payment of $49 million. In addition, there is also expected to be a payment of approximately $2.2 million for any net working capital balances (i.e. predominantly cash or cash-settled balances) in the entities to be acquired at completion, subject to post closing adjustments;

// Spark Infrastructure will become a self managed standalone entity;

// The existing Spark Infrastructure management team will become employees of Spark Infrastructure thereby establishing a transparent reporting structure, with management reporting exclusively to the Spark Infrastructure Board and Securityholders;

// The Spark Infrastructure Board will adopt a more independent composition, with all Directors elected by Securityholders;

// The strategy and investment objectives for Spark Infrastructure will remain unchanged in all other regards; and

// Spark Infrastructure's 49% interest in and arrangements at the underlying operating businesses of CHEDHA and ETSA Utilities (**"Asset Companies"**) will remain unchanged, as they are unaffected by the Internalisation.

BENEFITS AND DISADVANTAGES OF THE PROPOSAL

Internalisation involves the elimination of future Base Fees and potential Performance Fees payable to the Manager in exchange for a one-off upfront payment of $49 million to CKI and RREEF.[1] There are a range of benefits that the Spark Infrastructure Independent Directors believe will flow to Securityholders as a result of this.

There are also potential disadvantages and risks associated with Internalisation. Details of the benefits, disadvantages and risks are set out in sections 1.3, 3 and 4.

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1 Excludes additional payment to CKI and RREEF, currently estimated at $2.2 million, in relation to net working capital balances (predominantly cash or cash-settled balances) in these entities to be acquired at Completion. Subject to certain post closing adjustments.

THE INDEPENDENT EXPERT CONCLUDES THAT THE INTERNALISATION IS FAIR AND REASONABLE

The Independent Expert has concluded that the Internalisation is fair and reasonable and in the best interests of Securityholders. The Internalisation payment of $49 million[2], to be paid to CKI and RREEF, falls within the Independent Expert's estimated valuation range of $44 million to $50 million (being the valuation range taking into account elimination of Performance Fees, with the valuation range being $41 million to $45 million excluding impact of elimination of Performance Fees)[2] for the Spark Infrastructure management arrangements. Securityholders should read the Independent Expert report in its entirety.

FINANCIAL IMPACT OF THE INTERNALISATION PROPOSAL

The Internalisation payment to CKI and RREEF is $49 million[2]. Internalisation will effectively be funded from Spark Infrastructure's Distribution Reinvestment Plan (**"DRP"**) which is intended to be reactivated for the September 2011 distribution. The Directors do not intend to have the DRP underwritten. In the interim, the payment to CKI and RREEF will be funded from Spark Infrastructure's existing cash reserves made available by the capital raising completed last year.

As part of its Repositioning in late 2010, Spark Infrastructure completed a $295 million entitlement issue with approximately $84 million of these proceeds retained to fund near term equity investment in the capital expenditure requirements of Spark Infrastructure's Asset Companies, which is expected to lead to growth in the Regulatory Asset Base of the Asset Companies. While the Internalisation payment will initially be funded from these monies, it is intended that they be replenished by the reactivation of the DRP.

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

CONFIRMATION OF DISTRIBUTION GUIDANCE

The proposed Internalisation is not expected to be dilutive to distributions to Securityholders and does not impact on existing distribution guidance. The Spark Infrastructure Board of Directors confirms its previous distribution guidance for the 2011 year of 9.25 cents per Security, and remains confident of growing distributions over the current five year regulatory period, subject to business conditions (see section 4.4).

BOARD COMPOSITION

The Board of Spark Infrastructure currently comprises nine Directors: five Independent Directors and four Directors appointed by the shareholder of the Responsible Entity. Of these, two Directors are nominated by CKI and two by RREEF.

On 6 April 2011, I announced my decision to retire from the Board in the second half of 2011 following the implementation of the proposed Internalisation. The Board unanimously supports the election of Mr Brian Scullin as a new Independent Director at the Annual General Meeting (**"AGM"**) to be held on 20 May 2011. Subject to his election, Mr Scullin will be nominated as Chairman Elect of Spark Infrastructure in anticipation of my retirement from the Board later in the year.

The timing of my retirement – following the proposed Internalisation and the election of my successor – is aimed at achieving a smooth transition.

Mr Don Morley, an Independent Director and Chairman of the Audit and Risk Management Committee has also announced that he will retire from the Board on 31 May 2011.

Mr Morley has made a significant contribution to the Board. His professionalism and wise counsel have been highly valued by me, the other members of the Board and our management team.

If the Internalisation is completed, the four Directors nominated by CKI and RREEF will retire from the Board of Spark Infrastructure. The Board recommends that:

// one of these Directors, Mr Andrew Fay, a RREEF nominee director, be elected by the Securityholders as a Non-Executive Director of Spark Infrastructure effective immediately after the Internalisation;

// Ms Laura Reed, the Chief Executive Officer, be elected by Securityholders as Managing Director of Spark Infrastructure, also with effect after the Internalisation.

The Board of Spark Infrastructure will, after my retirement, then have six Directors, comprising five Independent or Non-Executive Directors and the Managing Director.

2 Excludes additional payment to CKI and RREEF, currently estimated at $2.2 million, in relation to net working capital balances (predominantly cash or cash-settled balances) in these entities to be acquired at Completion. Subject to certain post closing adjustments.

RECOMMENDATION OF THE INDEPENDENT DIRECTORS

The Independent Directors of Spark Infrastructure have considered both the benefits and disadvantages associated with the Internalisation and believe that the benefits outweigh the disadvantages. Accordingly, we believe that Internalisation is in the best interests of Securityholders and recommend that you vote **FOR** the Internalisation Proposal.

On behalf of the Independent Directors, I thank you for your continued support of Spark Infrastructure and encourage you to vote in favour of the proposed Internalisation.

Yours faithfully,

Stephen Johns
Chairman

PURPOSE OF THIS EXPLANATORY MEMORANDUM AND KEY DATES

EXTRAORDINARY GENERAL MEETING

This Explanatory Memorandum sets out information relating to the Internalisation of Spark Infrastructure and the Extraordinary General Meeting of Securityholders to be held at 12.00pm (Sydney time) on 20 May 2011 or the conclusion of the AGM if later at the Radisson Plaza Hotel, 27 O'Connell Street, Sydney NSW, to decide upon the Proposal. The Notice of Meeting is set out in Annexure II. This Extraordinary General Meeting will be held immediately after the AGM of Securityholders on the same day.

Securityholders are encouraged to read this Explanatory Memorandum in its entirety before making a decision on how to vote on the Proposal.

Event	Date
Date of this Explanatory Memorandum	20 April 2011
Time and date by which proxy forms must be received	2.00pm (Sydney time) Wednesday 18 May 2011
Time and date for determining eligibility to vote at the Meeting	7.00pm (Sydney time) Wednesday 18 May 2011
Extraordinary General Meeting of Securityholders to be held	12.00pm (Sydney time) 20 May 2011 or the conclusion of the AGM if later
Completion date (if Proposal approved by Securityholders and remaining conditions satisfied)	31 May 2011

This timetable is indicative only and Spark Infrastructure has the right to vary these times and dates and will announce any variations to the ASX. Certain times and dates and the occurrence of certain events are conditional on the satisfaction or waiver of certain conditions precedent, including Securityholder and regulatory approvals. Any change to this timetable will be notified to ASX and posted on Spark Infrastructure's website at www.sparkinfrastructure.com

ACTIONS REQUIRED BY SECURITYHOLDERS

READ THIS EXPLANATORY MEMORANDUM AND SEEK ADVICE AS APPROPRIATE

This is an important document. You should read the Explanatory Memorandum and the accompanying Notice of Meeting (see Annexure II) in their entirety and consult your professional adviser if you have any queries.

If you have any doubts as to what action you should take, you should seek financial, tax or other professional advice before making any decision in relation to your Spark Infrastructure Securities and how to vote at the Meeting.

VOTE ON THE RESOLUTIONS IN RELATION TO THE INTERNALISATION

You may vote in person or by proxy.

If you wish to vote in person, you should attend the Meeting at the Radisson Plaza Hotel, 27 O'Connell Street, Sydney NSW at 12.00pm (Sydney time) on 20 May 2011 or the conclusion of the AGM if later.

If you wish to vote by proxy, you must complete and return the enclosed proxy form so that it is received no later than 2.00pm (Sydney time) on Wednesday 18 May 2011.

Completed proxy forms may be lodged by:

// mailing it to the Registry using the reply paid envelope enclosed with this notice;

// mailing it to the Registry, Computershare Investor Services Pty Limited, GPO Box 242 Melbourne Victoria 3001;

// lodging it online on the Registry's website at www.investorvote.com.au using the Control Number located on the front of your proxy form. You will be taken to have signed your proxy form if you lodge it in accordance with the instructions on the website;

// faxing it to the Registry on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia); or

// hand delivering it to the Registry at Level 4, 60 Carrington Street, Sydney NSW 2000.

Refer to the enclosed proxy form for more information about how to complete a proxy form.

MEETING DETAILS

Location:	Radisson Plaza Hotel, 27 O'Connell Street, Sydney NSW
Date:	20 May 2011
Time:	12.00pm (Sydney time) or the conclusion of the AGM if later
The Notice of Meeting is set out in Annexure II of this Explanatory Memorandum.	

1 OVERVIEW OF THE PROPOSAL

1.1 SUMMARY OF THE PROPOSAL

The Spark Infrastructure Internalisation Proposal involves the acquisition of CKI RREEF JV Holdings Pty Ltd (**"JVCo"**) by Spark Infrastructure Holdings International Limited (**"Spark International"**) for a one-off upfront payment of $49 million for the shares in JVCo. In addition, there is also expected to be a payment of approximately $2.2 million for any net working capital balances (i.e. predominantly cash or cash-settled balances) in the entities to be acquired at Completion, subject to certain post closing adjustments. It will also result in the transfer of the Manager and Responsible Entity functions to Spark Infrastructure.

The term "Internalisation" and "Internalisation Proposal" and "Proposal" are used interchangeably and describe the change from an external management to an internal management structure, with responsibility for management of the group transferred from an external third party to within the Spark Infrastructure group.

1.2 STRATEGIC RATIONALE AND APPROVAL OF RELATED PARTY TRANSACTION

Since the beginning of this year, the Spark Infrastructure Independent Directors and its advisors have been engaged in discussions with CKI and RREEF in relation to Internalisation. It has been the view of the Independent Directors, that Internalisation would complement the extensive repositioning of Spark Infrastructure which resulted from the Strategic Review (**"Strategic Review"**), subject to achieving acceptable commercial terms and conditions.

On Friday 1 April 2011, the Spark Infrastructure Independent Directors announced that they had reached agreement with CKI and RREEF to internalise the management of Spark Infrastructure on what the Spark Infrastructure Independent Directors believe are appropriate terms for Internalisation, including suitable commercial terms and conditions as to price and transaction structure. It is the belief of the Spark Infrastructure Independent Directors that a number of benefits will flow to Spark Infrastructure as a result of Internalisation.

While Spark Infrastructure considers that there may be arguments that CKI and RREEF are not related parties of Spark Infrastructure, Spark Infrastructure proposes to seek Securityholder approval for the Internalisation as a related party transaction. CKI and RREEF each has various existing roles and interests relating to Spark Infrastructure. The nature of these interests is summarised below:

- The Manager and the Responsible Entity are indirectly owned 50:50 by CKI and RREEF through JVCo;
- CKI and RREEF has each nominated 2 directors on the Spark Infrastructure Board. In light of Spark Infrastructure's relationship with CKI and RREEF and the potential for conflict of duties and interest for the nominee directors, the Board of Spark Infrastructure established a committee of the Independent Directors to consider the Internalisation transaction and put in place certain governance protocols (see section 2.1.3);
- Deutsche Bank AG has a financial services arrangement with Spark Infrastructure to be first offered, on an exclusive basis, all corporate advisory and capital raising engagements (subject to some exceptions);
- Deutsche Bank AG, CKI and their respective associates have 11.31% voting power in Spark Infrastructure; and
- CKI and Power Assets Holdings Limited (formerly known as Hongkong Electric Holdings Limited) (**"PAH"**) together hold an indirect 51% interest in CHEDHA and ETSA Utilities (the **"Asset Companies"**).

1.3 BENEFITS AND DISADVANTAGES TO SPARK INFRASTRUCTURE

The Independent Directors of Spark Infrastructure consider that the Proposal is in the best interests of Securityholders. They believe that the Proposal will have a number of significant benefits:

- Elimination of future base fees (**"Base Fee"**) until the expiration of the Spark Infrastructure Management Agreement (**"Management Agreement"**) in 2030, thereby achieving cost savings for the group (see section 4.2.1 for an illustration of potential savings);
- The elimination of potential performance fees (**"Performance Fees"**) which are unpredictable with respect to whether they will arise, timing of the fees arising and size of the fees. While Performance Fees have been paid once to date and there is currently a cumulative under-performance, the volatility in the calculation of the Performance Fees (based on Spark Infrastructure Securities' relative performance against a benchmark index) means that accumulated under-performance can be recouped fairly quickly depending on Spark Infrastructure's and the market's performance over time (see second table at section 2.2.1);
- Ensuring that any market outperformance will be entirely attributable to Securityholders as outperformance will no longer attract a Performance Fee, and the potential cash flow volatility associated with the existing Performance Fee calculation structure will be removed;
- Since the listing of Spark Infrastructure on the ASX in December 2005, a total of $65.7 million in Base Fees and Performance Fees has been paid to the Manager.[3] These fees will be replaced by the costs of self-management which are estimated to be around $5 million in the first year;

3 An estimated Base Fee of $3.5 million is expected to be paid for the 5 month period to the proposed Completion Date of 31 May 2011.

// Creation of a self managed group with enhanced alignment of interests, continuity of management and greater autonomy over decision making;

// The move to a more contemporary structure than external management structures. This is likely to generate broader investor appeal; and

// A complementary initiative to the extensive repositioning of Spark Infrastructure, aimed at maximising Securityholder value.

Securityholders should also consider the following potential disadvantages and risks associated with Internalisation. These and other potential disadvantages and risks are further outlined in section 3 of this Explanatory Memorandum:

// If the Internalisation is approved by Spark Infrastructure Securityholders, a one-off upfront payment of $49 million[4] will be made to CKI and RREEF (which the Independent Directors believe is acceptable given the benefits from Internalisation);

// If the Internalisation is implemented, Spark Infrastructure will incur additional annual costs associated with internalised management that have been estimated at approximately $5 million in the first year (see section 4.2.1);

// Spark Infrastructure will also incur one-off external transaction and implementation costs;

// While the Spark Infrastructure Independent Directors believe that the Internalisation may improve the market rating of Spark Infrastructure Securities, there is no guarantee that the Spark Infrastructure Security price will increase;

// As a result of the external management arrangements, Spark Infrastructure currently has access to the expertise and global reach of both CKI and RREEF. If the Internalisation is implemented, Spark Infrastructure will no longer be able to leverage these relationships in the same way that it has been able to in the past;

// Spark Trust may be taxed as a public trading trust rather than a "flow-through" trust. As a public trading trust, the net income of Spark Trust would be taxable at the corporate tax rate (currently 30%) and distributions from Spark Trust (excluding interest paid on Loan Notes) that are attributable to profits would be in the form of franked or unfranked unit trust dividends, which may be taxable to Securityholders;

// As for any share acquisition, Spark Infrastructure will inherit any liabilities (including legal, accounting and tax liabilities) of the companies acquired. As is customary, Spark Infrastructure has obtained some mitigation of such risks through warranties and indemnities from CKI and RREEF (subject to certain limitations), as part of the negotiated transaction; and

// The potential net costs savings of internalised management are based on an assessment of future events which may or may not occur. There is no guarantee that the potential net costs savings will eventuate nor that they will be of the amount assumed. See section 3.4, 4.2.1 and 4.2.2 for further information about the risks factors and key assumptions underlying this analysis of the net costs savings (in particular the NPV analysis of the net costs savings arising from the difference between the Base Fees and operating costs of internalised management).

1.4 INDEPENDENT EXPERT OPINION

The Independent Expert has concluded that the Internalisation is fair and reasonable and in the best interests of Securityholders. The Internalisation payment of $49 million[4] to be paid to CKI and RREEF, falls within the Independent Expert's estimated valuation range of $44 million to $50 million (being the valuation range taking into account elimination of Performance Fees, with the valuation range being $41 million to $45 million excluding impact of elimination of Performance Fees)[4] for the Spark Infrastructure management arrangements. Securityholders should read the Independent Expert report in its entirety.

1.5 INDEPENDENT DIRECTORS' RECOMMENDATION

The Independent Directors of Spark Infrastructure have considered both the benefits and disadvantages associated with the Internalisation and believe that the benefits significantly outweigh the disadvantages. Accordingly, they believe that Internalisation is in the best interests of Securityholders and recommend that you vote **FOR** the Proposal.

4 Excludes additional payment to CKI and RREEF, currently estimated at $2.2 million, in relation to net working capital balances (predominantly cash or cash-settled balances) in these entities to be acquired at Completion. Subject to certain post closing adjustments.

2 DETAILED DESCRIPTION OF THE PROPOSAL

2.1 BACKGROUND TO THE INTERNALISATION PROPOSAL

2.1.1 Spark Infrastructure Strategic Review – Internalisation of management

Spark Infrastructure conducted a Strategic Review in 2010 to consider its capital structure, ownership structure and future funding needs. This included consideration of the Internalisation of the management function, including an assessment of the likely cost of Internalisation and the relative merits of internal and external management structures.

At the completion of the Strategic Review, an Internalisation proposal with suitable commercial conditions had not been achieved and accordingly Internalisation was not pursued as part of the Restructure. It was noted at the time that the Independent Directors would continue to give consideration to Internalisation of the management function, subject to suitable commercial conditions.

Since the beginning of this year, the Spark Infrastructure Independent Directors and their advisers have been engaged in discussions with CKI and RREEF in relation to Internalisation. It has been the view of the Independent Directors that Internalisation would complement the extensive repositioning of Spark Infrastructure which resulted from the Strategic Review and would result in a number of benefits for Spark Infrastructure, subject to achieving acceptable commercial terms and conditions. On Friday 1 April 2011, the Spark Infrastructure Independent Directors announced that they had reached agreement with CKI and RREEF to internalise the management of Spark Infrastructure on what the Spark Infrastructure Independent Directors believe are appropriate terms for Internalisation, including suitable commercial terms and conditions as to price and transaction structure.

2.1.2 Relationship with CKI and RREEF and related party transaction

While Spark Infrastructure considers that there may be arguments that CKI and RREEF are not related parties of Spark Infrastructure, Spark Infrastructure proposes to seek Securityholder approval for the Internalisation as a related party transaction.

CKI and RREEF each has various existing roles and interests relating to Spark Infrastructure. The nature of these interests is described below:

- // The Manager is indirectly 50% owned by RREEF. RREEF is the infrastructure investment arm of Deutsche Asset Management, the asset management business of Deutsche Bank AG. John Dorrian, Managing Director of Deutsche Bank AG and Chairman of RREEF Infrastructure Asia Pacific, is currently a director of the Manager, Spark RE and other Spark Infrastructure entities; he is also a Spark Infrastructure nominee director on the boards of ETSA Utilities and CHEDHA (the **"Asset Companies"**). Andrew Fay, Chairman of Deutsche Asset Management (Australia) Limited and its associated entities, is currently a director of the Manager, Spark RE and other Spark Infrastructure entities.
- // Deutsche Bank AG has a Financial Services Agreement (**"FSA"**) with Spark Infrastructure under which Spark Infrastructure must (subject to some exceptions) first offer to Deutsche Bank AG, on an exclusive basis, all corporate advisory and capital raising engagements.
- // Based on current substantial holder notices available to Spark Infrastructure, Deutsche Bank AG and CKI are holders of relevant interests of 2.74% and 8.56% of the Securities, respectively, and hold 11.31%[5] collectively. Based on current substantial holder notices available to Spark Infrastructure, Deutsche Bank AG, CKI and their respective associates have 11.31% voting power in Spark Infrastructure.
- // CKI holds various interests in respect of Spark Infrastructure and the Asset Companies. The Manager is indirectly 50% owned by CKI. CKI and Power Assets Holdings Limited (formerly known as Hongkong Electric Holdings Limited) (**"PAH"**) together hold an indirect 51% interest in CHEDHA and ETSA Utilities. Andrew Hunter, Deputy Managing Director of CKI and Dominic Chan, Chief Financial Officer of CKI, are currently directors of the Manager, Spark RE and other Spark Infrastructure entities. Andrew Hunter is a CKI nominee director on the boards of ETSA Utilities and CHEDHA. Dominic Chan is an alternate director on the boards of ETSA Utilities and CHEDHA.

2.1.3 Role of the Independent Directors

In light of Spark Infrastructure's relationship with CKI and RREEF and the potential for conflict of duties and interest for the CKI and RREEF representative directors, the Board of Spark Infrastructure established a committee of the Independent Directors (the **"Independent Board Committee"**, **"IBC"** or **"Committee"**) to consider the Internalisation transaction. The Committee comprised Stephen Johns (Chairman), Don Morley, Cheryl Bart, Dr Keith Turner and Anne McDonald. The function of the Independent Directors was to develop and evaluate the Internalisation Proposal and to make a recommendation to Securityholders. As part of this process, the Independent Directors engaged Investec Bank (Australia) Limited (**"Investec"**) as financial advisers, Mallesons Stephen Jaques as legal advisers and Ernst & Young as tax advisers to assist in the development and evaluation of the Internalisation Proposal.

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5 Differences due to rounding

Governance protocols were put in place by Spark Infrastructure to manage information flows and any potential conflicts during the negotiations of the Internalisation Proposal with CKI and RREEF.

CKI and RREEF appointed separate legal and tax advisers in negotiating the Internalisation Proposal.

2.2 MANAGEMENT ARRANGEMENTS

2.2.1 Overview of current management arrangements

The operation of the current management arrangements, including under the Management Agreement can be summarised as follows:

- The Manager provides management services to the Spark Trust (and its wholly-owned companies, Spark Holdings 1, Spark Holdings 2 and Spark International);
- The Manager is wholly owned by JVCo; and
- Spark RE is the responsible entity of the Spark Trust (and issuer of the Loan Notes and the Units). Spark RE is also wholly owned by JVCo.

Some key features of the existing Management Agreement include:

- The Manager has been appointed on an exclusive basis for a term of 25 years from December 2005, subject to limited termination events;
- Under the Management Agreement (see section 14.6 of the IPO Document), the Manager is entitled to be paid Base Fees calculated as 0.5% per annum of Enterprise Value up to $2.443 billion and 1.0% per annum of any amount by which the Enterprise Value exceeds $2.443 billion. Since Spark Infrastructure's Initial Public Offering (**"IPO"**), $49.2 million of Base Fees have been paid to the Manager, with $8.3 million in Base Fees paid to the Manager during 2010; and
- The Manager is also entitled to be paid a Performance Fee in respect of each half financial year equal to 20% of the amount (if any) by which the Spark Infrastructure return exceeds the S&P / ASX 200 Industrials Accumulation Index (**"Benchmark Index"**) for that half year. If Spark Infrastructure's return is less than the Benchmark Index return in any half year financial period, the amount of the deficit is carried forward and taken into account in calculating whether the Spark Infrastructure return exceeds the Benchmark Index return in subsequent periods. Since 2005, $16.5 million in Performance Fees have been paid to the Manager. See section 6.1.4 for further information about this agreement.

The table below summarises both the Base Fees and Performance Fees that Spark Infrastructure has had to pay the Manager since listing in December 2005.

A$ million	FY2006	FY2007	FY2008	FY2009	FY2010
Base Fees	11.2	12.0	9.8	7.9	8.3
Performance Fees	0.0	0.0	16.5	0.0	0.0

It is estimated that $3.5 million in Base Fees will be paid from 1 January 2011 to 31 May 2011 being the proposed Completion Date. This reflects an actual payment of $2.0 million for the 3 months to 31 March 2011 and an estimate of Base Fees of $1.5 million for the remaining 2 month period.

The table below summarises the movement in the notional Performance Fee surplus / (deficit) since 2006, for the purpose of illustrating the volatility in the Performance Fee calculation. As outlined in the table below, any changes in the performance of Spark Infrastructure and the Benchmark Index can result in a material change to the notional Performance Fee surplus / (deficit).

A$ million	30 Jun 2006	31 Dec 2006	30 Jun 2007	31 Dec 2007	30 Jun 2008	31 Dec 2008	30 Jun 2009	31 Dec 2009	30 Jun 2010	31 Dec 2010
Notional Performance Fee surplus / (deficit)	(252.1)	(380.9)	(307.3)	(216.1)	82.7	(34.8)	(102.8)	(82.2)	(138.9)	(148.4)

An actual payment of $16.5 million was made in 2008.

While Performance Fees have been paid once to date and there is currently a cumulative under-performance, the volatility in the calculation of the Performance Fees (based on the Spark Infrastructure Securities' relative performance against a benchmark index) means that accumulated under-performance can be recouped fairly quickly depending on Spark Infrastructure's and the market's performance over time (see table above).

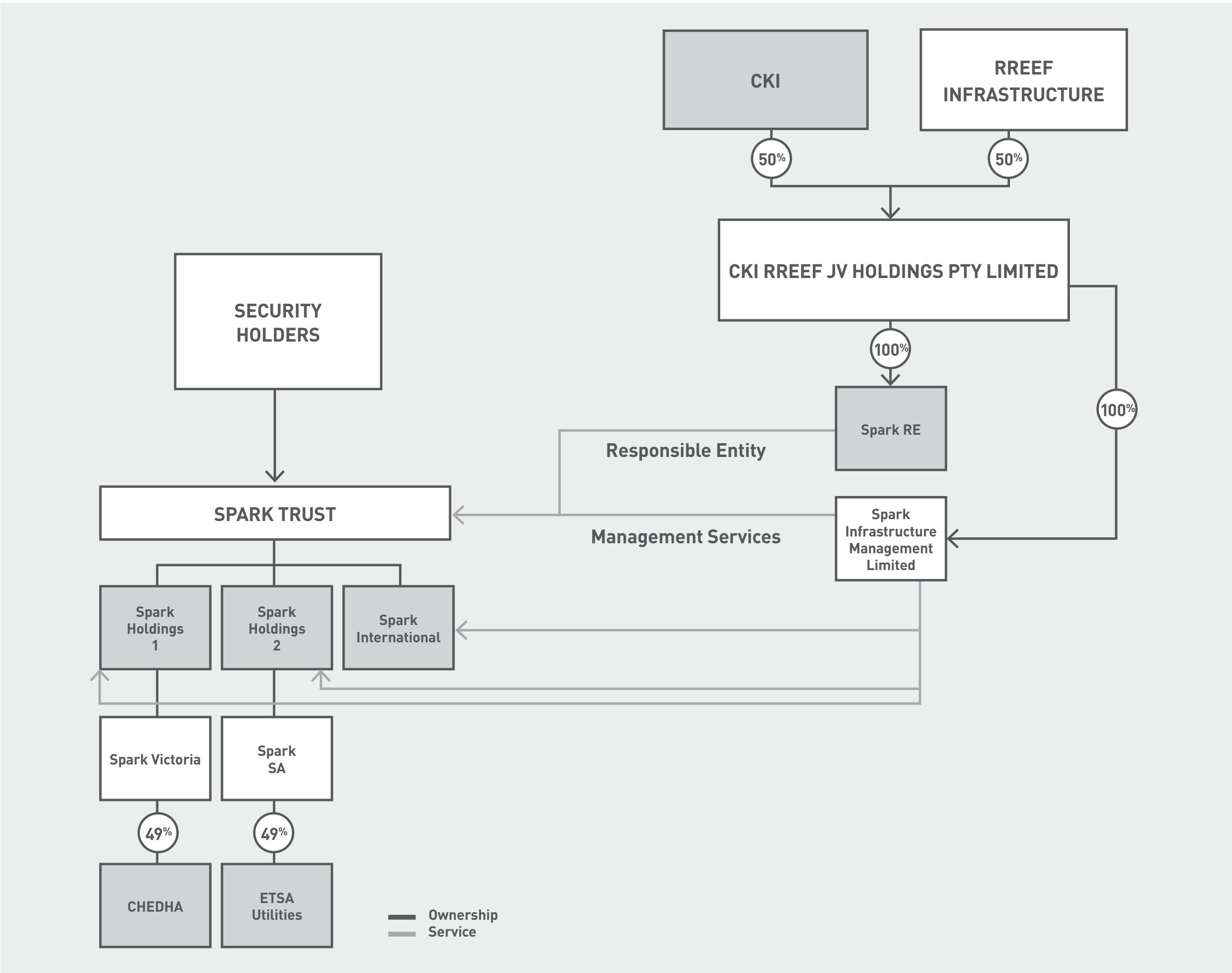
2 DETAILED DESCRIPTION OF THE PROPOSAL CONT.

For example, if Spark Infrastructure's Securities performed better than the Benchmark Index, then the accumulated under-performance may be recouped, and vice versa. How quickly the accumulated under-performance may be recouped or accumulate further depends on the rate and extent of the movement in Spark Infrastructure's Security price and the securities market. It is not possible to say for certain that the Performance Fees may or may not become payable.

If Performance Fees become payable in future, the potential net costs savings arising from Internalisation will be greater. If Performance Fees do not become payable in future, the potential net costs savings arising from Internalisation will be less.

Further information in relation to fees paid to the Manager is available on Spark Infrastructure's website, www.sparkinfrastructure.com and disclosed in the IPO Document section 14.6.

The current structure of the Manager, Spark Trust and Spark RE is shown below.



2.2.2 Current governance arrangements

The Spark Trust is the sole listed parent entity with Spark RE as the Responsible Entity.

As a matter of general law, the governance arrangements of Spark RE are a matter for its ultimate shareholders, CKI and RREEF, acting through the immediate shareholder of Spark RE (JVCo). However, as a result of the Existing Governance Deed entered into at the time of the Restructure, Securityholders have the right to appoint independent directors of the Spark RE board. The key aspects of the Existing Governance Deed (operating in conjunction with the Spark RE constitution) are that:

- // The Board of Spark RE must have a majority of independent directors. At present, there are 5 independent directors, two CKI representative directors and two RREEF representative directors.
- // CKI and RREEF are each entitled to nominate and, through the shareholder of Spark RE, appoint and remove their respective representative directors on the Spark RE Board.
- // CKI and RREEF can also each nominate and appoint through the shareholder of Spark RE a representative to fill a casual vacancy of its representative directors on the Spark RE Board, pending election at the next AGM of Securityholders by resolution on which only the shareholder of Spark RE may vote.
- // Securityholders can vote at an AGM to elect independent directors to the Spark RE Board. Other than casual appointments (pending election), the shareholder of Spark RE must only appoint and remove the independent directors of Spark RE in accordance with an ordinary resolution of Securityholders.
- // The Spark RE directors can appoint any person to fill casual vacancies on the Spark RE Board pending election at the next AGM by Securityholders.
- // CKI and RREEF (as the ultimate shareholders of the Spark RE) must ensure that the majority independent Spark RE Board is constituted in accordance with the ordinary resolution of the Securityholders described above.
- // There will be not less than three nor more than 10 Spark RE directors in total.
- // A director of the Spark RE (including a CKI or RREEF board representative) must not hold office without re-election past the third AGM of Securityholders following the director's appointment or last election, or for more than three years, whichever is longer. There must be an election of the Spark RE directors at each AGM of Securityholders.
- // A CKI or RREEF representative director on the Spark RE Board is also subject to the retirement and re-election requirements. However, only the shareholder of the Spark RE may vote on that re-election.
- // Spark RE must hold an AGM of Securityholders each year consistent with an AGM of a public listed company.
- // The directors of Spark Holdings 1, Spark Holdings 2 and Spark International must be the same individuals as the directors of Spark RE, though this does not currently apply to Spark International which operates with a board of 3 directors. Note that Spark International has been dormant since IPO in 2005.

Some or all of such arrangements may terminate in certain circumstances including if Spark RE is removed or replaced as responsible entity of Spark Trust or if CKI or RREEF ceases to own an interest in Spark RE.

2.3 DESCRIPTION OF THE INTERNALISATION

The term "Internalisation" describes the change from external management to internal management, with responsibility for management of the group transferred from an external third party to an entity, or entities within the Spark Infrastructure group. Internal management has become a preferred model in the listed infrastructure sector in recent years.

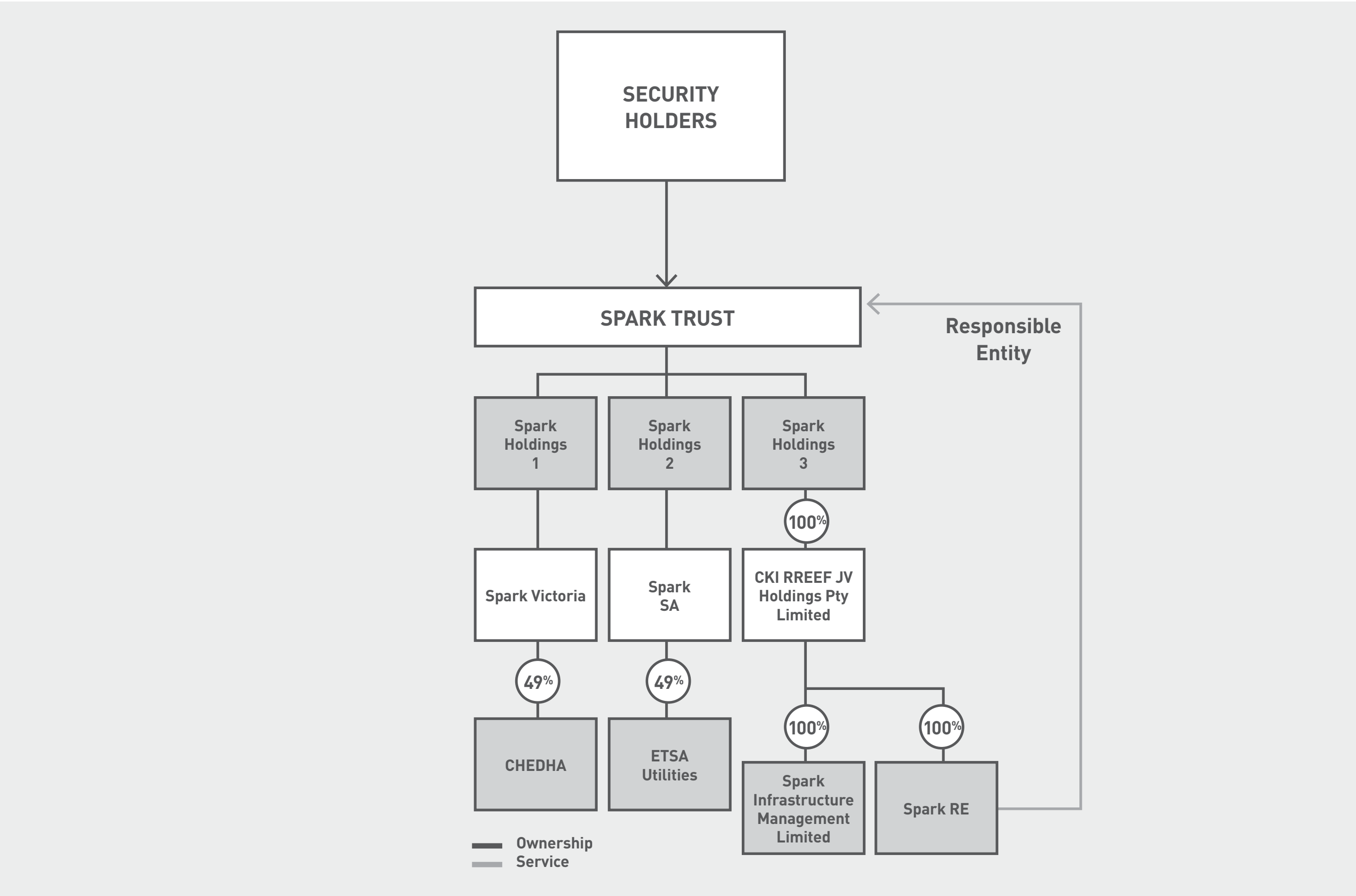
The primary change is that as an internally managed entity, Spark Infrastructure will have its own employees, rather than relying on an external provider of management services. Therefore, Spark Infrastructure would no longer pay fees to the Manager, the current external provider of management services. Instead, Spark Infrastructure will incur the costs of staff and services that were previously provided externally.

The Spark Infrastructure Internalisation Proposal involves the acquisition of JVCo (and indirectly the Manager and Spark RE) by Spark International. Spark International has traditionally been a non-operating shelf company incorporated in the Bahamas. Spark Infrastructure intends to "repatriate" this company so that it becomes an Australian proprietary company. This company, once repatriated, is proposed to be renamed "Spark Infrastructure Holdings No. 3 Pty Limited" (**"Spark Holdings 3"**). The shares of JVCo are being acquired under the Internalisation Agreement. As a result of the Proposal, the Manager and Responsible Entity functions will be assumed by an entity or entities within the Spark Infrastructure group.

As part of Internalisation, Spark Infrastructure expects to inject additional equity into Spark RE immediately following the time of completion, which, together with existing cash held by the Spark RE, would be used to satisfy the financial requirements under its AFS licensing obligations to maintain an appropriate level of net tangible assets. It is also proposed to replace a current loan from RREEF and an undertaking from CKI which together currently serve to satisfy these financial requirements for Spark RE's AFSL. See section 2.4 for how this arrangement is funded.

2 DETAILED DESCRIPTION OF THE PROPOSAL CONT.

The proposed structure of the Manager, Spark Trust and Spark RE immediately post Internalisation is shown below. The structure may be subject to further change after Internalisation, because Spark Infrastructure may wind up surplus entities acquired from CKI and RREEF in due course.



2.3.1 Effect of the Internalisation

If Securityholders approve the Proposal, then:

// CKI and RREEF's involvement in, and the external management arrangements with, the Manager will end;

// Spark Infrastructure will cease having to pay Base Fees and cease to have any future liability to pay Performance Fees to an external Manager;

// Spark Infrastructure will make an upfront cash payment to CKI and RREEF of $49 million for the JVCo shares. In addition, there is also expected to be a payment of approximately $2.2 million for any net working capital balances (i.e. predominantly cash or cash-settled balances) in the entities to be acquired at Completion, subject to certain post closing adjustments. Internalisation will effectively be funded from Spark Infrastructure's DRP which is intended to be reactivated for the September 2011 distribution. The Directors do not intend to have the DRP underwritten. In the interim, the payment to CKI and RREEF will be funded from Spark Infrastructure's existing cash reserves made available by the capital raising completed last year, which are intended to be replenished by the reactivation of the DRP. See section 4 for further details;

// Spark Infrastructure will employ its own management team, including Laura Reed, Spark Infrastructure's Chief Executive Officer, and Rick Francis, Spark Infrastructure's Chief Financial Officer;

// Spark Infrastructure will pay one-off external transaction costs of around $2 million, which comprises primarily costs of consultants, experts and advisers;

// Spark Infrastructure will introduce a new corporate governance framework. As part of this framework, Spark Infrastructure intends to maintain that the boards of each of Spark RE, Spark Holdings 1, Spark Holdings 2, Spark International and JVCo will comprise a majority of independent directors with all directors elected by Securityholders. As announced on 6 April 2011 separately to Internalisation, Mr Stephen Johns, Chairman of Spark Infrastructure, has decided to retire from the Board in the second half of 2011. Mr Brian Scullin will stand for election to the Board at the AGM to be held immediately before this Extraordinary General Meeting, as a new Independent Director with the unanimous support of the Board. Subject to his election at the AGM, Mr Scullin's appointment will take effect from 31 May 2011 and he will be nominated as Chairman Elect in anticipation of Mr Johns' retirement from the Board later in the year. Mr Don Morley, who is an

Independent Director and Chairman of the Audit and Risk Management Committee, has also announced that he will retire from the Board after the AGM, on 31 May 2011. As part of the Internalisation, all CKI and RREEF nominee directors on the Spark Infrastructure Board will retire upon Internalisation. While Mr Andrew Fay will formally retire as a RREEF nominee director from the Spark Infrastructure Board, the Directors (with Mr Fay abstaining) recommend that he be elected by the Securityholders as a non-executive director of Spark Infrastructure with effect from Internalisation. In addition, the Directors recommend that Ms Laura Reed, the Chief Executive Officer, be elected by Securityholders as a director of Spark Infrastructure with effect from Internalisation. The Directors intend to appoint Ms Reed as Managing Director of Spark Infrastructure;

- As CKI and RREEF will no longer have Spark Infrastructure Board representation, the special shares issued by each of Spark Holdings 1, Spark Holdings 2 and Spark International will be varied so that they no longer confer any Board appointment rights. However, Internalisation does not of itself affect CKI's and Deutsche Bank AG's interests in ordinary Securities. Spark Infrastructure is not aware of the intentions of CKI and Deutsche Bank AG with respect to their continued holdings of these Securities;
- It is expected that John Dorrian (a RREEF-associated director) will retire as one of Spark Infrastructure's representatives on the Asset Company boards. Spark Infrastructure will appoint Andrew Fay as his replacement Spark nominee director to those boards, if Mr Fay is elected by Securityholders;
- Spark Infrastructure will incur additional ongoing costs and savings of internal management (see section 4.2.1 for an illustration of potential savings);
- The Technical Services Agreements will terminate upon Internalisation, and the FSA between Spark Infrastructure and Deutsche Bank AG (see section 2.12) will continue;
- CKI and PAH will continue to hold their majority 51% interest in the underlying Asset Companies; and
- The AFS licence obligations of the Spark RE remain unchanged, including financial requirements (see sections 2.3, 2.4 and 4). The Manager will no longer be required to hold an additional AFS licence, and Spark Infrastructure intends for this to be cancelled on or shortly after completion of the Internalisation.

The strategy and investment objectives of Spark Infrastructure are unchanged by the Internalisation. Following the Strategic Review, Spark Infrastructure has shifted from a yield focussed security to an investment offering distribution yield and capital growth in Spark Infrastructure's equity investment in the Asset Companies' Regulatory Asset Base (**"RAB"**). In addition, Spark Infrastructure's interest in and arrangement at the underlying Asset Companies are also unaffected.

The Internalisation does not impact the Spark Infrastructure Board's previous 2011 full year distribution guidance. Spark Infrastructure reaffirms its distribution guidance for the 2011 year of 9.25 cents per Security, comprising 7.05 cents Loan Note interest and 2.20 cents return of capital, which is not impacted by the proposed Internalisation. Spark Infrastructure remains confident of growing distributions over the current five year regulatory period, subject to business conditions. This guidance is subject to key assumptions as outlined in section 4.4.

2.3.2 Consequences if the Internalisation does not proceed

If the Proposal is not implemented, then Spark Trust, Spark RE and the Manager will continue to operate as they currently do. That is, Spark RE will remain as the responsible entity of Spark Trust and the Manager will continue to provide management services to Spark Trust under the Management Agreement and receive Base Fees and potential Performance Fees as they become payable. For cost reimbursement implications see section 2.3.3.

2.3.3 Costs of the Proposal

The costs of the Proposal for Spark Infrastructure are estimated to be approximately $2 million. This includes the cost of professional fees (including legal, financial, accounting and tax advisers' costs in relation to the Proposal) and costs of the Independent Expert. These costs of the Proposal will be borne by Spark Infrastructure whether or not the Proposal proceeds.

Certain additional costs will be borne by Spark Infrastructure if the Proposal does not proceed, in particular Spark International may be liable to pay CKI and RREEF a reimbursement fee, up to a maximum of $300,000 (plus GST) in aggregate, as compensation for their costs and expenses incurred in connection with the Internalisation Proposal. This fee would only be payable where the Proposal does not proceed as a consequence of:

- the Independent Directors declining to recommend, withdrawing or modifying their recommendation at any time before the date of the Extraordinary General Meeting;
- Internalisation having been put to Securityholders and it not having been approved by the requisite majority at the Extraordinary General Meeting;
- breach by Spark International or Spark RE of any warranties given by or obligations undertaken by them under the Internalisation Agreement which is material to the Proposal as a whole; or
- the condition precedent to obtain financier consents under Spark Infrastructure's senior debt facility is not satisfied.

CKI and RREEF, however, will bear their own costs and expenses if the Internalisation Proposal proceeds.

2 DETAILED DESCRIPTION OF THE PROPOSAL CONT.

2.4 FUNDING OF THE INTERNALISATION

The purchase price for the JVCo shares payable by Spark Infrastructure to CKI and RREEF is $49 million upfront. In addition, there is also expected to be a payment of approximately $2.2 million for any net working capital balances (i.e. predominantly cash or cash-settled balances) in the entities to be acquired at Completion, subject to certain post closing adjustments.
If the Proposal is approved, Internalisation will effectively be funded from Spark Infrastructure's DRP which is intended to be reactivated for the September 2011 distribution. The Directors do not intend to underwrite the DRP. Further details will be provided closer to the September date.

As part of the Spark Infrastructure Repositioning, Spark Infrastructure successfully completed a $295 million entitlement issue with approximately $84 million of these proceeds retained to fund near term equity investment in the capital expenditure requirements of Spark Infrastructure's Asset Companies, which is expected to lead to growth in the RAB of the Asset Companies. Some of these retained monies are being held in cash and some are currently being used to temporarily pay down a revolving finance facility and can be called on by Spark Infrastructure at any time on 2 business days' notice. The Internalisation payments will initially be funded by redrawing these retained monies, which are intended to be replenished by the reactivation of the DRP.

To fund the Internalisation, Spark Trust intends to use these monies (currently held by other Spark Infrastructure entities) to provide funds to Spark International to enable it to:

- make the initial upfront payment for the acquisition of JVCo and closing payment for net working capital and other payments; and
- capitalise Spark RE so it continues to satisfy the financial requirements under its AFS licensing obligations to maintain an appropriate level of net tangible assets. It is also proposed to replace a current loan from RREEF and an undertaking from CKI, which together currently serve to satisfy these financial requirements for Spark RE's AFSL. See section 2.3 for details of the financial support for Spark RE's AFS licence.

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

2.5 CONDITIONS TO THE IMPLEMENTATION OF THE PROPOSAL

Implementation of the Proposal is subject to the following conditions:

- **Securityholder approval:** Securityholders approving the Proposal by the requisite majority (which requires 50% of those Securityholders entitled to vote);
- **Regulatory approvals:** all necessary regulatory approvals having been obtained on terms which are unconditional or conditional only on matters which are reasonably acceptable to Spark Infrastructure;
- **Regulatory action and legal restraints:** as at 9.00am on the Completion Date, there being no regulatory action, court action or any other material legal restraint which prevents or has the potential to prevent the implementation of or otherwise materially adversely affects the Proposal; and
- **Third party consents:** consent under Spark Infrastructure's senior debt facility being obtained.

2.6 SUMMARY OF THE RECOMMENDATIONS OF THE INDEPENDENT EXPERT

An Independent Expert was appointed to prepare a report to assist Securityholders to assess the Internalisation. The Independent Expert was asked to state whether or not, in its opinion, the Internalisation is fair and reasonable and in the best interests of Spark Infrastructure Securityholders.

The Independent Expert has concluded that the Internalisation is fair and reasonable and in the best interests of Securityholders. The Internalisation payment of $49 million[6], to be paid to CKI and RREEF, falls within the Independent Expert's estimated valuation range of $44 million to $50 million[6, 7] for the management arrangements.

The Independent Expert's Report is set out in full in Annexure I. Securityholders should read the Independent Expert's Report in its entirety.

2.7 BENEFITS, DISADVANTAGES AND RISKS OF THE PROPOSAL

For a comprehensive overview of the commercial drivers, benefits, disadvantages and risks of this Internalisation Proposal please refer to section 3 of this document – "Evaluation of the Proposal".

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6 Excludes additional payment to CKI and RREEF, currently estimated at $2.2 million, in relation to net working capital balances (predominantly cash or cash-settled balances) in these entities to be acquired at Completion. Subject to certain post closing adjustments.

7 This valuation range takes into account elimination of Performance Fees. See section 3.5 for further information about valuation range excluding the impact of elimination of Performance Fees.

2.8 SCOPE AND LEGAL PURPOSE OF RESOLUTIONS

As part of the Internalisation, Securityholders will be asked to approve the Internalisation Proposal described in this Explanatory Memorandum by passing three resolutions – the Internalisation Resolution, the Non-Executive Director Election Resolution and the Managing Director Election Resolution.

2.8.1 Internalisation Resolution

The Internalisation Resolution would include approving and authorising the following key steps of the Proposal:

// the giving of financial benefits to CKI, RREEF, JVCo, the Manager, Spark RE or their associated or related entities, including any financial benefit comprising:

- any payment including the costs reimbursement of up to $300,000 (plus GST) or cash payment of $49 million plus an estimated $2.2 million for net working capital (subject to certain post closing adjustments) to CKI and RREEF in accordance with the terms of the Internalisation Agreement;
- any change to, or termination of, the Management Agreement, the Technical Services Agreements or Existing Governance Deed, that involves any release of obligations, waivers, warranties, indemnities, and any release of or limitation on the liabilities of CKI, RREEF, JVCo, the Manager, Spark RE or their associated or related entities;
- any release of obligations, waivers, warranties, indemnities, and any release of or limitation on the liabilities of CKI, RREEF, JVCo, the Manager, Spark RE or their associated or related entities in accordance with the terms of the Internalisation Agreement;
- the replacement of the financial support given by CKI, RREEF, JVCo, the Manager, Spark RE or their associated or related entities to Spark RE to satisfy the financial requirements under its AFS licence, including any repayment of loan to any of CKI, RREEF, JVCo, the Manager, Spark RE or their associated or related entities, any indemnity or other support given in respect of the financial support received from CKI, RREEF, JVCo, the Manager, Spark RE or their associated or related entities, any release of obligations or liabilities of or waiver of any breach by CKI, RREEF, JVCo, the Manager, Spark RE or their associated or related entities, or any subscription for shares in or loan funding to Spark RE or its holding company;

// the acquisition of all the issued shares in JVCo by Spark International from CKI and RREEF;

// the use of funds and the giving of financial benefits by the Spark RE and by entities within the Spark Infrastructure group as among themselves in connection with the matters in the two paragraphs above;

// the implementation of the proposed governance changes described at sections 2.10.3 and 6.1.5, including the termination of the Existing Governance Deed with effect immediately prior to the acquisition of the JVCo shares by Spark International, the replacement of the Existing Governance Deed by the New Governance Deed and any amendment of the constitution of each of Spark Holdings 1, Spark Holdings 2, Spark International, JVCo and Spark RE;

// giving effect to any other documents or agreements relating to the Internalisation, including the Internalisation Agreement, Management Agreement and Technical Services Agreements; and

// Spark RE (as responsible entity of the Spark Trust) executing any documents and taking any actions necessary, desirable or incidental to give effect to the Internalisation.

Securityholders' approval is sought for all purposes including:

// approval for the purposes of Chapter 2E and Part 5C.7 of the Corporations Act (Related Party Transaction). While Spark Infrastructure considers that there may be arguments that the related party provisions do not technically apply, Spark proposes to seek Securityholder approval for the Internalisation in the way set out in Chapter 2E and Part 5C.7 of the Corporations Act, on the basis of a conservative assumption that these related party provisions apply. If applicable, these provisions require that approval be obtained for:

- any one of Spark Holdings 1 or Spark Holdings 2 or any entity the Spark RE, Spark Holdings 1 or Spark Holdings 2 controls to give a financial benefit to its related party (including CKI, RREEF, JVCo and the Manager); and
- the Spark RE (as the responsible entity of the Spark Infrastructure Trust) to give a financial benefit out of the scheme property to its related party (including CKI, RREEF, JVCo and the Manager) or Spark RE itself;

// approval under the terms of the Existing Governance Deed. The Existing Governance Deed currently states that it automatically terminates if the Securityholders approve of the termination or if the Independent Directors consent in writing. The termination takes effect at close of the meeting or on any later date specified in the resolution. While the Independent Directors consider that it is appropriate for them to consent to the termination, the Independent Directors consider it desirable for the termination and replacement of the Existing Governance Deed to be put to the Securityholders for approval.

2.8.2 Director Election Resolutions

In addition to the Internalisation Resolution, Spark Infrastructure is nominating Mr Andrew Fay for election as a non-executive director and Ms Laura Reed for election as a managing director for each of Spark RE, Spark Holdings 1, Spark Holdings 2, Spark International and JVCo, with effect from Internalisation, under the new proposed governance arrangements.

Mr Andrew Fay's appointment as non-executive director, if approved, will take effect from the Completion of the Internalisation, at the same time as the proposed new governance arrangements come into effect (**"Non-Executive Director Election Resolution"**). The Board of Spark Infrastructure (with Mr Fay abstaining) unanimously supports the election of Mr Fay and recommends that Securityholders vote in favour of the Non-Executive Director Election Resolution.

Ms Laura Reed's appointment as managing director, if approved, will take effect from the Completion of the Internalisation, when the proposed new governance arrangements come into effect (**"Managing Director Election Resolution"**). The Board of Spark Infrastructure unanimously supports the election of Ms Reed and recommends that Securityholders vote in favour of the Managing Director Election Resolution.

2.8.3 Majority and conditionality

Each of the Internalisation Resolution and the Director Election Resolutions must be an ordinary resolution of Securityholders, passed by at least 50% of the votes cast by holders present in person or by proxy and entitled to vote on the resolution.

The Internalisation Resolution is not subject to any conditions. Each Director Election Resolution is conditional on the Internalisation Resolution being passed. However, each Director Election Resolution is not conditional on the other Director Election Resolution being passed.

2.9 EXPLANATION OF AMENDMENT TO SPARK INFRASTRUCTURE TRUST CONSTITUTION

If Securityholders approve the Internalisation Proposal, then Spark RE intends to unilaterally amend the Spark Trust Constitution by way of a supplemental deed to remove the quarterly $25,000 fee payable to the Responsible Entity. Spark RE will make this change by means of its power to make amendments to the trust constitution that do not adversely affect Securityholders' rights. Accordingly, a resolution of Securityholders is not required to make this amendment, or to approve this fee reduction.

2.10 MANAGEMENT AND GOVERNANCE ARRANGEMENTS FOLLOWING INTERNALISATION

2.10.1 Management arrangements

If the Internalisation Proposal is approved, Spark RE will continue to be the responsible entity of Spark Trust. As Spark Infrastructure will become self-managed, the obligation to use the Manager and pay Base Fees and Performance Fees will fall away, as a result of the variation to the Management Agreement made at the time the Internalisation Agreement was entered into, upon Completion of the Internalisation. For further details of the amendments to the Management Agreement, see section 6.1.2.

As indicated above, Spark Infrastructure currently receives management services from the Manager and the executive management team (details of which are contained in section 2.9.4) are employees of the Manager. As part of the Internalisation Proposal, it is intended that the existing management arrangements will be changed such that Spark Infrastructure will, following implementation of the Internalisation Proposal become "self-managed" (that is, Spark Infrastructure will employ its own management teams following Internalisation). Offers of employment on terms no less favourable than current arrangements have been made to employees and have been accepted. These offers of employment are conditional on Completion occurring. Post Completion, it is intended to establish standardised employment agreements. In addition, individual employment arrangements may be negotiated with key employees / management personnel and details of any key contractual provisions will be disclosed to Securityholders at the relevant time.

2.10.2 Directors of Spark Infrastructure and Asset Companies post Internalisation

Spark Infrastructure is proposing a number of changes to its existing board composition in light of the proposed Internalisation, as described below.

(a) Spark Infrastructure Directors

If the Proposal is approved, the Directors of Spark Infrastructure post Internalisation will be:

- Stephen Johns – Chairman and Independent Director
- Brian Scullin – Independent Director (if elected at the AGM of Securityholders as a new independent director)
- Cheryl Bart, AO – Independent Director (if re-elected at the AGM of Securityholders as part of the board rotational arrangements)
- Dr Keith Turner – Independent Director
- Anne McDonald – Independent Director
- Andrew Fay – Non-Executive Director (if elected at this Extraordinary General Meeting)
- Laura Reed – Managing Director (if elected at this Extraordinary General Meeting)

All CKI and RREEF nominee directors on the Spark Infrastructure Board will retire upon Internalisation.

While Mr Andrew Fay will formally retire as a RREEF nominee director from the Spark Infrastructure Board, the Directors (with Mr Fay abstaining) recommend that he be elected by the Securityholders as a non-executive director of Spark Infrastructure with effect from Internalisation. In addition, the Directors recommend that Ms Laura Reed, the Chief Executive Officer, be elected by Securityholders as a director of Spark Infrastructure with effect from Internalisation. The Directors intend to appoint Ms Reed as Managing Director of Spark Infrastructure. If elected, each of Mr Fay's and Ms Reed's appointment takes effect only upon the Completion of Internalisation.

As part of the Spark Infrastructure Board's rotational arrangements in the ordinary course and changes to board composition, there will also be an election of Directors at the AGM to be held immediately before this Extraordinary General Meeting (see AGM notice of meeting which accompanies this Notice of Meeting). The outcome of the AGM is not conditional on the outcome of this Extraordinary General Meeting. In the usual course and as announced on 6 April 2011:

- Mr Stephen Johns, Chairman of Spark Infrastructure, has decided to retire from the Board in the second half of 2011;
- Mr Brian Scullin is nominated for election at the AGM as an independent director with effect from 31 May 2011 under the relevant governance arrangements current as at that date. Subject to Mr Scullin's election at the AGM, Mr Scullin will be nominated as Chairman Elect in anticipation of Mr Johns' retirement from the Board;
- Mr Don Morley, currently an Independent Director of Spark Infrastructure and Chairman of the Audit and Risk Management Committee, is expected to retire on 31 May 2011. Ms Anne McDonald, a current member of the Audit and Risk Management Committee, will replace Mr Morley as Chair of the Committee; and
- Ms Cheryl Bart will retire and stand for re-election at the AGM, as she is one of the longest serving directors on the Spark Infrastructure Board.

For a description of the Spark Infrastructure Directors post Internalisation, please see section 5.

b) Directors of ETSA Utilities

If the Proposal is approved, the directors of ETSA Utilities at Internalisation will be:

- Peter Tulloch – Chairman
- KS Tso – Non-Executive Director
- HL Kam – Non-Executive Director
- CT Wan – Non-Executive Director
- Andrew Hunter – Non-Executive Director
- Cheryl Bart, AO – Non-Executive Director (Spark Infrastructure appointee)
- Laura Reed – Non-Executive Director (Spark Infrastructure appointee)
- Dr Keith Turner – Non-Executive Director (Spark Infrastructure appointee)
- Andrew Fay – Non-Executive Director (Spark Infrastructure appointee)

Mr Fay is intended to replace Mr John Dorrian as one of Spark Infrastructure's appointees on the ETSA Utilities board, if Securityholders approve of his appointment as a Spark Infrastructure non-executive director from Internalisation.

2 DETAILED DESCRIPTION OF THE PROPOSAL CONT.

(c) Directors of CHEDHA

If the Proposal is approved, the directors of CHEDHA post Internalisation will be:

// Peter Tulloch – Chairman
// HL Kam – Non-Executive Director
// Andrew Hunter – Non-Executive Director
// KS Tso – Non-Executive Director
// CT Wan – Non-Executive Director
// Laura Reed – Non-Executive Director (Spark Infrastructure appointee)
// Anne McDonald – Non-Executive Director (Spark Infrastructure appointee)
// Dr Keith Turner – Non-Executive Director (Spark Infrastructure appointee)
// Andrew Fay – Non-Executive Director (Spark Infrastructure appointee)
// Shane Breheny – Executive Director

Mr Fay is intended to replace Mr John Dorrian as one of Spark Infrastructure's appointees on the CHEDHA board, if Securityholders approve of his appointment as a Spark Infrastructure non-executive director from Internalisation.

2.10.3 Corporate governance framework

If the Internalisation is approved, Spark Infrastructure proposes to continue to apply governance arrangements consistent with the public listed company governance arrangements identified below, and also to adapt its governance framework so that it is suitable for a self managed ASX listed fund which has its own management function and Responsible Entity. The key features of Spark Infrastructure's proposed governance framework after Internalisation include:

// the Spark RE Board will comprise directors elected by Securityholders. A Securityholder holding at least 100 Securities is entitled to nominate a director to the Spark RE Board. Securityholders may also remove the directors. Spark RE intends to maintain a majority independent board, consistent with the ASX Corporate Governance Principles and Recommendations. The directors will be subject to the director rotation arrangements contemplated by the Listing Rules;
// to provide Securityholders greater oversight across the Spark Infrastructure group, similar arrangements will also be replicated for the boards of directors of Spark Infrastructure's direct wholly-owned companies, being Spark Holdings 1, Spark Holdings 2 and Spark International, as well as for the newly acquired indirect holding company, JVCo. The relevant Spark RE directors (comprising the continuing Independent Directors and the new directors elected at the AGM or this Extraordinary General Meeting) will at the same time be appointed as directors of the relevant wholly-owned companies so that the boards of these companies will be identical at the completion of the Internalisation;
// Spark RE must hold an AGM of Securityholders each year consistent with an AGM of a public listed company; and
// to the extent practicable, Spark Trust will continue to be governed as if it is a public listed company and to adopt the reporting requirements of a public listed company.

As a matter of general law, the board composition of a company is a matter for its immediate shareholder. Securityholders of a public listed trust do not ordinarily have any rights over the board composition of the trustee or of the wholly-owned companies of the trust. However, the relevant Spark Infrastructure entities propose to grant such governance participation rights to Securityholders by amending their company constitutions and entering into an overarching New Governance Deed, to implement the modified governance arrangements above (see section 6.1.5).

If Internalisation proceeds, it is proposed that the New Governance Deed will replace the Existing Governance Deed between CKI, RREEF and Spark RE. As required by the Existing Governance Deed, Spark Infrastructure intends to seek Spark Infrastructure Securityholders approval to replace the Existing Governance Deed with the New Governance Deed. Upon Internalisation, neither CKI nor RREEF (or any of their related bodies corporate) will have any obligations under the New Governance Deed.

If Internalisation is approved by Securityholders, each of the four CKI and RREEF representative directors will retire from the Spark Infrastructure Board. On retirement from the Board, John Dorrian and Andrew Hunter will also cease to be members of the Audit and Risk Management Committee. It is intended that Andrew Fay will be appointed to the Audit and Risk Management Committee in due course.

The Compliance Committee will continue if the Proposal is approved. Post Internalisation, the Spark Infrastructure Board of Directors will also introduce a Remuneration and Nomination Committee to be chaired by the Chairman of the Spark Infrastructure Board of Directors and comprising two independent directors in addition to the Chairman.

2.10.4 Executive management team

If the Proposal is approved, the existing executive team will continue to remain in place, with Laura Reed as the Chief Executive Officer and Rick Francis as the Chief Financial Officer of Spark Infrastructure.

Laura Reed and Rick Francis have extensive experience in the infrastructure industry, including management of assets in the existing portfolio and identification of external investment opportunities. For a description of the Spark Infrastructure management team post Internalisation, please see section 5.

As part of the Proposal, the employment arrangements for the executive management team will be transferred to Spark Infrastructure. Key terms of the amended employee contracts for Laura Reed and Rick Francis are outlined below.

	Laura Reed	Rick Francis
Contract term	31 March 2013	No defined term
Total Fixed Remuneration ("TFR")	$620,000 per annum	$425,000 per annum
Short term incentive ("STI") [1]	40% of TFR	40% of TFR
Notice / termination period [2]	6 months from Spark Infrastructure / 6 months from employee	3 months from Spark Infrastructure / 3 months from employee
Termination Benefits	On termination with cause, Spark Infrastructure will pay any TFR 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 TFR, a bonus at the discretion of the Board and any accrued leave entitlements. Spark Infrastructure will also pay any TFR due and owing at the date of redundancy or termination.	On termination with cause, Spark Infrastructure will pay any TFR 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 TFR (including STI), the STI for the current year of service and any accrued leave entitlements. Spark Infrastructure will also pay any TFR due and owing at the date of redundancy or termination.

1 Maximum annualised Short Term Incentive as a proportion of Total Fixed Remuneration. There is no minimum agreed payment. Notice periods refer to the number of months notice required to be given by Spark Infrastructure to the employee and by the employee to Spark Infrastructure respectively.

2 Notice periods refer to the number of months notice required to be given by Spark Infrastructure to the employee and by the employee to Spark Infrastructure respectively.

No termination payments will be paid to the executive management team (including Laura Reed or Rick Francis) as a result of the transfer of their employment arrangements to Spark Infrastructure. A retention payment has crystallised arising from Ms Reed having been employed by the Manager on 15 March 2010; part of that payment ($185,000) was deferred and becomes payable when the employment contract is terminated either by the Manager or by Ms Reed and will be paid to Ms Reed by the Manager immediately prior to her transfer of employment to Spark Infrastructure. See also section 3.4 for other employee benefits and entitlements which are being paid out upon Internalisation (also by the Manager).

In line with market practice, Spark Infrastructure intends to put in place a long term incentive plan (**"LTIP"**) for its executive management team after Internalisation. The structure and related costs of any LTIP are yet to be determined although the estimated cost of an LTIP has been allowed for in the estimated $5 million operating costs of internalised management for the first year.

2.11 INTEREST AND INTENTIONS OF CKI AND RREEF

Based on current substantial holder notices available to Spark Infrastructure, as at 6 April 2011:

- CKI holds a relevant interest of 8.56% in Spark Infrastructure, being 113,607,184 Securities;
- Deutsche Bank AG holds a relevant interest of 2.74% in Spark Infrastructure, being 36,383,171 Securities; and
- Deutsche Bank AG, CKI and their respective associates have 11.31%[8] voting power in Spark Infrastructure.

Spark Infrastructure is not aware of the intentions of CKI and Deutsche Bank AG with respect to their continued holding of these Securities.

In accordance with section 253E of the Corporations Act, Spark RE and associates of Spark RE must not vote their interest on a resolution of unitholders of Spark Trust if they have an interest in the resolution or matter other than as a member of Spark Trust. However, the Spark RE and its associates may vote as proxies if their appointments specify the way they are to vote and they vote that way.

8 Differences due to rounding.

2 DETAILED DESCRIPTION OF THE PROPOSAL CONT.

2.12 ROLE OF CKI, RREEF AND DEUTSCHE BANK POST INTERNALISATION

If the Internalisation is implemented, Spark Infrastructure will cease to be externally managed by, and to have a responsible entity that is (in each case), an entity indirectly wholly owned by CKI and RREEF.

Neither CKI nor RREEF will have the ability to nominate or appoint representatives to the Spark Infrastructure Board. As a result, the CKI Board appointees (Dominic Chan and Andrew Hunter) and RREEF Board appointees (John Dorrian and Andrew Fay) will retire from the Spark Infrastructure Board of Directors upon implementation of the Proposal. The RREEF-associated director (John Dorrian) who is currently a Spark Infrastructure appointee on the boards of CHEDHA and ETSA Utilities is expected to retire from the Asset Company boards.

While Mr Andrew Fay will formally retire as a RREEF nominee director from the Spark Infrastructure Board, the Directors (with Mr Fay abstaining) recommend that he be elected by the Securityholders as a non-executive director of Spark Infrastructure with effect from Internalisation. If Securityholders approve of his appointment as a Spark Infrastructure non-executive director after Internalisation, Mr Fay is also intended to replace Mr John Dorrian as Spark Infrastructure's appointee on the Asset Companies boards after Internalisation.

CKI and PAH will continue to hold their 51% holding in the underlying Asset Companies and be entitled to appoint a majority of the directors to the boards of the Asset Companies.

In addition to the Management Agreement, Spark Infrastructure is also a party to the FSA with Deutsche Bank AG. Pursuant to the FSA, each of the entities within Spark Infrastructure must (subject to certain exceptions) first offer to Deutsche Bank, on an exclusive basis, all corporate advisory and capital raising engagements. The FSA has a term of 10 years commencing in 2005, with an automatic renewal for a further 10 year period based on certain conditions. The terms of the FSA are not affected by the Internalisation Proposal and this agreement will remain in place post Internalisation.

3 EVALUATION OF THE PROPOSAL

The Independent Directors of Spark Infrastructure consider that the Proposal is in the best interests of Securityholders. They believe that the Proposal will have a number of significant benefits and other impacts which have been summarised below.

3.1 EXPECTED BENEFITS OF THE PROPOSAL

// **Elimination of future Base Fees and potential Performance Fees in exchange for a one-off upfront payment of $49 million[9]:** This will have the effect of:

- Eliminating future Base Fees which currently accrue under the existing Spark Infrastructure Management Agreement (which does not expire until 2030), thereby achieving cost savings for the group (see section 4.2.1 for an illustration of potential savings).
- Eliminating potential Performance Fees which are unpredictable with respect to whether they will arise, timing of the fees arising and size of the fees. While Performance Fees have been paid once to date and there is currently a cumulative under-performance, the volatility in the calculation of the Performance Fees (based on the Spark Infrastructure Securities' relative performance against a benchmark index) means that accumulated under-performance can be recouped fairly quickly depending on Spark Infrastructure's and the market's performance over time (see second table at section 2.2.1).
- Ensuring that any market outperformance will be entirely attributable to Securityholders as outperformance will no longer attract a Performance Fee, and the potential cash flow volatility associated with the existing Performance Fee calculation structure will be removed.

// **Alignment of interests:** Internalisation will create a self-managed group with enhanced alignment of interests, continuity of management and greater autonomy over decision making. More specifically, Internalisation will deliver improved corporate governance, with a simpler and more transparent structure and will also allow for more independent Board composition, with Directors elected by Securityholders.

// **Respond positively to investor feedback in relation to externalised management structures:** Internalisation represents a move to a more contemporary structure rather than the existing external management structure. The Independent Directors believe that Internalisation removes investor and market unease over the externally managed infrastructure model and means that Spark Infrastructure will have broader investor appeal, with an internalised management function added to the simplified and more transparent corporate structure delivered by the Repositioning.

// **Continuity of management:** the management team which currently manages Spark Infrastructure will remain in place. The management team has extensive experience in the infrastructure industry, including management of the Asset Companies and identifying external investment opportunities.

// **The Proposal complements an extensive Repositioning of Spark Infrastructure aimed at maximising Securityholder value:** Internalisation of the Spark Infrastructure management structure was considered as part of the Spark Infrastructure Strategic Review, the outcomes of which were announced in September 2010. At the time, no agreement was reached on the matter. However, the Independent Directors have pursued the matter and have now reached what they believe is a suitable commercial agreement on terms for Internalisation, including suitable commercial terms as to price and transaction structure. The cost of terminating the Spark Infrastructure management arrangements of $49 million[9] is considered acceptable by the Independent Directors.

3.2 DISADVANTAGES

Factors that may be viewed as disadvantages to the Proposal include:

// **Upfront payment:** if the Internalisation is approved by Spark Infrastructure Securityholders, a one-off upfront payment of $49 million[9] will be made to CKI and RREEF. This amount will be expensed immediately in the profit and loss statement on Completion (refer section 4.1). However, the Independent Directors believe that this is justified by the benefits, including cost savings, from Internalisation. See section 4.2.1 for an illustration of potential savings.

// **Additional ongoing costs:** if the Internalisation is implemented, Spark Infrastructure will incur additional annual costs associated with internalised management that have been estimated at approximately $5 million in the first year. These primarily relate to the employment of management staff and associated on-costs and general / administrative expenses, and also include estimated costs for the possible introduction of a long term incentive plan. These additional future annual costs of internalised management (together with the upfront costs) are anticipated to be less than the Base Fees and potential Performance Fees which would be payable to the Manager if Internalisation does not occur (see section 4.2.1 for an illustration of potential savings).

// **Additional one-off transaction costs:** Spark Infrastructure will also incur one-off external transaction and implementation costs of around $2 million, which comprises primarily costs of consultants, experts and advisers. This amount will be expensed immediately in the profit and loss statement on Completion (refer section 4.1). The one-off costs are in addition to those costs incurred by Spark Infrastructure as part of its normal operations. The Spark Infrastructure Independent Directors believe that those one-off costs are reasonable in view of the likely benefits of the Proposal and expected cost savings from an internalised management model (see section 4.2.1 for an illustration of potential savings).

9 Excludes additional payment to CKI and RREEF, currently estimated at $2.2 million, in relation to net working capital balances (predominantly cash or cash-settled balances) in these entities to be acquired at Completion. Subject to certain post closing adjustments.

// **No certainty that Internalisation will improve the market rating of Spark Infrastructure:** while the Spark Infrastructure Independent Directors believe that the Internalisation may improve the market rating of Spark Infrastructure Securities, there is no guarantee that the Spark Infrastructure Security price will increase. Furthermore, the Spark Infrastructure Security price may be affected by other factors that are unrelated to the Internalisation such as performance of the underlying assets and movements in overall equity markets.

// **Removal of access to CKI and RREEF expertise:** as a result of the external management arrangements, Spark Infrastructure currently has access to the expertise and global reach of both CKI and RREEF. If the Internalisation is implemented, Spark Infrastructure will no longer be able to leverage these relationships in the same way that it has been able to in the past. There can be no certainty as to the impact that this may have on the Spark Infrastructure business or Security price. The Spark Infrastructure Independent Directors believe they will be able to still implement their strategies and operate effectively as a standalone entity without needing to leverage CKI and RREEF expertise. This is further supported by continuity of management of the businesses which results from the existing management personnel transferring to Spark Infrastructure entities as part of the Internalisation Proposal.

// **Potential tax implications associated with Internalisation:** Spark Trust's status as a "flow-through" trust relies on the application of section 102NA of the Income Tax Assessment Act, which provides a specific exemption from the public trading trust rules for formerly stapled trusts. Spark Infrastructure considers that section 102NA should continue to apply to Spark Trust if the Internalisation is implemented. However, it is noted that the Australian Tax Office (**"ATO"**) has issued a draft tax determination in which it takes the view that the requirements of section 102NA will not be satisfied if an entity in the formerly stapled group acquires, or begins carrying on, a new business. Spark Infrastructure considers that the ATO's draft tax determination should not apply in this instance, as the Internalisation does not constitute an acquisition or carrying on of a new business. However, if the ATO adopts a different view, there is a risk that the ATO could seek to tax Spark Trust as a public trading trust. As a public trading trust, the net income of Spark Trust would be taxable at the corporate tax rate (currently 30%) and distributions from Spark Trust (excluding interest paid on Loan Notes) that are attributable to profits would be in the form of franked or unfranked unit trust dividends, which may be taxable to Securityholders. Spark Trust is seeking a private binding ruling from the ATO to confirm the continued application of section 102NA after implementation of the Internalisation.

// **Inherited liabilities:** As for any share acquisition, Spark Infrastructure will inherit any liabilities (including legal, accounting and tax liabilities) of the companies acquired. As is customary, Spark Infrastructure has obtained some mitigation of such risks through warranties and indemnities from CKI and RREEF, as part of the negotiated transaction. Such protection is subject to certain limitations on CKI and RREEF's liabilities, including a cap on aggregate liability such that the liabilities of the seller may be limited by the terms of the Internalisation Agreement, summarised at section 6.1.1.

// **AFSL financial requirements:** Spark Infrastructure will also replace a current loan from RREEF and an undertaking from CKI which together currently serve to satisfy the financial requirements for Spark RE's AFSL. This is not considered to be material. See section 2.3 and 2.4.

// **Uncertainty around potential net costs savings:** The potential net costs savings from Internalisation are primarily based on an NPV analysis of the difference in costs by replacing the anticipated Base Fees with the anticipated operating costs of internalised management, over the remaining term of the Management Agreement. The potential net costs savings from Internalisation also include the potential elimination of future Performance Fees. The anticipated Base Fees are based on the market capitalisation of Spark Infrastructure's Security price and the anticipated Performance Fees are based on the relative performance of Spark Infrastructure's Securities return against the benchmark index return. The potential net costs savings are based on an assessment of future events which may or may not occur. There is no guarantee that the potential net costs savings will eventuate nor that they will be of the amount assumed. See section 3.4, 4.2.1 and 4.2.2 for further information about the risks factors and key assumptions underlying this analysis of the net costs savings (in particular the NPV analysis of the net costs savings arising from the difference between the Base Fees and operating costs of internalised management).

3.3 RISKS OF THE PROPOSAL NOT PROCEEDING

In addition to not obtaining the benefits listed in section 3.1, the Spark Trust, Spark RE and the Manager will continue to operate as they currently do if the Internalisation is not implemented. That is, Spark RE will remain as the responsible entity of Spark Trust and the Manager will continue to provide management services to Spark Trust under the Management Agreement and receive the Base Fees and potential Performance Fees as they become payable.

Also, the costs of the Proposal will be borne by Spark Infrastructure whether or not the Proposal proceeds. Certain additional costs will be borne by Spark Infrastructure if the Proposal does not proceed, in particular Spark International may be liable to pay CKI and RREEF a reimbursement fee, up to a maximum of $300,000 (plus GST) in aggregate, as compensation for their costs and expenses incurred in connection with the Internalisation Proposal. For further details, please see section 2.3.3. CKI and RREEF, however, will bear their own costs and expenses if the Internalisation Proposal proceeds.

3.4 INTERNALISATION PAYMENT CONSIDERATIONS

Spark Infrastructure will acquire JVCo from CKI and RREEF for a one-off upfront payment of $49 million[10], with each of CKI and RREEF receiving their relevant proportion.

10 Excludes additional payment to CKI and RREEF, currently estimated at $2.2 million, in relation to net working capital balances (predominantly cash or cash-settled balances) in these entities to be acquired at Completion. Subject to certain post closing adjustments.

This payment does not include any accrued employee benefits or entitlements before, or any employee benefits or entitlements arising from, the termination of their employment on implementation of the Internalisation. Such employee costs (including certain bonuses payable to employees) will be paid out by the Manager before the employees transfer to Spark Infrastructure.

The total Internalisation consideration payable to CKI and RREEF was assessed by the Spark Infrastructure Independent Directors against a number of valuation benchmarks, including an assessment of the net present value (**"NPV"**) of the incremental earnings from the elimination of Base Fees, net of operating costs associated with internalised management, and cross checks to other internalisation transactions, noting that few, if any, transactions are directly comparable. The Independent Directors also considered the potential value impact of future Performance Fees if they were to eventuate during the remaining term of the Management Agreement, with $16.5m in Performance Fees having been paid by Spark Infrastructure to the Manager since listing in 2005. The upfront payment of $49 million[11] was negotiated between the Independent Directors and CKI and RREEF on an arm's length basis.

The NPV analysis included an assessment of forecast Base Fees and costs associated with internalised management for the remaining term of the Management Agreement, to derive the potential forecast cost savings from Internalisation. These cost savings were discounted back at an assessed cost of capital, with the NPV analysis producing a range of valuations.
Key assumptions and sensitivities included:

// growth in Enterprise Value;

// annual RAB growth;

// internalised management costs of approximately $5 million in the first year and escalated at 3% to 5% per annum in subsequent years; and

// potential cost savings associated with Internalisation.

The Internalisation payment of $49 million[11] to be paid to CKI and RREEF, falls within the Independent Expert's estimated valuation range of $44 million to $50 million[11, 12] for the Spark Infrastructure management arrangements. See Annexure I.

In addition to the above, the Spark Infrastructure Independent Directors are confident that:

// the total expected Internalisation consideration does not impact the Spark Infrastructure Board's previous distribution guidance for 2011 of 9.25 cents per Security, with distributions expected to grow over the current five year regulatory period, subject to business conditions (see section 4.4)[13]; and

// given the intended activation of the DRP to replenish the cash reserves used, in the interim, to fund the Internalisation, that interim use of those cash reserves does not impact Spark Infrastructure's ability to fund capital expenditure requirements at the Asset Companies over the current 5 year regulatory period.

3.5 INDEPENDENT EXPERT OPINION

The Independent Expert has concluded that the Internalisation is fair and reasonable and in the best interests of Securityholders. The Internalisation payment of $49 million[11] to be paid to CKI and RREEF, falls within the Independent Expert's estimated valuation range of $44 million to $50 million (being the valuation range taking into account elimination of Performance Fees)[11] for Spark Infrastructure's management arrangements. The Independent Expert assessed the NPV of the future net cost savings (excluding the impact of elimination of Performance Fees) to be in the range of $41 million to $45 million.[11] Securityholders should read the Independent Expert's Report in its entirety.

3.6 OTHER IMPACTS

Other impacts include:

// Replacement of financial support for the financial requirements of the AFS licence of Spark RE (see sections 2.3 and 2.4); and

// Incidental changes to key documents: as part of, or following Internalisation, there will be incidental changes to or termination of key documents, and some new key documents put in place (see section 6).

3.7 DIRECTORS' RECOMMENDATION AND VOTING

3.7.1 Independent Directors' recommendation and voting

The Independent Directors unanimously recommend that Securityholders vote **FOR** the Proposal.

In making this recommendation, the Independent Directors have considered:

// the effect, impact, benefits and disadvantages associated with the Internalisation summarised in section 3;

// the findings of the Independent Expert, set out in its report at Annexure I; and

// financial benefits that are given to CKI and RREEF from Internalisation, which have been negotiated on an arm's length basis.

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11 Excludes additional payment to CKI and RREEF, currently estimated at $2.2 million, in relation to net working capital balances (predominantly cash or cash-settled balances) in these entities to be acquired at Completion. Subject to certain post closing adjustments.

12 This valuation range takes into account elimination of Performance Fees. See section 3.5 for further information about valuation range excluding the impact of elimination of Performance Fees.

13 This guidance is subject to the risk factors and key assumptions as outlined in section 4.4. This information is guidance not forecast. Actual distributions may vary. This distribution guidance has been prepared by Spark Infrastructure and has not been independently reviewed or audited. It is not certain that this level of distributions will be achieved.

3 EVALUATION OF THE PROPOSAL CONT.

The Independent Directors believe that the benefits significantly outweigh the disadvantages. Accordingly, the Independent Directors believe that Internalisation is in the best interests of Securityholders. The Independent Directors intend to vote the Securities they own or control in favour of the Internalisation Resolution.

3.7.2 Voting by nominee directors

The remaining directors of Spark Infrastructure, Dominic Chan, Andrew Hunter, John Dorrian and Andrew Fay, do not make any recommendation in relation to the Proposal and intend to abstain from voting any Securities they hold or control in respect of the Internalisation Resolution. These directors consider that it is inappropriate for them to make a recommendation, or vote, on the Proposal because:

- Dominic Chan and Andrew Hunter are nominated by CKI and appointed as directors of the Spark Infrastructure board by the shareholder of Spark RE and each holds certain executive positions within CKI; and
- John Dorrian and Andrew Fay are nominated by RREEF and appointed as directors of the Spark Infrastructure board by the shareholder of Spark RE and each holds certain positions with RREEF and / or Deutsche Bank AG.

These directors are excluded from voting as they have an interest in the Internalisation Resolution other than as a Securityholder (except in limited circumstances). However, the excluded directors may still vote as proxies if their appointments specify the way they are to vote and they vote that way.

Mr Andrew Fay is excluded from voting on the Non-Executive Director Election Resolution as he has an interest in that resolution other than as a Securityholder (except that he may vote a directed proxy given to him). Similarly, Ms Laura Reed is also excluded from voting on the Managing Director Election Resolution as she has an interest in that resolution other than as a Securityholder (except that she may vote a directed proxy given to her).

3.8 OTHER CONSIDERATIONS

3.8.1 Alternative options

The Independent Directors considered a number of options as part of the Strategic Review (see section 2.4 of the Investor Booklet and section 1.16 of Notices of Meeting and Explanatory Memorandum in respect of the Restructure for the Independent Directors' assessment of these options) as follows:

- continuing with the arrangements which existed prior to that Restructure;
- change in ownership and security structure (i.e. the Restructure which took place);
- internalisation of external management arrangements;
- changes in capital structure and capital raising (i.e. the Entitlement Offer which took place); and
- full or partial sale of assets or change of control transaction for Spark Infrastructure.

Although the options (including an internalisation of external management arrangements) were explored, an internalisation in particular did not eventuate at that time as acceptable terms for implementing an internalisation were not able to be reached at that time, and the Repositioning comprising the Restructure and Entitlement Offer was implemented at the end of 2010.

In addition to the options considered at the time of the Strategic Review, Spark Infrastructure has also considered the alternative of appointing a different responsible entity. Spark Infrastructure considers that proceeding with this proposed Internalisation is preferable to continuing with the existing externally managed structure, for the reasons explained at sections 3 and 4. Spark considers that the option of changing its responsible entity, while it might be an attractive option under other structures, is not viable in the context of Spark's structure, as this option does not eliminate Spark's obligation to continue to pay Base Fees and Performance Fees under its existing Management Agreement with the Manager, which would continue despite a change in responsible entity.

The Independent Directors believe that the Internalisation would complement the extensive repositioning of Spark Infrastructure which resulted from the Strategic Review, in addition to responding positively to investor feedback in relation to externalised management structures. Given the essence of an Internalisation, Spark Infrastructure has dealt with the co-owners of its sole external management services provider, being the only possible counterparties to an Internalisation proposal. Governance protocols applied during the Independent Directors' negotiations with CKI and RREEF, in light of Spark Infrastructure's relationship with CKI and RREEF.

3.8.2 No loss of opportunity

If Internalisation does not proceed, Spark Infrastructure will retain on hand the funds which would otherwise have been paid to CKI and RREEF, being the upfront $49 million plus the estimated $2.2 million net working capital adjustment plus post closing adjustments. If Internalisation does not proceed, Spark Infrastructure would not presently have any intention or need to reactivate the DRP in September 2011. Further, if Internalisation does not proceed, Spark Infrastructure would have been required to continue to pay Base Fees and potentially Performance Fees, limiting its ability to pursue any other opportunities in the short term. Accordingly, the Independent Directors do not believe there is any loss of ability to pursue a competing opportunity as a result of proceeding with the Internalisation.

4 FINANCIAL INFORMATION

4.1 FINANCIAL IMPACT OF THE INTERNALISATION

The key financial impacts of the Internalisation are:

- Spark Infrastructure will incur a one-off upfront Internalisation payment of $49 million[14] to CKI and RREEF, but will no longer be required to pay Base Fees or potential Performance Fees on an ongoing basis;
- Cost savings for Spark Infrastructure from ceasing to pay Base Fees and potential Performance Fees in future periods to CKI and RREEF (through the Manager). Base Fees and Performance Fees totalling $65.7 million have been paid since the listing of Spark Infrastructure in December 2005, being an average of $13.1 million per annum to the Manager. It is estimated that a further $3.5 million in Base Fees will need to be paid to the Manager for the period up to the implementation of the Internalisation expected to occur at the end of May 2011;
- Additional costs associated with internalised management incurred by the relevant Spark Infrastructure entities following Internalisation of approximately $5 million in the first year (see section 4.2.1 for an illustration of potential savings);
- Spark Infrastructure will incur one-off external transaction and implementation costs estimated at $2 million which comprises primarily costs of consultants, experts and advisers;
- There may be other cost savings associated with director fees paid to CKI and RREEF-nominated directors on the Spark Infrastructure boards which are currently borne by Spark Infrastructure;
- Spark Infrastructure will continue to pay Base Fees to CKI and RREEF (through the Manager) but only up until Completion of the Proposal;
- The upfront Internalisation payment of $49 million[14] and associated transaction costs (estimated at $2 million) will be expensed immediately in the profit and loss statement at acquisition. The immediate expensing of these payments for accounting purposes is not expected to impact on Spark Infrastructure's ability to meet its distribution guidance as set out in section 4.3; and
- As part of Internalisation, Spark Infrastructure expects to inject additional equity into Spark RE immediately following the time of Completion, which, together with existing cash held by the Spark RE, would be used to satisfy the financial requirements under its AFS licensing obligations to maintain an appropriate level of net tangible assets. This arrangement is proposed to replace a current loan from RREEF and an undertaking from CKI which together currently serve to satisfy these financial requirements for Spark RE's AFSL.

4.2 ANALYSIS OF POSSIBLE NET SAVINGS AS A RESULT OF INTERNALISATION AND BASE FEES

4.2.1 Net savings

This section provides a simplified illustration of the potential net costs savings based on the estimated $5 million operating costs of internalised management for the first year and the assumed Base Fees at various security price points in that year. For an outline of the potential net costs savings over the remaining term of the Management Agreement (including the NPV analysis of the difference between the Base Fees and operating costs of internalised management), please see section 3.4.

The purpose of the table overleaf is to provide an example to illustrate the potential savings Spark Infrastructure would achieve with Internalisation, which are expected to result in an increase in the operating cash flow and earnings of the Spark Infrastructure group.

Calculated below are the pro forma Base Fees that would be payable to the Manager and the implied net savings assuming operating costs of $5 million in the first year at various Spark Security prices if Internalisation occurred.

This is a pro forma analysis only and Spark Infrastructure notes that the actual Base Fees will depend on the Spark Infrastructure market capitalisation and Spark Infrastructure level of external drawn debt, as the Enterprise Value of Spark Infrastructure on which the Base Fees are calculated. The actual Enterprise Value will vary depending on a number of factors (see section 4.2.2.).

The actual ongoing operating costs post Internalisation may also differ. The estimated operating costs directly related to the assumption of the management function of approximately $5 million in the first year is based on the Manager's actual costs of the employment of management staff and associated on-costs and general / administrative expenses. It also includes estimated costs for the possible introduction of a long term incentive plan. The $5 million estimate in the first year does not take into account the effect of inflation nor increases in salary in future, but these costs are estimated to escalate at 3% to 5% per annum in subsequent years (see section 3.4 for the NPV analysis of the potential cost savings for the remaining term of the Management Agreement and "operating expenses" under section 4.4.2 for the assumption for subsequent years).

The relatively fixed nature of the operating costs of internalised management, estimated at $5 million in the first year and escalated by 3% to 5% per annum for subsequent years, are based on the assumptions that there are no unforeseen circumstances which change the scope or nature of the current management operations and the costs not escalating beyond 3% to 5% per annum for subsequent years.

14 Excludes additional payment to CKI and RREEF, currently estimated at $2.2 million, in relation to net working capital balances (predominantly cash or cash-settled balances) in these entities to be acquired at Completion. Subject to certain post closing adjustments.

4 FINANCIAL INFORMATION CONT.

In addition, the analysis below excludes the potential impact of cost savings associated with any potential Performance Fee payments which will no longer be payable following Internalisation. The analysis below also does not consider the reduction in cost savings due to the incurrence of one-off transaction and implementation costs including the upfront payment of $49 million.[15]

Security price ($)	Cost savings ($m) (Base Fees)	Additional costs post Internalisation ($m)	Net savings to Spark Infrastructure ($m)
1.08	7.8	(5.0)	2.8
1.10	7.9	(5.0)	2.9
1.12	8.0	(5.0)	3.0
1.14	8.2	(5.0)	3.2
1.16	8.3	(5.0)	3.3
1.18	8.4	(5.0)	3.4
1.20	8.6	(5.0)	3.6
1.22	8.7	(5.0)	3.7
1.24	8.8	(5.0)	3.8
1.26	9.0	(5.0)	4.0
1.28	9.1	(5.0)	4.1

Note: Base Fee calculation assumes Spark Infrastructure external drawn debt of $125 million as at 31 December 2010 and 1,326.7 million Securities on issue. Figures above are annual figures.

4.2.2 Anticipated increase of Base Fees over time

The pro forma analysis above needs to be considered in the context of the expectations for the Base Fees over time.

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

// The Asset Companies in which Spark Infrastructure holds a 49% interest are entering an exciting period of growth that is expected to see their Regulatory Asset Bases (RAB) grow from $6.8 billion to around $10 billion at the end of 2015 as a result of large capital expenditure programs.

// In addition Spark's net equity investment in the Asset Companies is expected to grow as they intend to reduce their gearing levels from the current level of around 80% net debt to RAB to around 75% in 2015.

// Both of these factors are expected to increase the size of Spark Infrastructure's balance sheet and may lead to an increase in Spark's market capitalisation.

However, if any of these factors do not eventuate, or if market conditions change, Spark's Enterprise Value may not increase and an increase in Base Fees may not occur. In particular, market capitalisation depends on the ASX trading price which may go up or down over time.

4.3 DISTRIBUTION GUIDANCE

The proposed Internalisation is not expected to be dilutive to distributions to Securityholders and does not impact on existing distribution guidance. Spark Infrastructure reaffirms its previous distribution guidance for the 2011 year of 9.25 cents per Security, comprising 7.05 cents Loan Note interest and 2.20 cents return of capital announced in February 2011. Spark Infrastructure remains confident of growing distributions over the current five year regulatory period, subject to business conditions. This guidance is subject to key assumptions as outlined below in section 4.4.

15 Excludes additional payment to CKI and RREEF, currently estimated at $2.2 million, in relation to net working capital balances (predominantly cash or cash-settled balances) in these entities to be acquired at Completion. Subject to certain post closing adjustments.

4.4 ASSUMPTIONS UNDERLYING THE DISTRIBUTION GUIDANCE

The FY2011 distribution guidance provided at the time of Spark Infrastructure's full year results in February 2011 and reaffirmed in this Explanatory Memorandum has been prepared based on certain assumptions about future events. These assumptions have been updated as appropriate from those disclosed in the Investor Booklet during 2010. Securityholders should carefully review the key assumptions and the risk factors in sections 11 and 12 of the Investor Booklet in conjunction with the distribution guidance.

This summary is intended to assist Securityholders in assessing the reasonableness and likelihood of those future events occurring. Securityholders should be aware that the impact of future events may have a materially different positive or negative effect on the distribution guidance.

These assumptions are by their very nature subject to significant uncertainty and contingencies, many of which are outside the control of Spark Infrastructure and the Asset Companies and are not capable of reliable prediction.

Accordingly, neither Spark Infrastructure nor its Directors can give any assurance that the guidance will be achieved.

4.4.1 General assumptions

The general assumptions are that there will be no significant disruptions to the continuity of operations of any of Spark Infrastructure's entities or the Asset Companies, with no material changes assumed to existing insurance policies, legislation, the economic and political environment, and no acquisitions or divestments apart from the Internalisation.

4.4.2 Spark Infrastructure key assumptions

- **Distributions from Asset Companies:** distributions expected to be received by Spark Infrastructure from the Asset Companies during the Guidance Period are in accordance with the 5 Year Corporate Plans approved by the respective Asset Company Boards in late 2010. These Corporate Plans were approved following final AER determinations for distribution revenues. The Asset Company Corporate Plans are reviewed annually and are subject to change due to changes in material assumptions at the Asset Company level. The assumed performance of the Asset Companies is based on final regulatory determinations for ETSA Utilities and CHEDHA (CitiPower and Powercor). During the Guidance Period, Spark Infrastructure expects to receive its distributions from CHEDHA largely by way of interest income on subordinated debt and from ETSA Utilities largely by way of Preferred Partnership Capital and ordinary distributions.
- **Loan Notes:** interest on Loan Notes is expected to account for the majority of the distributions paid to Spark Infrastructure Securityholders during the Guidance Period. The current Loan Note principal outstanding is $863 million based on a face value of $0.65 per Loan Note. The Loan Notes will accrue interest at a current rate of 10.85% of the face value on a cumulative basis.
- **Management fees:** on the assumption the Internalisation proceeds, no Base Fees or Performance Fees will be payable under the Management Agreement, following Completion of the Internalisation. Base Fees will be payable by Spark Infrastructure to the Manager pro-rata up until that time.
- **Operating expenses:** post Internalisation, operating expenses directly related to the assumption of the management function are forecast to increase by approximately $5 million in the first year and escalate at 3% to 5% per annum in subsequent years. These additional operating expenses comprise employee expenses, occupancy and other general administrative costs previously borne by the Manager.
- **Debt and interest expense:** bank facilities comprise a $165 million 3-year revolving facility expiring in September 2013 and a $85 million 4-year term loan expiring in September 2014. As at December 2010, interest on the debt facility is at a current market rate, and the facilities are assumed to be refinanced at the required future points in time at margins consistent with those payable on the current facilities. An interest rate swap of $85 million commencing in June 2011 and expiring in September 2015 is in place.
- **Income tax:** unless otherwise determined during the Guidance Period, 100% of distributions from the Loan Notes and Spark Infrastructure Trust are expected to be passed to Securityholders on a pre-tax basis. At the Asset Company level, no liability arises from the ATO audits of Powercor and ETSA, which are referred to in the 2010 Investor Booklet.
- **DRP:** As an assumption, Spark Infrastructure will reactivate the DRP in September 2011 and as necessary thereafter in order to replenish the cash reserves depleted temporarily to fund the Internalisation. For the September 2011 distribution, the DRP is assumed to operate on a non-underwritten basis. A 20% participation rate has been assumed.

4.5 ABILITY TO FUND FUTURE CAPITAL EXPENDITURE

Internalisation will effectively be funded from Spark Infrastructure's DRP which is intended to be reactivated for the September 2011 distribution. Spark Infrastructure does not intend to underwrite the DRP. In the interim, the payment to CKI and RREEF will be funded from Spark's existing cash reserves made available by the capital raising completed last year which are intended to be replenished by the reactivation of the DRP.

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

5 BOARD OF DIRECTORS AND SENIOR MANAGEMENT

5.1 BOARD OF DIRECTORS

The following table lists the proposed Directors of Spark Infrastructure at Completion of the Internalisation expected to occur around 31 May 2011, subject to the election or re-election of directors at the AGM or Extraordinary General Meeting.

Director	Title	Overview

Stephen Johns	Chairman and Independent Director	Mr Johns had a long executive career with Westfield where he held a number of positions including that of Finance Director from 1985 to 2002. He was appointed an executive Director of Westfield Holdings Limited and Westfield Trust in 1985 and Westfield America Trust upon its listing in 1996. He became a Non-executive Director of the three Westfield boards in October 2003. He is currently a Non-executive Director of the Westfield Group, which resulted from the merger of the three listed entities in July 2004.
		Mr Johns was a Non-executive Director of Brambles Industries Limited and Brambles Industries plc from August 2004 to December 2006, at which time he became a Non-executive Director of Brambles Limited, the new holding company of the Brambles Group following a corporate reorganisation which became effective in December 2006.
		Mr Johns was appointed to the Board of Leighton Holdings Limited on 21 December 2009.
		Mr Johns has held the following directorships of other Australian listed entities within the last three years:
		// Brambles Limited: August 2006 to current
		// Westfield Group: Westfield Holdings Limited (November 1985 to current), Westfield America Trust (Director of responsible entity, Westfield America Management Limited) (February 1996 to current), and Westfield Trust (Director of responsible entity, Westfield Management Limited) (November 1985 to current)
		// Leighton Holdings Limited: 21 December 2009 to current

Cheryl Bart, AO	Independent Director	Ms Bart is a lawyer and has been a Non-executive Director on the board of ETSA Utilities since 1995.
		She has significant utilities industry experience and is Chairman of the Audit Committee of ETSA Utilities 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 Environmental Protection Authority (EPA), South Australian Film Corporation, the Adelaide Film Festival and the Alcohol Education and Rehabilitation Foundation.
		Her other current directorship positions include the William Buckland Foundation and 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 and Defence Industries Advisory Board (DIAB).
		Ms Bart is a member of the ARMC.
		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:
		// Audio Pixels Holdings Limited (formerly Global Properties Limited): 2004 to current
		// ANZ Trustees Limited: 2006 to current

Director	Title	Overview
Dr Keith Turner	Independent Director	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. He is also currently the Deputy Chairman of Auckland International Airport and Chairman of Waitaki Wind Limited. Dr Turner is the Chairman of Fisher & Paykel Appliances Limited, and a Director of Pacific Simulators 2010 Limited and Solar City Limited. Dr Turner was appointed as a Director of ETSA Utilities, 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: // Auckland International Airport Limited: 2004 to current

Anne McDonald	Independent Director	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 Specialty Fashion Group. 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 the Chairman of the Audit Committee of CHEDHA and a member of its Risk and Compliance Committee.
		Ms McDonald is a member of the ARMC and the Compliance Committee, and was the Chair of the Due Diligence Committee during 2010.
		Ms McDonald has held the following directorships of other Australian listed entities within the last three years:
		// GPT Group: 2006 to current
		// Speciality Fashion Group Limited: 2007 to current

5 BOARD OF DIRECTORS AND SENIOR MANAGEMENT CONT.

Director	Title	Overview
Brian Scullin	Independent Director	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 is also a Non-executive Director of Dexus Property Group. He has previously served as a Non-executive Director of 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 Mr Scullin was the Chairman of the Compliance Committee and a member of the Audit & 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 he 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. Mr Scullin is also a member of BT Investment Management's Audit & Risk Management Committee and the Chairman of the Remuneration & Nominations Committee.
Andrew Fay	Non-Executive Director	Mr Fay is the independent Chairman of Deutsche Asset Management (Australia) Ltd (DeAM) and associated companies, having resigned as Chief Executive in January 2008. 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 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 a RREEF nominee) 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.
Laura Reed	Managing Director	See overview for Ms Reed at section 5.2 below.

5.2 SENIOR MANAGEMENT

Following Internalisation, the executive management team of Spark Infrastructure is expected to remain unchanged. The following table provides an overview of the Spark Infrastructure management team.

Executive	Title	Overview
Laura Reed	Chief Executive Officer	Ms Reed has over 20 years experience working in various financial and commercial roles in the gas industry. Prior to joining Spark Infrastructure, Ms Reed spent nine years at ASX listed gas distribution business Envestra Limited in a number of senior financial roles and including CFO of that organisation. 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.
Rick Francis	Chief Financial Officer	Mr Francis has significant experience in the Australian energy infrastructure industry. He joined Spark Infrastructure from the APA Group, where he was Chief Financial Officer for four years. Prior to that, Mr Francis was employed by Origin Energy Limited for over eight years in a number of senior management roles including those of Group Financial Controller and Operations Manager, Energy Trading. Mr Francis was appointed to the position of Chief Financial Officer of Spark Infrastructure in February 2009.
Alexandra Finley	General Counsel and Company Secretary	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. Ms Finley was appointed to the position of General Counsel and Company Secretary in September 2008.
Mario Falchoni	General Manager, Investor Relations and Corporate Affairs	Mr Falchoni has extensive experience in corporate communications, government and industry relations, media and investor relations. Immediately prior to joining Spark Infrastructure, he was Corporate Relations Manager with ASX listed GrainCorp Limited, with responsibility for marketing, internal communications, stakeholder management and investor relations. Prior to that, he managed government relations and corporate affairs for a peak business lobby group and worked in various advisory roles in state and Federal governments. Mr Falchoni was appointed to the position of GM Investor Relations and Corporate Affairs in July 2006.
Greg Botham	Group Financial Controller	Mr Botham has more than 8 years experience in financial roles within energy and transport infrastructure sectors, covering a broad range of responsibilities including financial reporting, corporate planning and analysis, project evaluation and risk management. Prior to this, Mr Botham commenced his career at Qantas Airways, where he worked primarily in the CFO's financial performance improvement team. Mr Botham was appointed to the position of Group Financial Controller in June 2009.

6 ADDITIONAL INFORMATION

6.1 SUMMARY OF KEY DOCUMENTS

6.1.1 Internalisation Agreement

CKI, RREEF and Spark RE have, among others, entered into an Internalisation Agreement dated 1 April 2011 which provides a framework for proposing and implementing the Proposal. A summary of the key terms of the Internalisation Agreement is set out below.

Parties	Deutsche Australia Limited, CKI Spark Holdings No. 3 Limited (together, the **"Sellers"**), the Manager, Spark International, Spark RE (as responsible entity of Spark Trust) and CKI.

Purpose	The purpose of the Internalisation Agreement is to document the agreement between the parties to implement the Proposal, specifically:
	// the acquisition of all the issued shares in JVCo (and indirectly the Manager and Spark RE) by Spark International from CKI and RREEF;
	// the assumption of the manager and responsible entity functions by Spark Infrastructure, thereby internalising the external management arrangements.

Conditions Precedent	The Proposal will not be implemented unless the conditions precedent are satisfied or waived in accordance with the Internalisation Agreement, the key condition precedent being Securityholder approval as described in this Explanatory Memorandum. A summary of the conditions precedent is set out in section 2.5.
Consideration	Spark International will acquire all the issued shares in JVCo at Completion in consideration for approximately $49 million plus or minus (as applicable) the estimated net working capital amount of JVCo (on a consolidated basis) plus or minus (as applicable) any applicable adjustments.
Completion / Completion Date	Completion is to occur on the later of: // 3 business days after the Extraordinary General Meeting; // 3 business days after satisfaction or waiver of all the conditions precedent; or // 31 May 2011.
Obligations to implement Internalisation	Each of the parties must do all things reasonably necessary to give effect to the Proposal and satisfy the conditions precedent prior to 31 August 2011 (or such other date as agreed between the parties), subject to, in the case of Spark RE, its duties to Securityholders (see "Recommendation by Independent Directors" further below).
Reimbursement fee	Spark International may be liable to pay to the Sellers on demand a reimbursement fee, up to a maximum of $300,000 (plus GST) in aggregate, as compensation for their costs and expenses incurred in connection with the Proposal. This fee would only be payable where the Proposal does not proceed in limited circumstances outlined in section 2.3.3.
Recommendation by the Independent Directors	The Independent Directors have agreed to recommend the Proposal, and not withdraw their recommendation except in certain limited circumstances, where the Independent Expert revises or withdraws its opinion, a superior proposal is made or the Independent Directors consider the circumstances are such that because of their duties to Securityholders, they should change their recommendation.
Employee arrangements	As indicated in section 2.10.1, as part of the Proposal, the executive management team (which are currently employed by the Manager) will be employed by Spark Infrastructure, conditional on Completion occurring. The Manager must use all reasonable endeavours to facilitate the transfer to Spark Infrastructure the employment of the Manager's employees who accept an offer of employment in connection with the Proposal. As at the date of the Explanatory Memorandum, Spark Infrastructure had made, and all employees have accepted, the offers of employment. The Manager will be responsible for all remuneration and accrued leave entitlements, which are to be paid prior to Completion. These amounts are payable by the Manager directly to the relevant transferring employee and are not to be taken into account in any adjustment of the estimated net working capital amount unless those payments have not been made by the Completion date.
Conduct of business prior to Completion	Customary restrictions on the conduct of business and other activities of the Manager and Spark RE (in its personal capacity and only in its personal capacity) apply prior to Completion.

AFS licence compliance	In order to support the financial requirements of Spark RE's Australian Financial Services Licence (**"AFSL"**):
	// CKI has given an eligible undertaking (**"Eligible Undertaking"**) to Spark RE (in its personal capacity) in the amount of $2.5 million; and
	// RREEF has (indirectly) advanced $2.5 million (**"RREEF Loan"**).
	It is intended that each of the Eligible Undertaking and the RREEF Loan will be revoked and repaid, respectively, immediately following Completion on the Completion Date.
	From Completion, Spark Infrastructure will assume responsibility for complying with all aspects of Spark RE's AFSL and will ensure that Spark RE is capitalised up to $5 million immediately following Completion on the Completion Date. As set out in section 2.3.1, it is intended that the Manager's AFSL will be cancelled shortly after Completion.
	If ASIC's consent (either unconditionally or on conditions reasonably acceptable to CKI) to the revocation of the Eligible Undertaking is not obtained and the undertaking is not actually revoked immediately after Completion, Spark International will, from Completion, indemnify CKI against any liability arising under the Eligible Undertaking after Completion and will continue to use its best endeavours to secure ASIC's consent to the revocation of the Eligible Undertaking and the revocation of that undertaking.

Governance arrangements	The parties have agreed to give effect to certain governance arrangements suitable for a public listed trust. Upon Internalisation, neither CKI nor RREEF (or any of their related bodies corporate) will have any obligations under the New Governance Deed. For more detail about the proposed governance arrangements, refer to sections 2.10.3 and 6.1.5.
Warranties	The Sellers have provided warranties, including title to shares in JVCo, and in respect of each of JVCo, the Manager and Spark RE (in its personal capacity only), including in relation to due incorporation and power, capacity, authority, litigation and limited warranties in relation to business affairs. The Sellers also have provided tax and other business and operational warranties in respect of JVCo and the Manager only. The Sellers have also provided to Spark Infrastructure an indemnity against any breach of the warranties. The liability of the Sellers under this indemnity is limited in the manner described below.
Limitations of warranties and indemnities	The Internalisation Agreement is subject to customary qualifications on warranties and indemnity claims, including time limits for notice of claims (15 months after Completion for general warranties and 6 years from Completion for the tax indemnity and tax warranties) and a limit on the maximum aggregate amount Spark International may recover from the Sellers which is limited in aggregate to that Seller's relevant proportion of: // the consideration, in the case of a warranty going to incorporation, power and title to shares to JVCo; and // $15 million, in the case of all other claims under the Internalisation Agreement.

6 ADDITIONAL INFORMATION CONT.

Termination rights	**Termination by any party**
	Either Spark RE, Spark International or either of the Sellers may terminate the Internalisation Agreement before Completion if:
	// the parties agree in writing;
	// at any time before the date of the Extraordinary General Meeting, the Independent Directors decline to recommend, withdraw or modify their recommendation where permitted to do so (see "Recommendations of Independent Directors" above); or
	// the Proposal has not been approved by the requisite majority of Securityholders at the Extraordinary General Meeting.
	Termination by Spark RE or Spark International
	In addition, Spark RE or Spark International may terminate the Internalisation Agreement before Completion if:
	// any of the conditions precedents are not fulfilled or incapable of being fulfilled (provided this is not as a result of a breach by the terminating party) (and the relevant condition precedent is not waived);
	// there is a material breach of the completion steps contemplated by the Internalisation Agreement required to be fulfilled by the Sellers or Spark RE and Spark International; or
	// any warranty by the Sellers or their obligations under the Internalisation Agreement is or becomes materially false, materially misleading or materially incorrect when made or regarded as made.

Limitation of liability	Spark RE (in its capacity as responsible entity of the Spark Trust) is not liable to pay or satisfy any of its obligations under the Internalisation Agreement except out of the assets of the Spark Trust out of which it has sought to be indemnified and is actually indemnified in respect of any liability incurred by it as responsible entity of the Spark Trust, subject to any fraud, negligence or breach of trust by Spark RE (in its personal capacity).
Guarantee	The obligations of CKI Spark Holdings No. 3 Limited under this agreement are guaranteed by CKI. Spark International's obligations under this agreement are guaranteed by Spark RE (as responsible entity for the Spark Trust).

6.1.2 Amendments to the Management Agreement

The Spark Holdings 1, Spark Holdings 2, Spark International, Spark RE (**"Spark Entities"**) and the Manager have amended the Management Agreement, such that upon Spark RE or any of the Spark Entities acquiring (directly or indirectly) all of the issued shares in the Manager:

// the obligation of Spark Entities to pay Base Fees and Performance Fees to the Manager ceases; and

// the exclusive nature of the Manager's appointment ceases.

6.1.3 Technical services arrangements

The Technical Services Agreements will terminate upon completion of Internalisation.

6.1.4 Supplemental deed to amend the Spark Trust Constitution

If Securityholders approve the Internalisation Proposal, then Spark RE intends to unilaterally amend the Spark Trust Constitution by way of a supplemental deed to remove the quarterly $25,000 fee payable to the Responsible Entity. Spark RE will make this change by means of its power to make amendments to the trust constitution that do not adversely affect Securityholders' rights. Accordingly, a resolution of Securityholders is not required to make this amendment, or to approve this fee reduction.

6.1.5 Documentation for the implementation of the governance arrangements

After Internalisation, Spark RE will be indirectly owned by Spark International and ultimately the Spark Infrastructure Securityholders. The purpose of the proposed governance arrangements is to put in place a structure suitable for a self managed ASX listed trust which owns shares in its own trustee, and to adopt, where practicable, governance arrangements for Spark Trust similar to those of a public listed company.

The proposed governance arrangements post Internalisation will be implemented through a combination of amendments to the relevant company constitutions and an overarching New Governance Deed for the benefit of the Spark Infrastructure Securityholders. The New Governance Deed will be between Spark RE for itself and as trustee of the Spark Trust, and its wholly-owned companies Spark Holdings 1, Spark Holdings 2, Spark International and JVCo. Upon Internalisation, neither CKI nor RREEF (or any of their related bodies corporate) will have any obligations under the New Governance Deed. It is proposed to replace the Existing Governance Deed between CKI, RREEF and Spark RE. The key features of the proposed documentation are summarised below:

(a) Directors appointment and removal

// Except for casual vacancies, additional appointments and the shareholder's residual power (see below), Directors must be elected by the Spark Infrastructure Securityholders. Directors can only be removed by Spark Infrastructure Securityholders.

// **proprietary companies** – In the case of each of Spark Holdings 1, Spark Holdings 2, Spark International and JVCo, which are or are expected to become proprietary companies, these rights are conferred by provisions in each company's constitution. These provisions allow the Spark Infrastructure Securityholders to appoint and remove the Directors by an ordinary resolution. If any of these companies have not become an Australian proprietary company by the completion of Internalisation, temporary measures will be put in place to implement the similar governance arrangements for a public company (see next point below).

// **public companies** – In the case of the Spark RE which is and will remain a public company, equivalent director appointment and removal provisions will be implemented through the JVCo as the sole shareholder of Spark RE. JVCo will be bound under the New Governance Deed to only appoint and remove the directors of Spark RE in accordance with an ordinary resolution of Spark Infrastructure Securityholders.

// A person who is nominated or eligible for election or re-election as a director of Spark RE is automatically nominated or eligible for election or re-election as a director of each of the relevant companies listed above.

// The Spark RE Board, Spark Infrastructure Securityholders and the sole shareholder of the relevant company are entitled to nominate any person for election up to 35 business days (in the case of a meeting that Spark Infrastructure Securityholders have requested Directors to call, 30 business days) before the date of a Securityholders meeting at which directors may be elected.

// A Director must not hold office without re-election past the third AGM of Spark Infrastructure Securityholders following the Directors' appointment or last election, or for more than 3 years, whichever is the longer. There must be an election of Directors by Securityholders at each AGM of Spark Infrastructure Securityholders.

// The Directors of each relevant company may appoint a director, either to fill a casual vacancy or as an addition to the existing Directors within the maximum number of directors under the constitution. The immediate shareholder of each relevant company also retains residual power to appoint directors in an emergency, for necessity or to maintain a minimum number of directors. A Director so appointed (other than one Managing Director) holds office until the conclusion of the next AGM of Spark Infrastructure Securityholders but is eligible for election at that meeting.

// The immediate shareholder of each relevant company will also be bound under the New Governance Deed not to change the relevant Directors' appointment and removal provisions in the company's constitution, unless approved by an ordinary resolution of the Securityholders.

// Under the New Governance Deed, each company and its immediate shareholder acknowledge that they are bound by the constitution of that company. Each company and its immediate shareholder must also enforce the rights of Spark Infrastructure Securityholders under the constitution if requested by an ordinary resolution of Securityholders and must rectify any non-compliance under the constitution if notified by any Securityholder.

// The Directors may appoint one or more of their number as Managing Director. The Managing Director's appointment ceases if the Directors remove the Managing Director from (in the case of a proprietary company) the Managing Director's office or (in the case of a public company) the Managing Director's employment.

(b) Annual General Meetings and financial reporting

Under the proposed New Governance Deed:

// Spark RE must hold an AGM of Securityholders each year consistent with an AGM of a public listed company, to the extent consistent with the Spark Infrastructure constituent documents and any other applicable requirements. This will include consideration of resolutions in respect of election of Directors to Spark Holdings 1, Spark Holdings 2, Spark International and JVCo, as well as to the Spark RE Board.

// To the extent consistent with the Spark Trust's financial reporting requirements, the financial reports of Spark Trust must be prepared in accordance with Part 2M of the Corporations Act and the Listing Rules, as if they are financial reports of a company.

6 ADDITIONAL INFORMATION CONT.

(c) Fees and remuneration

Under the proposed New Governance Deed:

// The total Directors' remuneration (other than the Managing Director) must not exceed $2 million per annum across the Spark Infrastructure Group or any other amount per annum determined by the Spark Infrastructure Securityholders from time to time.

// To the extent a payment is proposed to be made out of the Spark Trust or by any member of the Spark Infrastructure Group, the termination or retirement benefits provisions under the Corporations Act and Listing Rules (as in force from time to time) apply to the Spark RE and the Spark Trust as if the trust is a company. If approval is required under any of those provisions, approval of the Spark Infrastructure Securityholders must also be obtained in accordance with those provisions.

(d) Termination and variation

// These governance arrangements as described above continue until:
  - the relevant company constitutional provisions are amended in accordance with the New Governance Deed (see below); and/or
  - the New Governance Deed terminates with the approval of an ordinary resolution of Spark Infrastructure Securityholders.

// Under the New Governance Deed, these governance arrangements can be varied to the extent that:
  - the amendments are approved by an ordinary resolution of Spark Infrastructure Securityholders; or
  - Spark RE as trustee of Spark Trust reasonably considers that the amendments:
    - are in the best interests of Spark Infrastructure Securityholders as a whole; or
    - will not materially adversely affect the Spark Infrastructure Securityholders' rights; or
    - are formal, minor, administrative or technical; or
    - are to correct an error or to cure an ambiguity; or
    - are required by or desirable as a consequence of any introduction or changes in law, the Listing Rules or other regulatory requirements; or
    - are required by or desirable as a consequence of a restructure or reorganisation of Spark Infrastructure.

6.2 INTERESTS OF DIRECTORS OF SPARK INFRASTRUCTURE

6.2.1 Interests in Securities held by Spark Infrastructure Directors

The following table shows the number of, and relevant interest in, Securities held by each Spark Infrastructure Director either personally or beneficially as at 13 April 2011.

Director	Number of Spark Infrastructure Securities held as at 13 April 2011
Mr Stephen Johns (Chairman)	456,427 (indirect interest, through superannuation funds)
Ms Cheryl Bart	160,714 (indirect interest, through superannuation fund)
Mr Dominic Chan	Nil
Mr John Dorrian	175,407 (indirect interests, through superannuation funds, trusts or by family members)
Mr Andrew Fay	150,000 (indirect interest, through superannuation fund)
Mr Andrew Hunter	Nil
Ms Anne McDonald	40,000 (indirect interest, through superannuation fund)
Mr Don Morley	295,713 (indirect interest through investment vehicles or by family members
Dr Keith Turner	Nil

Except as stated above, there are no marketable securities of Spark Infrastructure held by or on behalf of any Spark Infrastructure Director to which such persons are entitled as at the date of this Explanatory Memorandum. The Spark Infrastructure Directors intend to vote the Securities they own or control in favour of all of the Internalisation Resolution and the Director Election Resolutions, except where they are not permitted to cast a vote as follows.

Spark RE and its associates (such as directors of Spark RE) are not entitled to vote their interest on a resolution at a meeting of scheme members if they have an interest in the resolution or matter other than as a member. However, the Spark RE and its associates may vote as proxies if their appointments specify the way they are to vote and they vote that way.

As the CKI and RREEF representative directors on the Spark RE board may have an interest in the Internalisation other than as a member, the CKI and RREEF representative directors do not consider it appropriate for them to vote on the Internalisation Resolution. None of the CKI and RREEF representative directors hold a proxy to vote on the Internalisation Resolution as at the date of this document. See section 2.11.

Mr Andrew Fay is excluded from voting on the Non-Executive Director Election Resolution as he has an interest in that resolution other than as a member (except that he may vote a directed proxy given to him). Similarly, Ms Laura Reed is also excluded from voting on the Managing Director Election Resolution as she has an interest in that resolution other than as a member (except that she may vote a directed proxy given to her).

6.2.2 Particulars of certain arrangements and payments and other benefits to Directors of Spark Infrastructure

No Spark Infrastructure Independent Director has:

- any interest in the Internalisation other than as a Securityholder. Details of each Director's relevant interest in Securities are described in section 6.2;
- any interest in any contract entered into by Spark Infrastructure;
- any interest as a creditor of Spark Infrastructure; or
- is party to any agreement or arrangement with another person in connection with or conditional on the outcome of the Internalisation.

The CKI and RREEF nominee Directors on the Spark Infrastructure Board each has duties to their principals as a result of their positions with each of CKI and RREEF respectively who are parties to the Internalisation Agreement with Spark Infrastructure. Apart from these duties and their relevant interest in Securities as described in section 6.2.1, no CKI and RREEF nominee Director has any interest listed above.

In addition, it is not proposed that any payment or other benefit will be made or given to any Directors of Spark Infrastructure, or of any of its related bodies corporate, as compensation for loss of, or as consideration for, or in connection with, his or her retirement from office in Spark Infrastructure or any of its related bodies corporate in connection with the Internalisation.

6.3 REGULATORY CONFIRMATION

6.3.1 ASIC

Spark Infrastructure does not anticipate that any modifications of, or exemptions from, the application of Corporations Act will be required to allow Spark Infrastructure to implement the Internalisation. Spark Infrastructure does not anticipate that any modification of the existing relief granted to Spark Infrastructure following the Restructure will be required to allow Spark Infrastructure to implement the Internalisation.

6.3.2 ASX

In order to implement the Internalisation Spark Infrastructure has sought certain confirmations in relation to the Listing Rules. ASX has confirmed to Spark Infrastructure:

- ASX has no objection to the proposed amendments to the constitution of Spark Trust under Listing Rule 15.1; and
- Listing Rule 11.1 does not apply to the Internalisation.

6.4 CONSENTS

6.4.1 Lonergan Edwards & Associates Limited

Lonergan Edwards & Associates Limited has given, and before the lodgement of this Explanatory Memorandum with ASIC, has not withdrawn, its consent to being named as Independent Expert in this Explanatory Memorandum and to the inclusion of its Independent Expert's Report in the form and context in which it appears in Annexure I. The interests of Lonergan Edwards & Associates Limited are disclosed in the Independent Expert's Report.

6 ADDITIONAL INFORMATION CONT.

6.4.2 Other parties

The persons performing a function in a professional or advisory capacity in connection with the Internalisation and the preparation of this Explanatory Memorandum on behalf of Spark Infrastructure are set out in section 2.1.3. Each of them will be entitled to receive professional fees charged in accordance with their normal basis of charging.

The following parties have given, and before the lodgement of this Explanatory Memorandum with ASIC, have not withdrawn, their consent to be named in this Explanatory Memorandum in the form and context in which they are named:

- Mallesons Stephen Jaques as legal adviser to Spark Infrastructure;
- Ernst & Young as tax adviser to Spark Infrastructure; and
- Investec Bank (Australia) Limited as financial adviser to the IBC.

Each party referred to in this section:

- has not made any statement in, or accompanying, this Explanatory Memorandum, or any statement on which a statement in, or accompanying, this Explanatory Memorandum is based, other than the statements and references included in, or accompanying, this Explanatory Memorandum with the consent of that party;
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Explanatory Memorandum, other than with respect to the statements and references included in, or accompanying, this Explanatory Memorandum with the consent of that party; and
- does not authorise the issue or despatch of this Explanatory Memorandum.

6.5 GOVERNING LAW

This Explanatory Memorandum is governed by the law applicable in New South Wales, Australia.

Each Securityholder submits to the jurisdiction of the courts of New South Wales, Australia in respect of the Internalisation.

6.6 NO FURTHER INFORMATION

All material information known to the Independent Directors in connection with the Internalisation Proposal is set out in this Explanatory Memorandum or has been previously disclosed to ASX by Spark Infrastructure.

7 GLOSSARY

Term	Definition
$ or A$ or dollars	Australian dollars
AER	Australian Energy Regulator
AFS	Australian Financial Services
AFS licence	Australian Financial Services Licence
AGM	Annual general meeting including any concurrent meetings of holders of Units and holders of Loan Notes (being holders of Spark Infrastructure stapled securities)
ARMC	Audit and Risk Management Committee
Asset Companies	Spark Infrastructure's operating businesses, CHEDHA and ETSA Utilities
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited (ABN 98 008 624 691) or the financial market operated by that entity known as the Australian Securities Exchange
ATO	Australian Taxation Office
Base Fee	Base fee payable to the Manager under the Management Agreement calculated as described at section 2.2.1. See IPO Document for further information
Benchmark Index	S&P / ASX 200 Industrials Accumulation Index
CHEDHA	CHEDHA Holdings Pty Limited (ABN 37 116 940 820)
CitiPower	CitiPower Pty Limited servicing Melbourne's inner suburbs and central business district
CKI	Cheung Kong Infrastructure Holdings Limited or, as the context requires, CKI Spark Holdings No. Three Limited, a company incorporated in The Commonwealth of Bahamas
Completion/ Completion Date	As summarised in section 6.1.1 of the Explanatory Memorandum
Corporations Act	*Corporations Act 2001* (Cth)
Corporations Regulations	*Corporations Regulations 2001* (Cth)
Director Election Resolutions	Any one or both of the Non-Executive Director Election Resolution and the Managing Director Election Resolution
DRP	Spark Infrastructure's distribution reinvestment plan
Enterprise Value	Market capitalisation (aggregate market value of the Securities calculated by multiplying the average number of Securities on issue during the last 15 trading days in the relevant quarter by the volume weighted average trading price of all Securities traded on ASX over those 15 trading days) plus external drawn debt of Spark Infrastructure, calculated on a standalone basis (excluding Spark Infrastructure's proportionate share of the Asset Companies' net debt). See IPO Document for definition of Enterprise Value for purposes of Base Fee calculation
Entitlement Offer	The retail entitlement offer and institutional entitlement offer as part of the Spark Infrastructure Repositioning
ETSA Utilities	ETSA Utilities based in South Australia
Existing Governance Deed	The existing deed poll relating to the governance arrangements of Spark Infrastructure between Spark RE as responsible entity of the Spark Trust, CKI and RREEF dated 9 December 2010

7 GLOSSARY CONT.

Term	Definition

Explanatory Memorandum	This notice of meeting of Securityholders comprising concurrent meetings of holders of Units and holders of Loan Notes (being holders of Spark Infrastructure stapled securities) and explanatory memorandum (including any supplement to it or replacement of it) prepared by Spark Infrastructure and dispatched to Securityholders which contains:
	// the Internalisation Resolution and the Director Election Resolutions; and
	// the information regarding the Internalisation required by the Corporations Act, the Listing Rules and the applicable policies of ASIC and ASX

Extraordinary General Meeting	A Meeting to consider the Internalisation Resolution and the Director Election Resolutions
Guidance Period	The period for which distribution guidance has been provided in this document, being financial year 2011
GST	Goods and Services Tax
IBC	The independent board committee of Spark Infrastructure
Independent Directors	The independent directors of Spark Infrastructure being, as at the date of this document, Stephen Johns, Don Morley, Cheryl Bart, Dr Keith Turner and Anne McDonald
Independent Expert	Lonergan Edwards & Associates Limited, the independent expert for the proposed Internalisation
Independent Expert's Report	The report prepared by the Independent Expert as described in section 3, and annexed at Annexure I
Internalisation	Internalisation of the external management function of Spark Infrastructure as described in this Explanatory Memorandum
Internalisation Agreement	The agreement relating to the internalisation of the management function of Spark Infrastructure between Deutsche Australia Limited, CKI Spark Holdings No. 3 Limited, the Manager, Spark International, Spark RE as responsible entity of Spark Trust and Cheung Kong Infrastructure Holdings Limited dated 1 April 2011
Internalisation Resolution	The resolution seeking Securityholders' approval generally for all purposes, including (without limitation) under Chapter 2E and Part 5C.7 of the Corporations Act, as set out as resolution 1 in the Notice of Meeting and explained at section 2.8
Investor Booklet	The investor information booklet dated 22 September 2010
IPO	Initial public offering
IPO Document	The prospectus and product disclosure statement dated 18 November 2005 for Spark Infrastructure's IPO
JVCo	CKI RREEF JV Holdings Pty Limited (ACN 116 823 548)
Listing Rules	The official listing rules of ASX, as amended or replaced from time to time except to the extent of any waiver granted by ASX
Loan Note	The Loan Notes forming part of Spark Securities which are issued by Spark RE in its capacity as responsible entity of Spark Trust
Manager	Spark Infrastructure Management Limited (ABN 84 114 940 304)
Management Agreement	Agreement between the Manager and Spark RE as responsible entity of the Spark Trust, Spark Holdings 1, Spark Holdings 2 and Spark International dated on or about 9 November 2005 as amended
Managing Director Election Resolution	The resolution seeking Securityholders' approval to appoint a director, as set out as resolution 3 in the Notice of Meeting and explained at section 2.8
Meeting	A meeting of Securityholders comprising concurrent meetings of holders of Units and holders of Loan Notes (being holders of Spark Infrastructure stapled securities)
New Governance Deed	The new deed poll relating to the governance arrangements of Spark Infrastructure between Spark RE personally and as responsible entity of the Spark Trust, Spark Holdings 1, Spark Holdings 2, Spark International and JVCo, as described at section 6.1.5

Term	Definition
Non-Executive Director Election Resolution	The resolution seeking Securityholders' approval to appoint a director, as set out as resolution 2 in the Notice of Meeting and explained at section 2.8
Notice of Meeting	The notice of Meeting set out at Annexure II
NPV	Net present value
PAH	Power Assets Holdings Limited (formerly known as Hongkong Electric Holdings Limited)
Performance Fee	Performance fee payable to the Manager under the Management Agreement calculated as described at section 2.2.1. See IPO Document for further information
Powercor	Powercor Australia Limited based in Victoria, servicing western Victoria (including the western suburbs of Melbourne)
RAB	Regulatory Asset Base. For ETSA Utilities, CitiPower and Powercor the RAB is published on the AER website http://www.aer.gov.au
Register	The register of Spark Infrastructure Securities
Repositioning	The Entitlement Offer and Restructure, successfully completed on 31 December 2010
Responsible Entity	The responsible entity of the Spark Trust, currently being Spark RE
Restructure	The completed restructure and simplification of Spark Infrastructure's ownership and security structure
RREEF	RREEF Infrastructure, the infrastructure investment arm of Deutsche Asset Management, the asset management business of Deutsche Bank AG, or, as the context requires, Deutsche Australia Limited (ABN 37 006 385 593)
Security	The stapled securities in Spark Infrastructure as quoted under ticker SKI:ASX, each comprising one Unit and one Loan Note
Securityholder	Each person who is registered on the Register from time to time as a holder of Securities
Spark Holdings 1	Spark Infrastructure Holdings No. 1 Limited (ABN 14 116 940 786), expected to change its type to a proprietary company and its name to Spark Infrastructure Holdings No. 1 Pty Limited by the Completion Date
Spark Holdings 2	Spark Infrastructure Holdings No. 2 Limited (ABN 16 116 940 795), expected to change its type to a proprietary company and its name to Spark Infrastructure Holdings No. 2 Pty Limited by the Completion Date
Spark International	Spark Infrastructure Holdings International Limited (ARBN 117 034 492), a company incorporated in The Commonwealth of Bahamas, expected to change its place of incorporation and type to an Australian proprietary company and its name to Spark Infrastructure Holdings No. 3 Pty Limited by the Completion Date
Spark Infrastructure	The Spark Trust and its wholly owned entities from time to time
Spark RE	Spark Infrastructure RE Limited (ABN 36 114 940 984) the responsible entity of Spark Trust
Spark SA	Spark Infrastructure (SA) Pty Limited (ACN 116 940 688)
Spark Trust	Spark Infrastructure Trust (ARSN 116 870 725)
Spark Victoria	Spark Infrastructure (Victoria) Pty Limited (ACN 116 940 740)
Strategic Review	The strategic review announced on 26 February 2010 by Spark Infrastructure whereby the Boards considered Spark Infrastructure's capital structure, ownership structure and future funding needs
Technical Services Agreements	The technical services agreements (as amended) – one between CKI, Chistar Investment Limited (incorporated in the British Virgin Islands) and the Manager, and one between Deutsche Asset Management (Australia) Limited and the Manager
Unit	A unit in Spark Trust

ANNEXURE I – INDEPENDENT EXPERT'S REPORT

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The Independent Directors
Spark Infrastructure RE Limited
as responsible entity of Spark Infrastructure Trust
Level 6
255 George Street
Sydney NSW 2000

13 April 2011

Subject: Management Internalisation

Dear Independent Directors

Introduction

1 On 1 April 2011 Spark Infrastructure Group (Spark Infrastructure) announced a proposed management internalisation by way of the acquisition of all of the shares in CKI RREEF JV Holdings Pty Ltd (JVCo), which in turn owns all the shares in Spark Infrastructure Management Limited (SIML or the Manager) and Spark Infrastructure RE Limited (the Transaction).

2 SIML provides management services to Spark Infrastructure under a Management Agreement which was entered into in November 2005 (the Agreement). The Agreement has a term of 25 years and can only be terminated by Spark Infrastructure upon the occurrence of either:

(a) a serious breach of the Agreement by the Manager which cannot be remedied

(b) insolvency of the Manager; or

(c) the loss by the Manager of any licence, permit or authorisation required by the Manager to supply the management services (which is not remedied within 90 days).

3 SIML is ultimately 50% jointly owned by Cheung Kong Infrastructure Holdings Limited (CKI) and RREEF Infrastructure, a division of the asset management business of Deutsche Bank AG (Deutsche Bank). Both CKI and Deutsche Bank are securityholders in Spark Infrastructure, with current holdings of 8.56% and 2.74% of the stapled securities respectively[1].

4 The Transaction is to be effected by the payment from Spark Infrastructure to CKI / RREEF Infrastructure of a cash consideration of $49.0 million and is scheduled for completion around 31 May 2011. In addition, there is also expected to be a payment of approximately $2.2 million for net working capital balances (predominantly cash or cash settled balances) in the entities to be acquired at completion.

[1] Each of CKI and Deutsche Bank are deemed to have a relevant interest in 11.31% of the stapled securities together.

Spark Infrastructure

5 Spark Infrastructure is a specialist infrastructure fund that invests in regulated utility infrastructure within Australia. The current portfolio of Spark Infrastructure comprises a 49% interest in three Australian electricity distribution businesses: ETSA Utilities in South Australia and CitiPower and Powercor in Victoria (the Asset Companies).

Purpose of the report

6 There is no regulatory requirement for Spark Infrastructure to commission an independent expert's report (IER) in relation to the Transaction[2]. However, the independent directors of Spark Infrastructure have decided to approach the proposed internalisation as if it were a related party transaction that met the ASX Listing Rules substantial asset threshold test and have requested that Lonergan Edwards & Associates Limited (LEA) prepare an IER stating whether, in our opinion, the Transaction is fair and reasonable and in the best interests of Spark Infrastructure securityholders and the reasons for that opinion.

7 This report has been prepared by LEA for the benefit of Spark Infrastructure securityholders to assist them in considering the resolution(s) to approve the Transaction. Our report will accompany the Explanatory Memorandum for the Transaction to be sent to Spark Infrastructure securityholders. The sole purpose of our report is to determine whether, in our opinion, the Transaction is fair and reasonable and in the best interests of Spark Infrastructure securityholders.

8 LEA is independent of Spark Infrastructure, CKI and RREEF Infrastructure and has no other involvement or interest in the proposed Transaction.

Summary of opinion

9 LEA has concluded that the proposed acquisition of JVCo by Spark Infrastructure pursuant to the Transaction is fair and reasonable and in the best interests of Spark Infrastructure securityholders.

10 We have arrived at this conclusion for the reasons set out below.

Valuation of management rights

11 Pursuant to the proposed Transaction we expect that Spark Infrastructure will achieve a net annual cost saving in future years. This saving will represent the amount by which savings on future base and performance management fees exceed additional costs associated with both the transfer of the Manager's employees to Spark Infrastructure and related increased administrative overhead expenditure.

12 LEA has assessed the net present value of the future net cost savings to Spark Infrastructure in the range of $44.0 million to $50.0 million. We consider this value to be equivalent to the value of the management rights and, by extension, a proxy for the value of JVCo.

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2 Whilst the parties are related the consideration payable is below the substantial asset threshold set out in Chapter 10.2 of the ASX Listing Rules.

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Assessment of fairness

13 Pursuant to Australian Securities and Investments Commission (ASIC) Regulatory Guide 111, the Transaction is "fair" if the value of the shares in JVCo (effectively the value of the management rights) being acquired is greater than or equal to the consideration to be paid by Spark Infrastructure.

14 This comparison is shown below:

	Low $m	High $m	Mid-point $m
Value of shares in JVCo (management rights)[1]	44.0	50.0	47.0
Value of consideration payable by Spark Infrastructure[2]	49.0	49.0	49.0
Extent to which the value of the shares in JVCo exceeds (or is less than) the consideration payable	(5.0)	1.0	(2.0)

Note:
1 Excludes net working capital balances on completion (estimated at around $2.2 million). As stated in note 2 the purchase price will be adjusted to reflect these additional net assets.
2 Excludes payment on completion for net working capital balances in entities to be acquired.

15 As the value of the consideration payable by Spark Infrastructure lies within our assessed value of the shares in JVCo (management rights), in our opinion, the Transaction is fair when assessed based on the guidelines set out in Regulatory Guide 111.

Assessment of reasonableness

16 Pursuant to Regulatory Guide 111, a transaction is reasonable if it is fair. Further, in our opinion, if a transaction is "fair and reasonable" it must also be "in the best interests" of shareholders.

17 Consequently, in our opinion the proposed Transaction is also reasonable to and in the best interests of Spark Infrastructure securityholders.

18 In considering whether the Transaction is reasonable to and in the best interests of Spark Infrastructure securityholders we also note that:

(a) by approving the Transaction Spark Infrastructure will no longer be liable for the payment of performance fees, which could arise in circumstances where:

(i) the relative outperformance in Spark Infrastructure security prices does not correlate with underlying business performance, or is due to other factors (such as a large decline in the benchmark index)

(ii) underlying business performance and/or the price of Spark Infrastructure securities decline (but to a lesser extent than relevant benchmark index)

(b) intangible benefits of an operational nature are likely to arise, including greater alignment of the interests of all Spark Infrastructure stakeholders, increased operational flexibility and improved scope for employee retention and incentivisation.

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Conclusion

19 Based on the above we consider the proposed acquisition of JVCo by Spark Infrastructure pursuant to the Transaction is fair and reasonable and in the best interests of Spark Infrastructure securityholders.

20 The ultimate decision whether to approve the Transaction should be based on each Spark Infrastructure securityholder's assessment. If Spark Infrastructure securityholders are in doubt about the action they should take in relation to the proposed Transaction or matters dealt with in this report, securityholders should seek independent professional advice. For our full opinion on the proposed Transaction and the reasoning behind our opinion, we recommend that Spark Infrastructure securityholders read the remainder of our report.

Yours faithfully

Craig Edwards	Martin Holt
Authorised Representative	Authorised Representative

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Appendices

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I Key terms of the Transaction

21 Spark Infrastructure will acquire all of the issued shares of JVCo from CKI / RREEF Infrastructure for a cash consideration of $49 million. In addition, there is also expected to be a payment of approximately $2.2 million for net working capital balances (predominantly cash or cash settled balances) in the entities to be acquired at completion.

22 The senior management of Spark Infrastructure and the existing management team, who are currently employees of the Manager, will become employees of Spark Infrastructure and will therefore remain in place.

23 Further details of the terms and conditions of the Transaction are provided in the Notice of Meeting and Explanatory Memorandum.

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II Scope of our report

Purpose

24 The Independent Directors of Spark Infrastructure have requested LEA to prepare an IER stating whether the proposed acquisition of JVCo by Spark Infrastructure pursuant to the Transaction is fair and reasonable and in the best interests of Spark Infrastructure securityholders and the reasons for that opinion.

25 This report has been prepared by LEA for the benefit of Spark Infrastructure securityholders to assist them in considering the resolution to approve the Transaction. Our report will accompany the Notice of Meeting and Explanatory Memorandum to be sent to Spark Infrastructure securityholders. The sole purpose of our report is to determine whether, in our opinion, the Transaction is fair and reasonable and in the best interests of Spark Infrastructure securityholders.

26 The ultimate decision whether to approve the Transaction should be based on each Spark Infrastructure securityholder's assessment. If in doubt about the Transaction or matters dealt with in this report, securityholders should seek independent professional advice.

Basis of assessment

27 In preparing our report we have given due consideration to the Regulatory Guides issued by ASIC including, in particular, Regulatory Guide 111 – *Content of expert reports* (RG 111).

28 RG 111 distinguishes "fair" from "reasonable" and considers:

(a) the Transaction to be "fair" if the value of the shares in JVCo is greater than or equal to the consideration to be paid by Spark Infrastructure

(b) the Transaction to be "reasonable" if it is fair. The Transaction may also be "reasonable" if, despite not being "fair" but after considering other significant factors, shareholders should approve the Transaction.

29 There is no legal definition of the expression "in the best interests". However, RG 111 states that a proposed transaction may be *"in the best interests of the members of the company"* if there are sufficient reasons for security holders to vote in favour of the proposed transaction in the absence of a superior proposal. Further, in our opinion, if the transaction is "fair" and "reasonable", under RG 111 it must also be "in the best interests" of securityholders.

30 Our report has therefore considered:

(a) the market value of 100% of the shares in JVCo (effectively the value of the management rights)

(b) the consideration payable of $49.0 million

(c) the extent to which (a) and (b) differ (in order to assess whether the Transaction is fair under ASIC Regulatory Guide 111)

(d) the relative position of Spark Infrastructure securityholders before and after the Transaction

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(e) the current entitlement of CKI and RREEF Infrastructure to securities in Spark Infrastructure

(f) the advantages and disadvantages of the Transaction from the perspective of Spark Infrastructure securityholders; and

(g) other qualitative and strategic issues associated with the Transaction.

Limitations and reliance on information

31 Our opinions are based on the economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

32 Our report is also based upon financial and other information provided by Spark Infrastructure. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld. The information provided was evaluated through analysis, enquiry and review for the purpose of forming an opinion on the Transaction from the perspective of the securityholders of Spark Infrastructure. However, in assignments such as this, time is limited and we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. None of these additional tasks have been undertaken by LEA.

33 We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS).

34 An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of management. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

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III Profile of Spark Infrastructure

Overview

35 Spark Infrastructure is an Australian Securities Exchange (ASX) listed group that, subsequent to the recent restructure, comprises the following stapled securities:

(a) one unit in Spark Infrastructure Trust

(b) one loan note in Spark Infrastructure Trust.

36 Spark Infrastructure is a specialist infrastructure fund that invests in regulated utility infrastructure within Australia. The current portfolio of Spark Infrastructure comprises a 49% interest in three Australian electricity distribution businesses: ETSA Utilities in South Australia and CitiPower and Powercor in Victoria (the Asset Companies).

Current operations

37 We have set out in Appendices C and D information in relation to the Asset Companies, including their operating performance, financial position and future prospects.

Management agreement

38 Spark Infrastructure is currently managed by an external manager SIML, which is effectively 50% owned by CKI and 50% owned by RREEF Infrastructure[3].

39 The Management Agreement (the Agreement) was entered into in November 2005 and has a term of 25 years. The Agreement can only be terminated by Spark Infrastructure upon the occurrence of either:

(a) a serious breach of the Agreement by the Manager which cannot be remedied

(b) insolvency of the Manager; or

(c) the loss by the Manager of any licence, permit or authorisation required by the Manager to supply the management services (which is not remedied within 90 days).

40 Fees paid by Spark Infrastructure to the Manager comprise a base fee and, potentially, a performance fee:

(a) **Base Fee** – the base fee is payable quarterly and is calculated as a percentage per annum of the Enterprise Value being:

(i) 0.5% per annum up to $2.443 billion

(ii) plus 1.0% per annum of any amount by which the Enterprise Value exceeds $2.443 billion

[3] CKI and RREEF Infrastructure each own 50% of the shares in JVCo, which in turn owns 100% of the shares in SIML.

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(b) **Performance Fee** – the performance fee is an incentive fee payable for market outperformance by Spark Infrastructure and is not directly related to the operational performance of the asset companies. The relative performance is measured each half year by the performance of the Spark Infrastructure Accumulation Index[4] relative to the benchmark index which is the ASX/S&P 200 Industrials Accumulation Index[5]. The fee represents 20% of any out-performance after taking account of any brought forward under-performance[6].

41 The Enterprise Value from which the base fee is determined is calculated each quarter and comprises the aggregate of:

(a) the Market Value[7] of the Spark Infrastructure stapled securities

(b) the aggregate outstanding amount of any external borrowings owed by Spark Infrastructure[8]

(c) the total value of any equity, debt or hybrid instruments (that do not form a component of the stapled securities) issued by Spark Infrastructure.

42 The Manager may also be reimbursed for certain expenses incurred on behalf of Spark Infrastructure.

Financial performance

43 A summary of Spark Infrastructure's underlying financial performance (as disclosed in investor presentations) for the four years ended 31 December 2010 is set out below:

Underlying financial performance	Year to 31 Dec 07 $m	Year to 31 Dec 08 $m	Year to 31 Dec 09 $m	Year to 31 Dec 10 $m
Total income	224.7	232.4	266.0	290.6
Base management fee	(12.0)	(9.8)	(7.9)	(8.3)
Finance costs – senior debt	(27.9)	(29.0)	(29.3)	(27.1)
General and administrative expenses	(5.2)	(3.2)	(4.8)	(15.2)(2)
Profit before loan note interest, performance fee and tax	179.6	190.4	224.0	240.0

4 The performance of the Spark Infrastructure Accumulation Index is measured as the arithmetic average of the daily closing accumulation indices for the stapled securities over the last 15 days of trading of the half year compared with the arithmetic average of the daily closing accumulation indices for the stapled securities over the last 15 days of trading of the previous half year.

5 The performance of the ASX/S&P 200 Industrials Accumulation Index is measured as the arithmetic average of the daily closing accumulation index over the last 15 days of trading of the half year compared with the arithmetic average of the daily closing accumulation index over the last 15 days of trading of the previous half year.

6 Where the Spark Infrastructure Accumulation Index has underperformed the ASX/S&P 200 Industrials Accumulation Index in a period, this underperformance is carried forward as a deficit and taken into account in calculating the performance fee payable in future periods.

7 Market Value is calculated by multiplying the average number of stapled securities on issue during the last 15 trading days in the relevant quarter by the VWAP of the stapled securities for that period.

8 Spark Infrastructure's pro-rata share of the external debt in the Asset Companies is excluded from the calculation of Enterprise Value for the purpose of the base fee calculation.

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Underlying financial performance	Year to 31 Dec 07 $m	Year to 31 Dec 08 $m	Year to 31 Dec 09 $m	Year to 31 Dec 10 $m
Loan note interest[1]	(137.0)	(137.4)	(138.4)	(160.1)
Performance fee	-	(16.5)	-	-
Income tax expense	(5.7)	(2.1)	(4.2)	(1.5)
Profit attributable to Spark Infrastructure securityholders	36.9	34.4	81.4	78.5

Note:
1 Representing distributions to Spark Infrastructure securityholders.
2 Includes costs of $9.9 million in relation to the Strategic Review and subsequent Repositioning.

Financial position

44 The financial position of Spark Infrastructure as at 31 December 2009 and 2010 is set out below:

	31 Dec 09 $m	31 Dec 10 $m
Cash and cash equivalents	114.3	89.3
Receivables from associates	11.5	29.0
Other current assets	0.7	0.6
Total current assets	126.5	118.9
Investments in associates:		
Investments accounted for using the equity method	1,470.9	1,612.2
Loans to associates	745.9	745.6
Total non-current assets	2,216.8	2,357.8
Total assets	2,343.3	2,476.7
Payables	4.3	8.6
Loan notes interest payable to stapled securityholders	70.5	90.6
Interest bearing liabilities	225.0	-
Other financial liabilities	2.9	0.1
Total current liabilities	302.7	99.3
Interest bearing liabilities	200.0	121.8[1]
Deferred tax liabilities	6.6	20.1
Other financial liabilities	1.0	0.4
Total non-current liabilities	207.6	142.3
Total liabilities	510.3	241.6
Net assets	1,833.0	2,235.1
Outside interests in other stapled entities	371.9	-
Interest of Spark Infrastructure security holders	1,461.1	2,235.1

	31 Dec 09 $m	31 Dec 10 $m
which comprises:		
Interests attributable to Spark Infrastructure securityholders		
Equity	204.3	1,398.3
Loan notes	1,256.8	836.8
	1,461.1	2,235.1

Note:
1 Reflects interest bearing debt of $125 million net of unamortised transaction costs of $3.2 million.

Net interest bearing debt

45 Net interest bearing debt of Spark Infrastructure[9] as at 31 December 2009 and 2010 was as follows:

	31 Dec 09 $m	31 Dec 10 $m
Cash and cash equivalents	(114.3)	(89.3)
Interest bearing liabilities		
Current	225.0	-
Non-current	200.0	125.0
	310.7	35.7

46 In the six months ended 31 December 2010 Spark Infrastructure:

(a) executed a new $250 million bank debt facility, which includes a $165 million three year revolving facility and a $85 million four year term loan. This facility was drawn down to the extent of $225 million on 30 September 2010 and the proceeds applied to repay an existing $225 million bank loan which would have been due in December 2010

(b) undertook a $295 million capital raising (entitlement offer), of which $200 million was applied to repay a bank loan of that amount previously due in June 2011

(c) repaid $100 million (in December 2010) of the $225 million drawn down on the new bank facility, out of cash on hand surplus to immediate requirements.

47 As at the date of this report Spark Infrastructure has outstanding interest bearing debt of $125 million[10].

9 Excluding Spark Infrastructure's pro-rata share of the external net debt of the Asset Companies.
10 Committed undrawn facilities of $125 million are also available. The facility allows Spark Infrastructure to draw down and repay as required (subject to certain conditions).

Issued securities

48 Subsequent to completion of the recent entitlement offer and implementation of the restructure in October 2010, Spark Infrastructure has 1,326.7 million stapled securities on issue. No options or other equity securities have been issued by Spark Infrastructure.

Security price performance

49 The price of Spark Infrastructure stapled securities from 1 January 2008 to 15 March 2011 is summarised in the table below:

Spark Infrastructure – share price performance

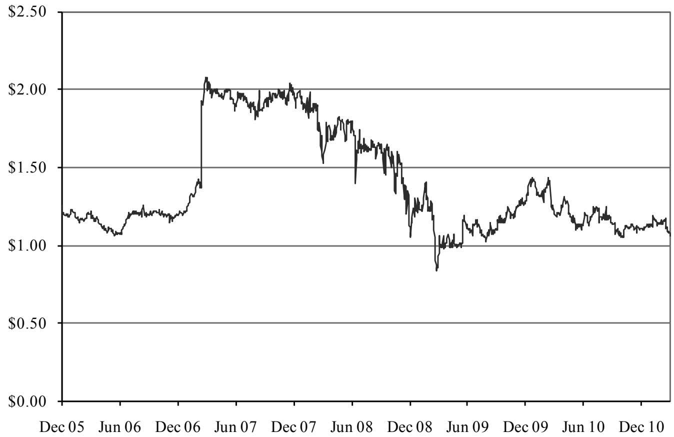
	High $	Low $	Close $	Monthly Volume[1] (000)
Quarter ended				
March 2008	2.00	1.53	1.68	54,167
June 2008	1.85	1.40	1.56	39,053
September 2008	1.77	1.45	1.45	49,615
December 2008	1.67	1.01	1.30	53,625
March 2009	1.47	0.83	1.02	45,652
June 2009	1.21	0.98	1.13	72,917
September 2009	1.19	1.03	1.17	65,242
December 2009	1.45	1.14	1.39	47,061
Month ended				
January 2010	1.45	1.31	1.33	34,088
February 2010	1.44	1.27	1.42	43,860
March 2010	1.44	1.18	1.21	124,486
April 2010	1.32	1.19	1.21	82,047
May 2010	1.22	1.10	1.13	81,585
June 2010	1.21	1.10	1.15	62,663
July 2010	1.27	1.11	1.23	50,832
August 2010	1.26	1.15	1.17	81,901
September 2010	1.19	1.04	1.11	121,275
October 2010	1.15	1.05	1.12	93,221
November 2010	1.15	1.09	1.12	83,011
December 2010	1.14	1.08	1.14	63,357
January 2011	1.20	1.11	1.15	55,067
February 2011	1.18	1.13	1.16	73,300
March 2011 (up to 15 March 2011)	1.17	1.06	1.07	62,985

Note:
1 Monthly volumes for the quarter ended represent average monthly volumes.
Source: Bloomberg.

50 The following graph illustrates the movement in the Spark Infrastructure security price from 15 December 2005 (the commencement of trading on the ASX) to 15 March 2011[11].

[11] Spark Infrastructure securities traded ex a 6.82 cent per security distribution on 2 March 2011.

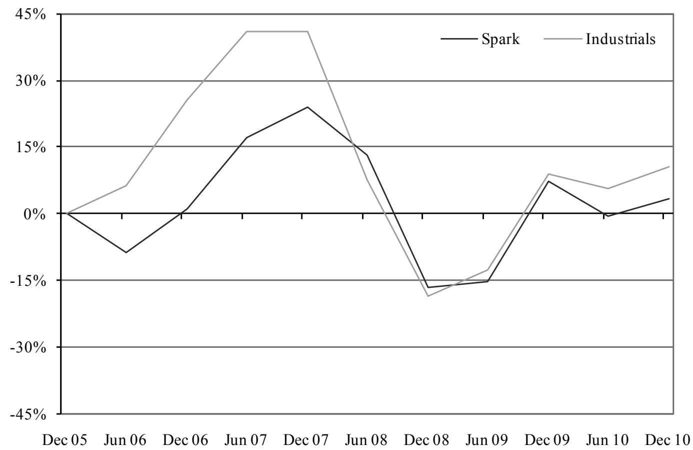
Spark Infrastructure – share price history
15 December 2005 to 15 March 2011



Source: Bloomberg.

51 As noted above, Spark Infrastructure's performance fee payments are based on the performance of the Spark Infrastructure Accumulation Index relative to the performance of the ASX/S&P 200 Industrials Accumulation Index. The comparative performance for the period 15 December 2005 to 31 December 2010 is set out below:

Spark Infrastructure Accumulation Index relative to the Industrials Accumulation Index
Cumulative return since December 2005[(1)]



Note:
1 Calculated on a half-yearly basis as at 30 June and 31 December, with the exception of the period to 30 June 2006, which has been calculated with a starting date of 15 December 2005 for Spark Infrastructure (the Industrials Accumulation Index was calculated with a starting date of 1 January 2006 for the corresponding period).
Source: Spark Infrastructure.

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IV Valuation of management rights

52 Pursuant to the proposed Transaction we expect that Spark Infrastructure will achieve a net annual cost saving in future years. This saving will represent the amount by which savings on future base and performance management fees exceed additional costs associated with both the transfer of SIML employees to Spark Infrastructure and related increased administrative overhead expenditure.

53 For the purpose of our report we have treated the net present value (NPV) of these future net cost savings as representative of the value of the management rights being acquired by Spark Infrastructure pursuant to the Transaction.

Valuation methodology

54 In assessing the value of the management rights we have adopted the discounted cash flow (DCF) methodology. Under the DCF methodology the value of the business is equal to the NPV of the estimated future cash flows including a terminal value (where appropriate). In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream

55 In our opinion the DCF methodology is the most appropriate methodology to use to value the management rights. This is because:

(a) only the DCF methodology specifically takes into account the fact that the Agreement is for a finite term of 25 years expiring in November 2030 (by determining the present value of the future cash flows over this period)

(b) the DCF methodology separately assesses key factors such as growth and risk rather than trying to capture them in a single multiple. Given that base management fees are likely to grow at a greater rate than management operating expenses, the DCF methodology specifically allows for this growth to be captured in the valuation.

56 Our DCF valuation is based on cash flow projections for the remaining term of the Agreement to 8 November 2030, which we have developed based on:

(a) the historical operating performance and reported results of Spark Infrastructure

(b) the asset base of the underlying utilities in which Spark Infrastructure has invested

(c) discussions with Spark Infrastructure management.

57 It should be noted that in respect of these projections:

(a) the major assumptions underlying the projections were formulated in the context of current economic, financial and other conditions

(b) the projections and the underlying assumptions have not been reviewed by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions

(c) future profits and cash flows are inherently uncertain

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(d) the achievability of these projections is not warranted or guaranteed by Spark Infrastructure or LEA, as they are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of Spark Infrastructure and its management; and

(e) actual results may be significantly more or less favourable.

Base fees

58 As noted in Section III base fees payable by Spark Infrastructure are calculated by reference to the Enterprise Value of Spark Infrastructure, which in turn is dependent on the Market Value of the stapled securities and the level of outstanding external borrowings. The base fee is payable quarterly and is calculated as a percentage per annum of the Enterprise Value being:

(a) 0.5% per annum up to $2.443 billion

(b) plus 1.0% per annum of any amount by which the Enterprise Value exceeds $2.443 billion.

59 As Spark Infrastructure will acquire the management rights effective from around 31 May 2011 we have estimated the Enterprise Value as at that date based on the most recent trading range of Spark Infrastructure securities. On this basis the Enterprise Value adopted for valuation purposes is as follows:

	$m
Market capitalisation[1]	1,459.4
External borrowings outstanding	125.0
Enterprise Value	1,584.4

Note:
1 Comprising 1,326.7 million stapled securities at $1.10 per security.

60 In projecting the Enterprise Value of Spark Infrastructure in future periods[12] we have assumed that the Enterprise Value will increase on an annual basis at a rate consistent with the rate of increase in the underlying regulated asset base (RAB) of the utility businesses in which Spark Infrastructure has invested.

61 In our opinion this assumption is appropriate because the large majority of the Asset Companies' returns are regulated by the Australian Energy Regulator (AER) based on the RAB. The values of regulated infrastructure assets are usually also cross-checked by comparing their enterprise value as a multiple of RAB (as the extent of any premium above RAB is limited by the regulatory framework). Accordingly, the future Enterprise Value of Spark Infrastructure is likely to be directly related to RAB growth.

[12] Consistent with the calculation of the base fee, we have projected the Enterprise Value quarterly.

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62 In adopting this assumption we have also had regard to the multiple of RAB implied by the Enterprise Value of Spark Infrastructure as at 31 December 2010. In determining the implied multiple we have allowed for the Spark Infrastructure pro-rata share of net debt in the Asset Companies and have compared the resultant grossed-up enterprise value with the Spark Infrastructure 49% proportionate share of RAB.

63 The implied multiple of RAB as at 31 December 2010, together with the comparative implied multiples for the three prior years, are summarised below:

Spark Infrastructure – RAB multiples

Date	Implied multiple of RAB
31 December 2007	1.66
31 December 2008	1.39
31 December 2009	1.38
31 December 2010	1.25

64 In respect of the implied multiple of RAB as at 31 December 2010 we note:

(a) the implied RAB multiples have fallen since the on-set of the global financial crisis (although they have been more consistent in the last three years)

(b) the implied multiple is reasonably consistent with the RAB multiples attributed by the market to other listed infrastructure entities.

65 The increases in RAB of the underlying utility companies adopted for valuation purposes reflect:

(a) for the five year period to 2015, approved increases based on the AER final regulatory decisions

(b) for the subsequent five year period to December 2020, an increase of 4% per annum

(c) for the period subsequent to December 2020 (until the end of the Agreement), an increase of 3.5% per annum.

66 In comparison the compound average growth rates (CAGR) based on the AER final regulatory decisions are:

	Average CAGR[1] %
2005 – 2010	4.3
2010 – 2015	7.8

Note:
1 Being the average of the approved growth in RAB for each of the three network distribution businesses – ETSA, CitiPower and Powercor.

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67 We have conservatively assumed no acquisition growth (by way of additional business investments by Spark Infrastructure) in the projected increases in Enterprise Value.

Additional operating costs

68 Associated with the proposed internalisation of the management function certain management and employees of SIML will transfer to Spark Infrastructure. In addition, related increased administrative overhead expenditure will be incurred.

69 Spark Infrastructure management have estimated the annual net additional costs that will be incurred in FY11 (before the impact of base and performance fee savings) to be $5.0 million.

70 We have been advised by Spark Infrastructure management that there is sufficient capacity within the post Transaction Spark Infrastructure overhead structure to accommodate the projected levels of organic growth in assets and earnings reflected in the forecast cash flows. We have therefore increased additional net operating costs at the following annual rates[13]:

(a) management, employee costs at 4.25%, reflecting a component of real growth in the additional costs to be incurred

(b) property expenses at 3.75%

(c) other overhead costs at 3.25%.

Discount rate

71 In arriving at the NPV of the future annual net cash savings to Spark Infrastructure we have applied an after tax discount rate (WACC) of 9.1% per annum.

72 This discount rate reflects:

(a) a risk-free rate of 5.5% per annum, equivalent to the average yield to maturity currently prevailing on 10 year Australian government bonds

(b) a market risk premium (MRP) of 6% per annum, reflecting our view on the additional return above the risk-free rate sought by equity investors in the current market conditions

(c) a beta in the range of 0.75 to 0.85[14], reflecting the defensive nature of the utility businesses comprising the Spark Infrastructure portfolio (the management fees payable by Spark Infrastructure are effectively dependent on the underlying operating performance and growth of the utility businesses)

(d) a cost of borrowing of around 8.0% per annum, having regard to the terms of Spark Infrastructure's existing debt facilities

(e) a gearing ratio of 75% equity and 25% debt, which we consider appropriate given, inter alia, the long term nature of the Agreement.

13 The annual rates of increase applied to additional operating costs reflect an assumed forecast inflation rate of 2.75% per annum.

14 The mid-point of 0.8 has been adopted for valuation purposes.

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Sensitivity analysis

73 As noted above, in assessing the NPV of the future net cost savings we have made assumptions in respect of:

(a) annual increases in Enterprise Value, based on the rate of increase in the underlying RAB of the utility businesses in which Spark Infrastructure had invested

(b) annual rates of increase in additional operating costs to be incurred.

74 We have applied sensitivities to our DCF value, incorporating the following:

(a) annual increases in Enterprise Value based on underlying increases in RAB of between – 2% and + 1% of the increases approved by the AER for the five year period to 2015

(b) annual rates of growth in additional operating costs of between – 1% and +1% of the assumed rates of increase set out in paragraph 70 above.

75 A summary of the sensitivities is set out below:

Sensitivity table – NPV of future net cost savings						
		Enterprise Value growth rate[1] [2]				
		(2.0)%	**(1.0)%**	**0.0%**	**0.5%**	**1.0%**
	(1.0)%	37.5	42.1	47.1	49.8	52.5
Operating costs growth rate[1]	**(0.5)%**	35.8	40.3	45.3	48.0	50.8
	0.0%	33.9	38.5	43.5	46.1	48.9
	0.5%	31.9	36.5	41.5	44.2	46.9
	1.0%	29.8	34.4	39.4	42.1	44.9

Note:
1 Variable from base case assumption.
2 Sensitivity based on Enterprise Value growth rate for period to end of 2015 only.

NPV of future net cash savings

76 Based on the above we have assessed the NPV of the future net cost savings (excluding consideration of performance fee savings) in the range of \$41.0 million to \$45.0 million.

Implied valuation multiples

77 We have considered the valuation multiples implied by our assessed NPV of the future net cost savings (excluding consideration of performance fee savings) having regard to the forecast net savings for FY11, as set out below:

	Low \$m	High \$m
Assessed NPV of future net cost savings	41.0	45.0
EBIT (net margin) - FY12 forecast[1]	3.6	3.6
Implied EBIT multiple	11.4	12.5

Note:
1 Refer Appendix E.

78 Prima facie the implied valuation multiples are high. However, as indicated in the forecast cash flows set out in Appendix E, there is effectively embedded real growth in the quantum of base fees payable for the prevailing five year regulatory period to 2015. This reflects AER approved annual increases in the underlying RAB of the utility businesses in which Spark Infrastructure has invested, which are a key determinant of Enterprise Value on which base fees are calculated (and paid).

79 The resultant significant annual increases in net margin are set out in Appendix E.

Performance fees

80 A performance fee is payable by Spark Infrastructure (where applicable) based on any market outperformance by Spark Infrastructure stapled securities. The performance is measured each half year by the performance of the Spark Infrastructure Accumulation Index[15] relative to the benchmark index which is the ASX/S&P 200 Industrials Accumulation Index[16]. The fee represents 20% of any out-performance after taking account of any brought forward under-performance.

81 Where the Spark Infrastructure Accumulation Index has underperformed the ASX/S&P 200 Industrials Accumulation Index in a period, this underperformance is carried forward as a deficit and taken into account in calculating the performance fee payable in future periods.

82 Under the fee structure, the extent to which Spark Infrastructure may be liable for performance fees in future is dependent on future relative levels of index performance and is therefore inherently uncertain.

83 For the purpose of our report, we have initially had regard to the historic cumulative level of performance for the period since the commencement of the Agreement in November 2005. A summary of this performance is reflected in the chart set out in paragraph 51 of our report.

84 Based on the indices available as at 31 December 2010 Spark Infrastructure has under-performed the benchmark index by 7.3% over the five year period.[17] This represents an average under-performance per year of just under 1.5%. The majority of this under-performance occurred in the initial two year period to 31 December 2007.

85 The only period to date for which a performance fee has been paid is the half-year ended 30 June 2008, for which a performance fee of $16.5 million was paid. In relation to this payment we note:

(a) the cumulative under-performance of Spark Infrastructure from the commencement of the Agreement to the previous half-year (as at 31 December 2007) was 17%

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15 The performance of the Spark Infrastructure Accumulation Index is measured as the arithmetic average of the daily closing accumulation indices for the stapled securities over the last 15 days of trading of the half year compared with the arithmetic average of the daily closing accumulation indices for the stapled securities over the last 15 days of trading of the previous half year.

16 The performance of the ASX/S&P 200 Industrials Accumulation Index is measured as the arithmetic average of the daily closing accumulation index over the last 15 days of trading of the half year compared with the arithmetic average of the daily closing accumulation index over the last 15 days of trading of the previous half year.

17 The benchmark index increased by 10.6% as compared to the increase of 3.3% in the relevant Spark Infrastructure index.

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(b) in the absence of the allowance for this prior under-performance a fee of $59.8 million would have been payable (calculated solely on the out-performance of Spark Infrastructure in the half-year ended 30 June 2008).

86 In the period subsequent to 30 June 2008 the cumulative under-performance of Spark Infrastructure as at 31 December 2010 was 11.7%, reflecting an increase of 2.8% in the benchmark index and a decline of 8.9% in the Spark Infrastructure index.

87 Based on our analysis of the performance of Spark Infrastructure we have concluded:

(a) the historical performance is consistent with the defensive nature of the underlying assets i.e. in a relative sense Spark Infrastructure stapled securities are likely to under-perform in a rising market and out-perform in a falling market

(b) given the low beta attributable to infrastructure stocks generally, Spark Infrastructure is unlikely to out-perform the market over the longer term (given the inherent lower risk nature of the underlying assets)

(c) given the prevailing under-performance deficit as at 31 December 2010 of 11.7%, the payment of a future performance fee is likely to require either:

(i) a significant downturn in the market generally (for example a fall of around 20%) within a six month period ending 30 June or 31 December; or

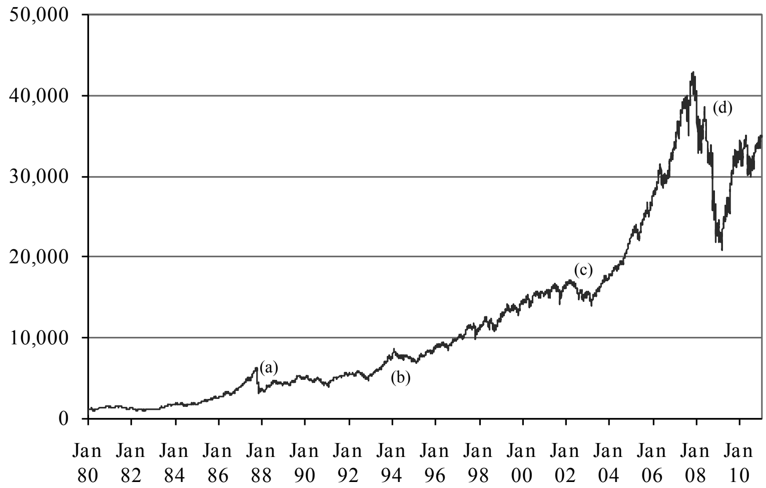
(ii) a takeover offer for Spark Infrastructure stapled securities

(d) there is the potential for a very large performance fee to be paid if the prevailing under-performance deficit is recouped.

Significant market downturns

88 Research into ASX indices indicates that falls of around 20% in the market generally are infrequent. The following chart provides a historical overview of the S&P/ASX All Ordinaries Accumulation Index from 1 January 1980 to 31 December 2010, indicating the more significant market declines during the period:

S&P/ASX All Ordinaries Accumulation Index
1 January 1980 to 31 December 2010



Source: Bloomberg.

(a) stock market crash of 1987 – index declined 49.7% between 21 September 1987 and 11 November 1987

(b) stock market retreat of 1994 – index declined 19.1% between 3 February 1994 and 8 February 1995

(c) recession following September 11, 2001 – index declined 19.1% between 7 March 2002 and 13 March 2003

(d) global financial crisis (GFC) – index declined 51.4% between 1 November 2007 and 6 March 2009.

89 In respect of the above declines generally we note:

(a) a surprising uniformity in the incidence of the declines i.e. approximately at seven yearly intervals

(b) the declines which commenced in 1994 and 2002 occurred gradually over a 12 month period.

90 During calendar 2008 (which covered the majority of the period of the latest decline, from 1 November 2007 to 6 March 2009) the performance of the respective indices was as follows:

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	1 Jan 08 to 30 Jun 08 %	1 Jul 08 to 31 Dec 08 %
Spark Infrastructure index	(8.5)	(26.2)
Benchmark index	(23.7)	(24.2)
Spark Infrastructure out / (under) performance	15.2	(2.0)

91 In this regard we note:

(a) consistent with the defensive nature of its underlying investment portfolio, the decline in the Spark Infrastructure index during the six month period to 30 June 2008 (prior to the full on-set of the GFC) was less than the decline in the benchmark industrials index

(b) concurrent with the on-set of the GFC, both indices fell significantly (and by a comparable amount) in the six months ended 31 December 2008.

92 Given the above, we are therefore of the view that in the absence of a significant market downturn, it is unlikely that over the remaining term of the Agreement an entitlement to a performance fee will arise other than in the event of a takeover.

Potential takeover offer

93 On 26 February 2010 Spark Infrastructure announced that it would undertake a Strategic Review to consider its capital structure, ownership structure and future funding needs.

94 Spark Infrastructure announced the outcome of the Strategic Review on 22 September 2010.

95 This announcement noted that during the course of the Strategic Review Spark Infrastructure had received a number of proposals:

"including an indicative proposal for the Spark Infrastructure stapled group at a significant premium to current market price. The proposal was highly conditional, was subject to the outcome of the Regulator's final determination for CitiPower and Powercor due on 30 October 2010, and involved a lengthy due diligence process. In the Independent Directors' opinion these matters created significant execution and timing risks which were considered unacceptable."

96 Given the above, we consider a potential takeover offer for the Spark Infrastructure stapled securities unlikely in the short-term.

97 For the purpose of our report however, we have considered the potential performance fee that might be payable in the event of such a takeover offer (or equivalent change in control transaction). In calculating the potential performance fee we have:

(a) adopted a market capitalisation of Spark Infrastructure $1,459 million (refer paragraph 59)

(b) assumed a growth in market capitalisation of 3% per annum, which reflects both the high dividend yield of the stapled securities together with the defensive nature of the underlying assets

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(c) allowed for the cumulative under-performance as at 23 March 2011 of 6.7%[18]

(d) assumed a future rate of under-performance of Spark Infrastructure stapled securities consistent with the cumulative rate of under-performance over the five years ended 31 December 2010 (which equates to 1.46% per annum)

(e) assumed that any takeover offer (or equivalent change in control transaction) reflects an implied control premium payment of 25%. This is slightly lower than the average premium of 30% to 35% indicated by empirical studies conducted by LEA and reflects the fact that Spark Infrastructure only has a 49% interest in its portfolio assets, together with the regulatory framework in which the businesses operate[19]

(f) adopted a discount rate of 20.0% per annum, which we consider reasonably reflects the likely level of return required by a "willing but not anxious purchaser" of any potential performance fee payable[20].

98 The quantum of the performance fee and the present value thereof are dependent on the timing of any takeover offer. Based on our calculations the longer the period before a takeover occurs, the lower the present value of the potential fee.

Other considerations

99 It should also be noted that under the performance fee arrangements as structured, Spark Infrastructure is liable for the payment of performance fees in circumstances where:

(a) the relative outperformance in Spark Infrastructure security prices does not correlate with underlying business performance, or is due to other factors (such as a large decline in the benchmark index)

(b) underlying business performance and/or the price of Spark Infrastructure securities decline (but to a lesser extent than relevant benchmark index).

Conclusion on performance fee

100 Based on the above, including the circumstances in which a potential performance fee may be payable, we have attributed a present value to the avoided cost associated with future potential performance fees at $3 million to $5 million.

Value of management rights

101 Based on the above we have assessed the NPV of the total future net cost savings to Spark Infrastructure in the range of $44.0 million to $50.0 million as set out below:

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18 In the period 1 January 2011 to 23 March 2011 the cumulative under-performance has ranged between 6.7% and 11.7%.

19 The benefit of any synergies generated in connection with the regulated network may be passed onto customers in the form of lower tariffs in future regulatory decisions.

20 The high discount rate reflects the inherent uncertainty associated with the quantum and timing of any future performance fee.

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	Para	Low $m	High $m
Value of future net cost savings excluding performance fee savings		41.0	45.0
Value of potential performance fees saved		3.0	5.0
Total value of management rights(1)		44.0	50.0

Note:
1 Our assessed value range excludes net working capital balances to be acquired on completion (estimated at around $2.2 million). As stated in paragraph 4 the purchase price will be adjusted to reflect these additional net assets.

102 We consider this value to be equivalent to the value of the management rights and, by extension, a proxy for the value of SIML[21].

Comparable transactions

103 We have considered the extent to which other recent transactions relating to the acquisition (internalisation) of management rights provide a benchmark for our assessed value of SIML. Transactions considered included, inter-alia:

(a) Macquarie Airports – September 2009

(b) Macquarie Media Group – October 2009

(c) Macquarie Leisure Trust Group – June 2009

(d) Viridis Clean Energy Group – May 2009

(e) Babcock & Brown Communities – November 2008

(f) Various property trust internalisations (including Westpac Office Trust and Dexus Property Group).

104 In relation to the above we note:

(a) consistent with the SIML Agreement, the respective management agreements were unique in nature, relevant to the particular investment circumstances

(b) there were differences in the terms of remuneration of the manager, as to both base and performance fees and the respective margins generated by the manager

(c) unlike the fixed term nature of the SIML Agreement (which significantly restricts the circumstances in which the manager may be removed), a number of the respective management agreements provided for the removal of the manager (with limited rights to compensation) by a general resolution (over 50% in favour) of securityholders.

105 In the circumstances we do not consider any of these transactions as appropriate reference points against which to benchmark our assessed value of SIML.

21 Upon completion we understand that the other net asset of SIML will be nominal.

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V Evaluation of the Transaction

106 LEA has concluded that the proposed acquisition of JVCo by Spark Infrastructure pursuant to the Transaction is fair and reasonable and in the best interests of Spark Infrastructure securityholders.

107 We have arrived at this conclusion for the reasons set out below.

Assessment of the Transaction

Fairness

108 As noted in Section IV LEA has valued the management rights being acquired in the range of $44.0 million to $50.0 million[22].

109 In comparison the Transaction is to be settled by the payment from Spark Infrastructure (to CKI / RREEF Infrastructure) of a cash consideration of $49.0 million[23].

110 Accordingly, the consideration payable by Spark Infrastructure lies within our assessed value of the future net cost savings to Spark Infrastructure (equivalent to the value of the management rights).

111 We therefore consider the Transaction to be fair when assessed based on the guidelines set out in ASIC Regulatory Guide 111.

Other qualitative factors

112 Pursuant to ASIC Regulatory Guide 111, a transaction is reasonable if it is fair. Further, in our opinion, if a transaction is "fair and reasonable" it must also be "in the best interests" of securityholders.

113 Consequently, in our opinion, the Transaction is also "reasonable" and "in the best interests" of Spark Infrastructure securityholders.

114 In assessing whether the Transaction is reasonable and in the best interests of Spark Infrastructure securityholders LEA has also considered, in particular:

(a) the relative position of Spark Infrastructure securityholders before and after the Transaction

(b) the current entitlement of CKI and RREEF Infrastructure to securities in Spark Infrastructure

(c) the advantages and disadvantages of the Transaction from the perspective of Spark Infrastructure securityholders; and

(d) other qualitative and strategic issues associated with the Transaction.

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22 Our assessed value range excludes net working capital balances to be acquired on completion (estimated at around $2.2 million). As stated in paragraph 4 the purchase price will be adjusted to reflect these additional net assets.

23 Excludes payment on completion for net working capital balances in entities to be acquired.

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115 These issues are discussed in detail below.

Position of Spark Infrastructure securityholders

116 The Transaction is to be effected by the payment from Spark Infrastructure to CKI / RREEF Infrastructure of a cash consideration of $49.0 million.

117 Spark Infrastructure has advised that the group intends to fund the acquisition of the management rights out of cash raised from the capital raising undertaken in late 2010 and by reinstating the distribution reinvestment plan, and has no plans to undertake a further capital raising for this purpose. Furthermore, Spark Infrastructure has confirmed that the proposed cash payment pursuant to the Transaction will not negatively impact on the ability of Spark Infrastructure to meet the level of distribution guidance to securityholders previously indicated (in the Explanatory Memorandum in connection with the recent restructure and commentary attached to the 2010 results presentations).

118 Accordingly, the Transaction will not impact on:

(a) the proportional interest of securityholders in the assets of Spark Infrastructure post completion of the Transaction

(b) the number of stapled securities held

(c) securityholders existing ownership interests; or

(d) the total distribution likely to be paid to stapled securityholders.

Association with CKI and RREEF Infrastructure

119 Both CKI and Deutsche Bank[24] are securityholders in Spark Infrastructure, with current holdings of 8.56% and 2.74% of the stapled securities respectively.

120 In addition:

(a) CKI / HKE hold an indirect 51% interest in CHEDHA and ETSA Utilities and senior management of CKI are currently directors of Spark Infrastructure and its portfolio investee companies

(b) Deutsche Bank has provided financial advisory services to Spark Infrastructure[25] and senior management of RREEF Infrastructure are currently directors of Spark Infrastructure and its portfolio investee companies.

121 Pursuant to the Transaction Spark Infrastructure will become independent of CKI and RREEF Infrastructure and the four directors appointed by the manager to the Spark Infrastructure Board will retire. Spark Infrastructure is not aware of the intentions of CKI and Deutsche Bank as regards to their respective holdings of Spark Infrastructure stabled securities.

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[24] RREEF Infrastructure is the infrastructure investment arm of Deutsche Asset Management, the asset management business of the Deutsche Bank Group.

[25] These services are provided under an agreement entered into in 2005 (with an initial 10 year term) which will remain in place subsequent to the Transaction.

122 Whilst Spark Infrastructure has benefited historically from its association with CKI and RREEF Infrastructure, the Transaction recognises that an internalised structure is now more appropriate for Spark Infrastructure. We note that there has been an increased market preference generally for companies to move away from the "externally managed vehicle" structure.

123 In addition, by approving the Transaction Spark Infrastructure will no longer be liable for the payment of performance fees to CKI and RREEF Infrastructure, which could arise in circumstances where:

(a) the relative outperformance in Spark Infrastructure security prices does not correlate with underlying business performance, or is due to other factors (such as a large decline in the benchmark industrials index)

(b) underlying business performance and/or the price of Spark Infrastructure securities decline (but to a lesser extent than relevant benchmark index).

Other intangible benefits

124 In our opinion the following additional potential benefits may accrue to Spark Infrastructure securityholders if the Transaction is implemented:

(a) following the management internalisation there will be a greater alignment of the interests of all Spark Infrastructure stakeholders as senior management will be remunerated solely on the basis of Spark Infrastructure performance

(b) there will be increased operational flexibility at the management level of the group, together with improved scope for employee retention and incentivisation.

Advantages and disadvantages

125 Based on the above we summarise below the advantages and disadvantages of the Transaction for Spark Infrastructure securityholders:

Advantages

(a) by approving the Transaction the annual cost of managing Spark Infrastructure will be reduced. However, Spark Infrastructure will pay a price commensurate with the value of the savings achieved

(b) by approving the Transaction Spark Infrastructure will no longer be liable for the payment of performance fees, including in circumstances where the listed market price of Spark Infrastructure securities has declined

(c) intangible benefits of an operational nature are likely to arise, including greater alignment of the interests of all Spark Infrastructure stakeholders, increased operational flexibility and improved scope for employee retention and incentivisation.

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Disadvantages

(d) the price to be paid for the management rights ($49 million) represents a high multiple of incremental earnings attributable to the management rights in the short term (refer paragraph 77). However, as base management fee income is expected to grow at a much higher rate than operating expenses the multiple is expected to reduce over time. Further, in our view, the purchase price is consistent with the market value of the management rights

(e) one-off external transaction costs estimated at $2.0 million will be incurred (the majority of which will be payable irrespective of whether Spark Infrastructure securityholders approve the Transaction).

Conclusion

126 Given the above analysis, we consider the acquisition of JVCo by Spark Infrastructure under the Transaction is fair and reasonable and in the best interests of Spark Infrastructure securityholders.

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.

2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

3 The Corporations Act 2001 authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Explanatory Memorandum to be sent to Spark Infrastructure securityholders in connection with the Transaction.

4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

5 Our Australian financial services licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at $75,000 plus GST.

9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix A

10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.

11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.

13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

14 LEA can be contacted by sending a letter to the following address:

Level 27
363 George Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix B

Qualifications, declarations and consents

Qualifications

1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared more than 100 independent expert's reports to shareholders.

2 This report was prepared by Mr Craig Edwards and Mr Martin Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 16 years and 25 years experience respectively in the provision of valuation advice.

Declarations

3 This report has been prepared at the request of the Independent Directors of Spark Infrastructure to accompany the Explanatory Memorandum to be sent to Spark Infrastructure securityholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Transaction is fair and reasonable and in the best interests of Spark Infrastructure securityholders.

Interests

4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the Transaction. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

5 LEA prepared an IER dated 3 November 2010 in connection with the recent restructure of Spark Infrastructure stapled securities. Other than the preparation of that report, LEA has had no prior business or professional relationship with Spark Infrastructure prior to the preparation of this report.

Indemnification

6 As a condition of LEA's agreement to prepare this report, Spark Infrastructure agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Spark Infrastructure which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

7 LEA consents to the inclusion of this report in the form and context in which it is included in the Explanatory Memorandum.

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Appendix C

ETSA Utilities

Overview

1 ETSA Utilities (ETSA) is the sole operator of South Australia's electricity distribution network and is the sixth largest distributor in Australia by customer numbers. ETSA supplies approximately 820,000 residential, commercial and industrial customers throughout major metropolitan areas including Adelaide. Retailers, who sell electricity to customers after having purchased energy from generators, pay ETSA for the use of the distribution systems to deliver electricity to the customer.

2 ETSA operates its distribution network under a 200 year lease from the South Australian Government, which commenced in January 2000. The entire rental amount under the lease was prepaid. The business' core electricity distribution activities are regulated by the Australian Energy Regulator (AER). Following the regulatory decision by the AER[26] the regulatory asset base (RAB) of the distribution network as at 31 December 2010 was $3.06 billion[27].

3 The ETSA network maintains a high level of reliability, with a 99.94% SAIDI[28] network availability rating. ETSA is the only Australian distribution business that exclusively uses poles made of steel and concrete referred to as Stobie poles. Stobie poles have a service life averaging 90 years. This compares with wooden poles that have a significantly shorter average life than Stobie poles.

4 ETSA's revenue is derived from three streams, the regulated, semi-regulated and unregulated businesses. In the year ended 31 December 2010 approximately 84% of ETSA's revenue was derived from semi-regulated connection revenues and regulated distribution network charges. An additional 2% of ETSA's revenue was derived from other semi-regulated activities (such as public lighting services). These semi-regulated services are regulated with a more light-handed approach to price regulation and require that ETSA charge on a "fair and reasonable" basis.

5 The remaining 14% of ETSA's revenues in the year ended 31 December 2010 were derived from its non-regulated activities, including electrical infrastructure construction and maintenance services, and asset management services provided to other entities in Australia.

6 The non regulated operations largely comprise the Construction and Maintenance Services ("CaMS") group, which provides services for other entities including substation design and construction, transmission and distribution line maintenance and construction, telecommunications engineering and design and material sales. Major customers include ElectraNet (approximately 50% of revenue), mining companies (building a line to their mines) and windfarm operations. It also provides services in Victoria to Powercor and Jemena, an electricity distributor.

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26 Announced on 6 May 2010.

27 Includes an amount of $127 million for easements.

28 System Average Interruption Duration Index (SAIDI).

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Appendix C

7 ETSA has a close relationship with ElectraNet which outsources its network construction and maintenance needs to external parties (including ETSA) under contractual arrangements. ETSA is the principal provider of transmission maintenance for ElectraNet, under a two year contract expiring on 30 September 2011. ETSA is also one of two main contracted suppliers of network construction services to ElectraNet.

8 On 14 July 2010 ETSA announced that it had been appointed to manage construction of the NBN Co Limited's (NBN) high speed broadband fibre to the premise network at the "first release site" at Willunga.

9 In addition, ETSA holds a five year State Government contract, granted in 2006, to manage the off-grid electricity networks for three Aboriginal lands which make up around 20% of the area of South Australia.

Financial performance

10 ETSA's income statement for the four years ended 31 December 2010 is summarised below:

Financial performance	Year to 31 Dec 07 A$m	Year to 31 Dec 08 A$m	Year to 31 Dec 09 A$m	Year to 31 Dec 10 A$m
Electricity distribution revenue	490.4	511.6	538.5	595.0
Non-prescribed revenue	259.6	280.2	313.4	306.1
Total revenue[(1)]	750.0	791.8	851.9	901.1
EBITDA	504.2	538.4	624.4	660.6
Depreciation and amortisation	(128.1)	(138.1)	(150.0)	(153.4)
EBIT	376.1	400.3	474.4	507.2

Note:

1 Total revenue excludes transmission revenue collected on behalf of ElectraNet, South Australia's sole electricity transmission company.

Performance indicators	Dec 07	Dec 08	Dec 09	Dec 10
RAB[(1)] ($m)	2,610	2,710	2,752	3,059
Volume delivered (GWH)	11,300	11,379	11,447	11,320
No. of customers (000s)	793	803	812	820
Non-prescribed revenue (% to total revenue)	34.6%	35.4%	36.8%	34.0%

Note:

1 As at 31 December 2010, RAB includes an estimate of $127 million for easements since confirmed on appeal by the Australian Competition Tribunal.

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Appendix C

Commentary

11 Regulated electricity distribution revenue increased by 10.5% in 2010, resulting from tariff charges in accordance with the regulatory formula, offsetting a total volume decrease of 1.1%.

12 ETSA's non-prescribed revenue decreased by 2.3% in 2010, largely due to slight reductions in the level of customer contributions:

	Year to 31 Dec 07 A$m	Year to 31 Dec 08 A$m	Year to 31 Dec 09 A$m	Year to 31 Dec 10 A$m
Customer contributions	82.1	107.0	168.5	159.8
Public lighting	14.4	14.8	14.8	15.0
Construction and maintenance services (CaMS)	146.9	137.9	107.4	109.8
Other	16.2	20.5	22.7	21.5
Total non-prescribed revenue	259.6	280.2	313.4	306.1

13 Customer contributions increased by 57.5% in 2009, principally due to contributions of $43.6 million in relation to the Port Stanvac desalination plant project.

14 EBITDA increased 16.0% and 5.8% in 2009 and 2010 respectively.

Regulatory decision for 2010 to 2015

15 On 6 May 2010 AER announced its final regulatory decision for ETSA for the five year period from 1 July 2010 to 30 June 2015. The AER's role is to assess expenditure proposed by ETSA over this period. These expenditures contribute to the allowed revenues and, ultimately electricity prices. Key determinations for standard control distribution activities[29] were as follows:

Year ending 30 June (in nominal dollars)	2011 A$m	2012 A$m	2013 A$m	2014 A$m	2015 A$m	Total A$m
Electricity distribution revenue(1)	609.5	656.1	703.6	753.7	801.7	3,524.6
Operating expenditure	(197.9)	(209.6)	(221.8)	(237.4)	(248.7)	(1,115.4)
EBITDA – regulated distribution business only(2)	411.6	446.5	481.8	516.3	553.0	2409.2
Capital expenditure (net)	327.4	377.6	345.4	356.3	361.3	1,768.0
RAB (at year end)	2,999.6	3,263.9	3,482.5	3,696.3	3,899.8	n/a
Growth in RAB	8.2%	8.8%	6.7%	6.1%	5.5%	7.1%(3)

Note:
1 Allowable revenue under the determination.
2 As some operating expenses allowed for in the regulatory determination are capitalised in ETSA's accounts this EBITDA is not representative of reported EBITDA.
3 Compound average growth rate 2010 to 2015.

29 I.e. excluding alternative control services.

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Appendix C

16 On 7 March 2011 ETSA announced that it had received a favourable outcome on its regulatory appeal in relation to the level of its opening RAB. This resulted in an uplift to its opening RAB of $127 million and additional revenue of $51 million (relative to the AER's Final Decision), over the new five year regulatory period which commenced on 1 July 2010. The additional revenue will be recovered over four years commencing from 1 July 2011.

17 The opening RAB for ETSA Utilities is now $2.98 billion at 1 July 2010. This leads to an estimated RAB of $3.06 billion at 31 December 2010 as disclosed by Spark Infrastructure in its full year 2010 results on 22 February 2011.

Commentary

18 The AER approved a capital expenditure program of $1,768 million over five years (in nominal terms). This amount is more than double that spent by ETSA over the 2005-10 regulatory period.

19 More than half of this expanded capital expenditure program is required to ensure the capacity of the network meets future demand from both new and existing customers, including meeting the continuing growth in peak demand. The load is growing as customers continue to install air conditioners and other appliances. In addition, there is a need to address risks associated with ageing assets to maintain reliability for customers. The cost of materials and labour and financing costs are also increasing.

20 The AER has also approved operating expenditure of $1,115 million, which is 60 per cent more than in the previous five years in nominal terms. ETSA's operating costs largely relate to network maintenance associated with increased inspections and forecast higher emergency response expenditure due to increasing asset age and growth in the network.

21 ETSA allowable electricity distribution revenues will increase by 12.14% in real terms in the 12 months ending 30 June 2011, followed by 5.75% per annum in the subsequent years of the regulatory period. A factor underlying the revenue increase is the higher cost of capital of 9.76%, which is 80 basis points higher than in the previous regulatory period, reflecting current and prospective financial conditions.

22 The revenue increase in 2010-11 however will need to be adjusted as ETSA over recovered revenue in 2009-10 and has to return the money to customers through lower tariffs. These amounts were fully provided for as at 30 June 2010.

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Appendix C

Financial position

23 ETSA's financial position as at 31 December 2009 and 2010 was as follows:

	31 Dec 09 A$m	31 Dec 10 A$m
Cash and deposits	552.5	58.9
Trade and other receivables	99.9	108.2
Inventories	7.3	7.5
Other	4.5	4.0
Total current assets	664.2	178.6
Property, plant and equipment	3,082.4	3,329.0
Intangible assets	961.8	956.7
Inventories	6.3	6.0
Other	401.0	409.2
Total non-current assets	4,451.5	4,700.9
Total assets	5,115.7	4,879.5
Trade and other payables	176.0	191.2
Borrowings	707.1	112.3
Provisions	91.3	94.1
Current liabilities	974.4	397.6
Borrowings	2,624.0	2,688.2
Other financial liabilities	126.4	245.2
Deferred tax liabilities	8.3	8.3
Provisions	80.3	90.8
Total non-current liabilities	2,839.0	3,032.5
Total liabilities	3,813.4	3,430.1
Net assets	1,302.3	1,449.4
Equity		
Partners capital accounts	623.3	623.3
Partners current accounts	674.7	779.3
Reserves	4.3	46.8
Total equity	1,302.3	1,449.4

Commentary

24 ETSA is operated as a partnership, in which two jointly owned subsidiaries of CKI and HKE together have a 51% interest and three subsidiaries of Spark Infrastructure own the remaining 49% interest.

25 Partner's equity capital accounts of $623.3 million largely comprise Spark Infrastructure Preferred Partnership Capital of $622.3 million, which attracts a fixed rate of return of 11.19% per annum.

Appendix C

26 Non-current borrowings of $2.688 billion (as at 31 December 2010) include $647.7 million in subordinated debt provided by CKI and HKE. Interest is paid on this subordinated debt at the same rate as is paid on the Preferred Partnership Capital (i.e. 11.19% per annum).

27 Gearing and capital expenditure over recent years were as follows:

	31 Dec 07	31 Dec 08	31 Dec 09	31 Dec 10
Gearing (net)	53.3%	57.5%	53.6%	53.3%
Net capital expenditure ($m)	131.5	153.4	151.1	240.3

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Appendix D

CHEDHA Holdings Pty Limited

Overview of operations

1 CHEDHA Holdings Pty Limited (CHEDHA) is the holding company for 100% of CitiPower and Powercor, which own two of the five regulated electricity distribution networks in Victoria. These networks are managed by a joint management team and workforce within the CHEDHA group of companies. However, the companies continue to function as separate legal, accounting and regulated entities and as separate network owners and operators with individual distribution licences.

2 For the year ended 31 December 2010 CHEDHA derived approximately 78% of its revenues from regulated distribution activities. Regulated network revenue is derived from regulated tariffs that are charged to customers (recovered by retailers on behalf of CHEDHA) for use of the distribution and transmission network.

CitiPower

3 CitiPower owns and operates the distribution network that supplies electricity to approximately 310,000 customers in Melbourne's CBD and inner suburbs. These customers include some of Australia's largest companies, public transport systems and cultural and sporting venues. The network has a regulated asset value of $1,287.3 million[30] and consists of 6,478 kilometres of distribution line spanning 157 square kilometres. It is recognised as the most reliable electricity distribution business in Australia with a SAIDI[31] rating of 99.99% network availability.

Powercor

4 Powercor is the largest distributor of electricity in Victoria, owning and operating a network that serves approximately 715,000 customers in central and western regional Victoria and the western suburbs of Melbourne. These customers represent an estimated 27% of Victoria's electricity end users, 24% of the state's manufacturing sector and 65% of the state's agricultural sector. The network has a regulated asset value of $2,212.8 million[32] and consists of 88,703 kilometres of distribution line spanning 178,000 square kilometres. Powercor enjoys a 99.96% SAIDI network availability rating, making it the leader in rural electricity distribution networks in Australia.

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30 As at 1 January 2011 per AER decision.
31 System Average Interruption Duration Index (SAIDI).
32 As at 1 January 2011 per AER decision.

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Appendix D

Regulated revenues

5 Whilst the network tariffs that CitiPower and Powercor are allowed to charge customers for use of its distribution networks are regulated, CitiPower and Powercor bear the volume risk over the five year regulatory period. The key driver of CitiPower's and Powercor's distribution revenue is therefore load, or the value of electricity carried through the distribution network. Load is largely dependent on the number of customers connected to the distribution network, which is dependent upon population growth, overall economic growth and weather conditions, with the demand for electricity rising during relatively warm summers and cold winters.

6 All Victorian distributors accept supply from the high voltage transmission grid through terminal stations, which are owned and operated by SP AusNet.

Non-distribution business activities

7 CitiPower and Powercor both derive revenue from non-distribution sources such as public lighting, meter reading and customer connection services to the networks. These revenue sources are referred to as excluded services. These services are not regulated by the AER but must be charged on a "fair and reasonable" basis.

8 CitiPower and Powercor also charge customer contributions, which arise when customers contribute to the cost of constructing new distribution assets to connect them to the network. These contributions (which can be in the form of cash or assets) are recognised as revenue and increase EBITDA by the amount of the contribution as the cost of connecting the customer to the network (or the asset contribution) is capitalised rather than expensed.

9 However, no significant cash margin is made on these contributions. Further, the contributions received from customers are excluded from total capital expenditure by the AER when calculating the RAB. That is, the regulatory decisions do not reflect a return on the cost of network assets contributed to by customers.

10 In addition to these revenues, CitiPower and Powercor provide design, construction and maintenance services to other electrical infrastructure businesses located in Victoria, New South Wales, Queensland and Tasmania. Engineering and information technology services are also currently provided to a number of external clients.

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Appendix D

Financial performance

11 CHEDHA's income statement for the four years ended 31 December 2010 is summarised below:

	Year to 31 Dec 07 A$m	Year to 31 Dec 08 A$m	Year to 31 Dec 09 A$m	Year to 31 Dec 10 A$m
Electricity distribution revenue[(1)]	607.9	613.6	641.9	641.0
Advanced Metering Infrastructure revenue	n/a	28.3	60.3	106.5
Non-prescribed revenue	203.8	206.0	207.9	211.1
Total revenue	811.7	847.9	910.1	958.6
EBITDA	577.6	591.4	635.5	685.5
Depreciation and amortisation	(157.5)	(173.8)	(200.0)	(204.4)
EBIT	420.1	417.6	435.5	481.1

Note:
1 Excludes transmission revenue collected on behalf of SP AusNet, the owner of Victoria's primary electricity transmission network.

Performance indicators	Dec 07	Dec 08	Dec 09	Dec 10
RAB ($m)[(1)]	3,030.4	3,119.0	3,432.5	3,726.3
Volume delivered (GWH)	16,342	16,610	16,587	16,888
No. of customers (000s)	973	985	1,003	1,026
Non-prescribed revenue (% to total revenue)	25.1%	24.3%	22.8%	22.0%

Note:
1 As at 31 December. RAB estimate includes RAB of Advanced Metering Infrastructure business.

Commentary

12 EBITDA increased by 7.5% in 2009 and 7.9% in 2010.

13 CHEDHA's regulated electricity distribution revenue decreased by 0.1% in 2010, despite the total volume delivered increasing by 1.5%. The reduction in revenue principally reflected an unfavourable year on year change in rate and mix.

14 The growth in the regulated asset base (RAB) of 8.6% during 2010 is expected to generate revenue growth in future periods, as RAB is one of the key components that determines electricity distribution and metering revenues.

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Appendix D

Regulatory decision for 2011 to 2015

15 In October 2010 the AER announced its final distribution regulatory decision for CitiPower and Powercor for the five year period from 1 January 2011 to 31 December 2015. The AER's role is to assess expenditure proposed by CitiPower and Powercor over this period. These expenditures contribute to the allowed revenues, and ultimately electricity prices. Key determinations were as follows:

Year ending 31 December (in nominal dollars)	2011 A$m	2012 A$m	2013 A$m	2014 A$m	2015 A$m	Total A$m
CitiPower:						
Electricity distribution revenue[1]	205.8	221.0	235.3	252.8	273.9	1,188.8
Operating expenditure	(46.3)	(47.6)	(50.1)	(50.8)	(53.3)	(248.1)
EBITDA – regulated distribution business only[2]	159.5	173.4	185.2	202.0	220.6	940.7
Capital expenditure (net)	155.3	157.2	178.2	181.4	188.4	860.5
RAB (at year end)	1,407.8	1,526.7	1,662.5	1,797.5	1,934.1	n/a
Growth in RAB	9.4%	8.4%	8.9%	8.1%	7.6%	n/a
Powercor:						
Electricity distribution revenue[1]	440.7	470.0	497.4	529.0	568.8	2,505.9
Operating expenditure	(160.9)	(167.8)	(169.9)	(179.3)	(188.2)	(866.1)
EBITDA – regulated distribution business only[2]	279.8	302.2	327.5	349.7	380.6	1,639.8
Capital expenditure (net)	271.7	276.5	291.9	316.2	329.2	1,485.5
RAB (at year end)	2,422.4	2,629.0	2,843.0	3,072.9	3,305.2	n/a
Growth in RAB	9.5%	8.5%	8.1%	8.1%	7.6%	n/a
Combined:						
Electricity distribution revenue[1]	646.5	691.0	732.7	781.8	842.7	3,694.7
Operating expenditure	(207.2)	(215.4)	(220.0)	(230.1)	(241.5)	(1,114.2)
EBITDA – regulated distribution business only[2]	439.3	475.6	512.7	551.7	601.2	2580.5
Capital expenditure (net)	427.0	433.7	470.1	497.6	517.6	2,346.0
RAB (at year end)	3,830.2	4,155.7	4,505.5	4,870.4	5,239.3	n/a
Growth in RAB	9.4%	8.5%	8.4%	8.1%	7.6%	

Note:
1 Expected revenue under the determination.
2 As some operating expenses allowed for in the regulatory determination are capitalised in CHEDHA's accounts this EBITDA is not representative of reported EBITDA.

Commentary

16 In its final distribution determinations the AER approved a capital expenditure[33] program of $2,091.2 million over five years (in June 2010 dollar terms). This represents an increase of some 40% over and above the level of net capital expenditure allowed for Citipower and Powercor over the 2005-10 regulatory period (which was in aggregate $1,488 million (in June 2010 dollar terms)).

33 Net of customer contributions.

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Appendix D

17 The AER noted that new obligations and expenditure requirements may eventuate in relation to bushfire mitigation, stemming from measures currently being considered by the Victorian Bushfires Royal Commission (VBRC). These obligations will ultimately be determined by the Victorian Government and will be dealt with under the regulatory framework as they arise, including through potential pass through events.

18 However, the AER determination recognised that some increase in conductor replacement activity by Powercor (and SP AusNet) would be prudent regardless of the outcome of the VBRC inquiry.

19 The AER decision will result in CitiPower's distribution prices (from January 2011) decreasing in real terms by 6.4%, whilst Powercor's will increase in real terms by 0.1%. In subsequent years CitiPower's prices will increase in real terms by an average of 4.5% per annum and Powercor's prices will increase in real terms by an average 3.4% per annum.

Financial position

20 The consolidated financial position of CHEDHA as at 31 December 2009 and 2010 was as follows:

	31 Dec 09 A$m	31 Dec 10 A$m
Cash and deposits	167.5	47.4
Trade and other receivables	19.6	45.5
Inventories	24.0	44.3
Other	146.9	166.7
Total current assets	358.0	303.9
Trade and other receivables	25.0	-
Property, plant and equipment	4,392.0	4,709.7
Deferred tax asset	8.4	-
Intangible assets	859.9	854.3
Other	9.2	101.6
Total non-current assets	5,294.5	5,665.6
Total assets	5,652.5	5,969.5
Trade and other payables	186.3	262.0
Borrowings	175.0	367.0
Provisions	70.9	69.4
Other	43.3	37.7
Current liabilities	475.5	736.1
Borrowings	4,366.5	4,194.1
Deferred tax liabilities	-	74.4
Provisions	2.1	2.6
Other	74.0	74.9
Total non-current liabilities	4,442.6	4,346.0
Total liabilities	4,918.1	5,082.1
Net assets	734.4	887.4

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	31 Dec 09 A$m	31 Dec 10 A$m
Equity		
Share capital	279.5	279.5
Reserves	(475.6)	(394.7)
Retained profits	930.5	1,002.6
Total equity	734.4	887.4

Commentary

21 Non-current borrowings include $1.522 billion in subordinated long term debt which is contributed by the owners.

22 Gearing and capital expenditure over recent years is summarised below:

	31 Dec 07	31 Dec 08	31 Dec 09	31 Dec 10
Gearing (net)	49.5%	54.0%	56.0%	55.9%
Net capital expenditure ($m)	255.7	284.3	316.6	433.3

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Appendix E

Valuation of base management fees (net of additional operating costs)

		31 May 11 $m	7 mths to 31 Dec 11 $m	Year to 31 Dec 12 $m	Year to 31 Dec 13 $m	Year to 31 Dec 14 $m	Year to 31 Dec 15 $m	Year to 31 Dec 16 $m	Year to 31 Dec 17 $m	Year to 31 Dec 18 $m	Year to 31 Dec 19 $m	Year to 31 Dec 20 $m
Enterprise Value:												
At year end		1584.4	1666.5	1810.4	1949.1	2090.3	2230.0	2319.2	2411.9	2508.4	2608.7	2713.1
Period growth rate			*5.2%*	*8.6%*	*7.7%*	*7.2%*	*6.7%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Quarterly average Enterprise Value			1,630.9	1,755.5	1,896.3	2,036.6	2,176.9	2,285.4	2,376.9	2,471.9	2,570.8	2,673.6
Base fee			4.8	8.8	9.5	10.2	10.9	11.4	11.9	12.2	12.2	12.2
Bonus fee			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	1.3	2.3
Total Base fee			4.8	8.8	9.5	10.2	10.9	11.4	11.9	12.5	13.5	14.5
Annual growth				*7.6%*	*8.0%*	*7.4%*	*6.9%*	*5.0%*	*4.0%*	*5.2%*	*7.9%*	*7.6%*
Additional operating costs			(2.9)	(5.2)	(5.4)	(5.6)	(5.8)	(6.1)	(6.3)	(6.6)	(6.8)	(7.1)
Annual growth				*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Net margin			1.8	3.6	4.1	4.6	5.0	5.3	5.6	5.9	6.6	7.4
Annual growth				*13.4%*	*13.8%*	*11.9%*	*10.4%*	*6.1%*	*4.0%*	*6.6%*	*12.2%*	*11.3%*
Tax			(0.6)	(1.1)	(1.2)	(1.4)	(1.5)	(1.6)	(1.7)	(1.8)	(2.0)	(2.2)
Net margin after tax			1.3	2.5	2.9	3.2	3.5	3.7	3.9	4.1	4.7	5.2
Period adjustment												
Free cash flow			1.3	2.5	2.9	3.2	3.5	3.7	3.9	4.1	4.7	5.2
PV factor	9.10%		1.0397	1.1150	1.2165	1.3272	1.4480	1.5797	1.7235	1.8803	2.0514	2.2381
Present value			1.2	2.2	2.3	2.4	2.4	2.4	2.3	2.2	2.3	2.3
Net present value of base management fees (net of additional operating costs)			**43.5**									

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LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix E

		Year to 31 Dec 21 $m	Year to 31 Dec 22 $m	Year to 31 Dec 23 $m	Year to 31 Dec 24 $m	Year to 31 Dec 25 $m	Year to 31 Dec 26 $m	Year to 31 Dec 27 $m	Year to 31 Dec 28 $m	Year to 31 Dec 29 $m	Period to 08 Nov 30 $m
Enterprise Value:											
At year end		2808.0	2906.3	3008.0	3113.3	3222.3	3335.1	3451.8	3572.6	3697.7	3808.0
Period growth rate		*3.5%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*
Quarterly average Enterprise Value		2,772.2	2,869.2	2,969.6	3,073.6	3,181.1	3,292.5	3,407.7	3,527.0	3,650.4	3,773.4
Base fee		12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2
Bonus fee		3.3	4.3	5.3	6.3	7.4	8.5	9.6	10.8	12.1	13.3
Total Base fee		15.5	16.5	17.5	18.5	19.6	20.7	21.9	23.1	24.3	25.5
Annual growth		*6.8%*	*6.3%*	*6.1%*	*5.9%*	*5.8%*	*5.7%*	*5.6%*	*5.5%*	*5.4%*	*5.1%*
Additional operating costs		(7.4)	(7.7)	(8.0)	(8.3)	(8.7)	(9.0)	(9.4)	(9.8)	(10.2)	(10.6)
Annual growth		*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Net margin		8.1	8.8	9.5	10.2	10.9	11.7	12.5	13.3	14.1	14.9
Annual growth		*9.4%*	*8.3%*	*7.9%*	*7.6%*	*7.3%*	*7.0%*	*6.7%*	*6.5%*	*6.3%*	*5.8%*
Tax		(2.4)	(2.6)	(2.8)	(3.1)	(3.3)	(3.5)	(3.7)	(4.0)	(4.2)	(4.5)
Net margin after tax		5.7	6.1	6.6	7.1	7.6	8.2	8.7	9.3	9.9	10.5
Period adjustment											0.85
Free cash flow		5.7	6.1	6.6	7.1	7.6	8.2	8.7	9.3	9.9	8.9
PV factor	9.10%	2.4418	2.6640	2.9064	3.1709	3.4594	3.7742	4.1177	4.4924	4.9012	5.3472
Present value		2.3	2.3	2.3	2.2	2.2	2.2	2.1	2.1	2.0	1.7

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix F

Glossary

Term	Meaning
AIFRS	Australian equivalents to International Financial Reporting Standards
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
DCF	Discounted cash flow
EBITDA	Earnings before interest, tax, depreciation and amortisation
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
IER	Independent expert's report
LEA	Lonergan Edwards & Associates Limited
MRP	Market risk premium
NPV	Net present value
SIML	Spark Infrastructure Management Limited
Spark Infrastructure	Spark Infrastructure Group
Transaction	Proposed management internalisation
US	United States
WACC	Weighted average capital cost

ANNEXURE II – NOTICE OF MEETING

Spark Infrastructure RE Limited ACN 114 940 984 as the responsible entity of the Spark Infrastructure Trust ARSN 116 870 725.

Notice is hereby given that a meeting of Securityholders comprising concurrent meetings of holders of units in the Spark Infrastructure Trust and holders of loan notes issued by Spark Infrastructure RE Limited as responsible entity of the Spark Infrastructure Trust (being holders of Spark Infrastructure stapled securities) (**"Meeting"**) will be held at 12.00pm (Sydney time) on 20 May 2011 (Friday) or the conclusion of the AGM if later, at Radisson Plaza Hotel, 27 O'Connell Street, Sydney NSW Australia, to approve the internalisation of the management function of Spark Infrastructure Trust and its wholly-owned entities for all purposes including (without limitation) for the purposes of Chapter 2E and Part 5C.7 of the Corporations Act (Related Party Transactions), and to elect Andrew Fay and Laura Reed as directors.

BUSINESS OF THE MEETING

Resolution 1: Internalisation Resolution of Securityholders comprising unitholders and noteholders

To consider and, if thought fit, pass an ordinary resolution in the following terms:

THAT the internalisation of management function proposed to be entered into by Spark RE as the responsible entity of the Spark Trust as described in this Notice of Meeting and the Explanatory Memorandum, including (without limitation):

(a) the giving of financial benefits to any of CKI, RREEF, JVCo, the Manager, Spark RE, any entities associated with or related to any of them, including (without limitation) any financial benefit comprising:

  (i) any payment including the costs reimbursement of up to $300,000 (plus GST) or cash payment of $49 million plus an estimated $2.2 million for net working capital (subject to post closing adjustments) to CKI, RREEF, JVCo, the Manager, Spark RE or their associated or related entities;

  (ii) any change to, or termination of, the Management Agreement, Technical Services Agreements or Existing Governance Deed that involves any release of obligations, waivers, warranties, indemnities, and any release of or limitation on the liabilities of CKI, RREEF, JVCo, the Manager, Spark RE or their associated or related entities;

  (iii) any release of obligations, waivers, warranties, indemnities, and any release of or limitation on the liabilities of CKI, RREEF, JVCo, the Manager, Spark RE or their associated or related entities in accordance with the terms of the Internalisation Agreement;

  (iv) the replacement of the financial support given by CKI, RREEF, JVCo, the Manager, Spark RE or their associated or related entities to Spark RE to satisfy the financial requirements under its Australian financial services licence, including any repayment of loan to any of CKI, RREEF, JVCo, the Manager, Spark RE or their associated or related entities, any indemnity or other support given in respect of the financial support received from CKI, RREEF, JVCo, the Manager, Spark RE or their associated or related entities, any release of obligations or liabilities of or waiver of any breach by CKI, RREEF, JVCo, the Manager, Spark RE or their associated or related entities, or any subscription for shares in or loan funding to Spark RE or its holding company;

(b) the acquisition of all the issued shares in JVCo by Spark International from CKI and RREEF;

(c) the use of funds and the giving of financial benefits by the Spark RE and by entities within the Spark Infrastructure group as among themselves in connection with the matters in the two paragraphs above;

(d) the implementation of the proposed governance changes described at sections 2.10.3 and 6.1.5 of the Explanatory Memorandum, including (without limitation):

  (i) the termination of the Existing Governance Deed with effect immediately prior to the acquisition of the JVCo shares by Spark International;

  (ii) the replacement of the Existing Governance Deed by the New Governance Deed; and

  (iii) any amendment of the constitution of each of Spark Holdings 1, Spark Holdings 2, Spark International, JVCo and Spark RE;

(e) giving effect to any other documents or agreements relating to the internalisation of management function proposed to be entered into by Spark RE as the responsible entity of the Spark Trust as described in the Explanatory Memorandum, including the Internalisation Agreement, Management Agreement and Technical Services Agreements; and

(f) Spark RE (as responsible entity of the Spark Trust) executing any documents and taking any actions necessary, desirable or incidental to give effect to the internalisation of management function proposed to be entered into by Spark RE as the responsible entity of the Spark Trust as described in the Explanatory Memorandum;

is approved and authorised for all purposes including (without limitation) for the purposes of Chapter 2E and Part 5C.7 of the Corporations Act (Related Party Transactions) and the requirements of the Existing Governance Deed.

In this resolution 1, the following words have the following meanings:

(a) **ASIC** means Australian Securities and Investments Commission;

(b) **ASX** means ASX Limited (ABN 98 008 624 691) or the financial market operated by that entity known as the Australian Securities Exchange;

(c) **CKI** means Cheung Kong Infrastructure Holdings Limited or, as the context requires, CKI Spark Holdings No. Three Limited, a company incorporated in The Commonwealth of Bahamas;

(d) **Corporations Act** means *Corporations Act 2001* (Cth);

(e) **Existing Governance Deed** means the existing deed poll relating to the governance arrangements of Spark Infrastructure between Spark RE as responsible entity of the Spark Trust, CKI and RREEF dated 9 December 2010;

(f) **Explanatory Memorandum** means this notice of meeting of Securityholders comprising concurrent meetings of holders of units and holders of loan notes in Spark Trust (being holders of Spark Infrastructure stapled securities) and explanatory memorandum (including any supplement to it or replacement of it) prepared by Spark Infrastructure and dispatched to Securityholders which contains:

  (i) the Internalisation Resolution (resolution 1) and the Director Election Resolutions (resolution 2 and resolution 3); and

  (ii) the information regarding the Internalisation required by the Corporations Act, the Listing Rules and the applicable policies of ASIC and ASX;

(g) **Internalisation Agreement** means the agreement relating to the internalisation of the management function of Spark Infrastructure between Deutsche Australia Limited, CKI Spark Holdings No. 3 Limited, the Manager, Spark International, Spark RE as responsible entity for Spark Trust and Cheung Kong Infrastructure Holdings Limited dated 1 April 2011;

(h) **JVCo** means CKI RREEF JV Holdings Pty Limited (ACN 116 823 548);

(i) **Listing Rules** means the official listing rules of ASX, as amended or replaced from time to time except to the extent of any waiver granted by ASX;

(j) **Management Agreement** means agreement between the Manager and Spark RE as responsible entity of the Spark Trust, Spark Holdings 1, Spark Holdings 2 and Spark International dated on or about 9 November 2005 as amended;

(k) **Manager** means Spark Infrastructure Management Limited (ACN 114 940 304);

(l) **New Governance Deed** means the new deed poll relating to the governance arrangements of Spark Infrastructure between Spark RE personally and as responsible entity of the Spark Trust, Spark Holdings 1, Spark Holdings 2, Spark International and JVCo, as described at section 6.1.5 of the Explanatory Memorandum;

(m) **RREEF** means RREEF Infrastructure, the infrastructure investment arm of Deutsche Asset Management, the asset management business of Deutsche Bank AG, or, as the context requires, Deutsche Australia Limited (ABN 37 006 385 593);

(n) **Spark Holdings 1** means Spark Infrastructure Holdings No. 1 Limited (ABN 14 116 940 786), expected to change its type to a proprietary company and its name to Spark Infrastructure Holdings No. 1 Pty Limited;

(o) **Spark Holdings 2** means Spark Infrastructure Holdings No. 2 Limited (ABN 16 116 940 795), expected to change its type to a proprietary company and its name to Spark Infrastructure Holdings No. 2 Pty Limited;

(p) **Spark Infrastructure** means the Spark Trust and its wholly owned entities;

(q) **Spark International** means Spark Infrastructure Holdings International Limited (ARBN 117 034 492), a company incorporated in The Commonwealth of Bahamas, expected to change its place of incorporation and type to an Australian proprietary company and its name to Spark Infrastructure Holdings No. 3 Pty Limited;

(r) **Spark RE** means Spark Infrastructure RE Limited (ABN 36 114 940 984) the responsible entity of Spark Trust;

(s) **Spark Trust** means Spark Infrastructure Trust (ARSN 116 870 725); and

(t) **Technical Services Agreements** means the technical services agreements (as amended) – one between CKI, Chistar Investment Limited (incorporated in the British Virgin Islands) and the Manager, and one between Deutsche Asset Management (Australia) Limited and the Manager.

Resolution 2: Non-Executive Director Election Resolution of Securityholders comprising unitholders and noteholders

To consider and, if thought fit, pass an ordinary resolution in the following terms:

THAT, subject to and conditional on the passing of resolution 1 and the completion of the internalisation of management function proposed to be entered into by Spark Infrastructure RE Limited as the responsible entity of the Spark Infrastructure Trust as described in this Notice of Meeting and Explanatory Memorandum, Mr Andrew Fay is elected as a director of each of the following companies separately with effect from the completion of the internalisation under the governance arrangements current as at that time:

(a) Spark Infrastructure RE Limited (ABN 36 114 940 984);

(b) Spark Infrastructure Holdings No. 1 Limited (to be renamed Spark Infrastructure Holdings No.1 Pty Limited) (ABN 14 116 940 786);

(c) Spark Infrastructure Holdings No. 2 Limited (to be renamed Spark Infrastructure Holdings No.2 Pty Limited) (ABN 16 116 940 795);

(d) Spark Infrastructure Holdings International Limited (to be renamed Spark Infrastructure Holdings No. 3 Pty Limited) (ARBN 117 034 492); and

(e) CKI RREEF JV Holdings Pty Limited (ACN 116 823 548).

Resolution 3: Managing Director Election Resolution of Securityholders comprising unitholders and noteholders

To consider and, if thought fit, pass an ordinary resolution in the following terms:

THAT, subject to and conditional on the passing of resolution 1 and the completion of the internalisation of management function proposed to be entered into by Spark Infrastructure RE Limited as the responsible entity of the Spark Infrastructure Trust as described in this Notice of Meeting and Explanatory Memorandum, Ms Laura Reed is elected as a director of each of the following companies separately with effect from the completion of the internalisation under the governance arrangements current as at that time:

(a) Spark Infrastructure RE Limited (ABN 36 114 940 984);

(b) Spark Infrastructure Holdings No. 1 Limited (to be renamed Spark Infrastructure Holdings No.1 Pty Limited) (ABN 14 116 940 786);

(c) Spark Infrastructure Holdings No. 2 Limited (to be renamed Spark Infrastructure Holdings No.2 Pty Limited) (ABN 16 116 940 795);

(d) Spark Infrastructure Holdings International Limited (to be renamed Spark Infrastructure Holdings No. 3 Pty Limited) (ARBN 117 034 492); and

(e) CKI RREEF JV Holdings Pty Limited (ACN 116 823 548).

EXPLANATORY NOTES

Explanatory Memorandum

This Notice of Meeting should be read in conjunction with the rest of the Explanatory Memorandum of which the notice forms a part. The Explanatory Memorandum contains an explanation of the resolutions (section 2.8) and further information about the internalisation of management function proposed to be entered into by Spark Infrastructure RE Limited as the responsible entity of the Spark Infrastructure Trust as described in this Notice of Meeting and Explanatory Memorandum to enable Securityholders to make an informed decision as to how to vote on the resolutions.

Unless otherwise defined in this Notice of Meeting, capitalised terms used in this Notice of Meeting have the same meaning as set out in section 7 (**"Glossary"**) of the Explanatory Memorandum.

Conditionality

The Internalisation Resolution (resolution 1) is not subject to any conditions. Each Director Election Resolution (each of resolution 2 and resolution 3) is conditional on the Internalisation Resolution being passed. However, each Director Election Resolution is not conditional on the other Director Election Resolution being passed.

Majority required

An ordinary resolution must be passed by at least 50% of the votes cast by unitholders and noteholders entitled to vote on the resolution. On a poll, a unitholder or their nominated proxy has one vote for each dollar of the value of the total interests that the holder has in Spark Trust pursuant to sections 253C(2) and 253F of the Corporations Act. On a poll, a noteholder or their nominated proxy has one vote for each dollar (cents being ignored) of the face value of loan notes registered in the holder's name.

Entitlement to vote

All Securityholders on the Spark Infrastructure register at 7.00pm (Sydney time) Wednesday 18 May 2011 are entitled to vote at the Meeting (subject to any voting exclusions described below or at section 6.2.1 of the Explanatory Memorandum). Accordingly, transfers registered after this time will be disregarded in determining entitlements to vote at the Meeting.

The votes on the resolutions will be taken by poll. On a poll, the votes that each Securityholder or their nominated proxy has are set out in the Notice of Meeting.

Jointly held Securities

If Securities are jointly held, only one of the joint Securityholders is entitled to vote. If more than one Securityholder votes in respect of jointly held Securities, only the vote of the Securityholder whose name appears first in the register will be counted.

Voting exclusions

In accordance with section 253E of the Corporations Act, Spark RE and associates of Spark RE must not vote their interest on a resolution of unitholders of Spark Trust if they have an interest in the resolution or matter other than as a member of Spark Trust.

However, the Spark RE and its associates may vote as proxies if their appointments specify the way they are to vote and they vote that way.

Mr Andrew Fay is excluded from voting on the Non-Executive Director Election Resolution (resolution 2) as he has an interest in that resolution other than as a Securityholder (except that he may vote a directed proxy given to him). Similarly, Ms Laura Reed is also excluded from voting on the Managing Director Election Resolution (resolution 3) as she has an interest in that resolution other than as a Securityholder (except that she may vote a directed proxy given to her).

Voting in person

If you wish to vote in person, you must attend the Meeting. If you plan to attend the Meeting, we ask that you arrive at the meeting venue at least 30 minutes prior to the time designated for the Meeting so that we may check your security holding against our register and note your attendance. The Meeting will start at 12.00pm (Sydney time) on 20 May 2011 or the conclusion of the AGM if later.

If you attend the Meeting, please bring your personalised proxy form with you. The bar code at the top of the form will help you to register. If you do not bring your form with you, you will still be able to attend the Meeting but representatives from the Registry will need to verify your identity.

Voting by attorney

If you cannot attend the Meeting, you may vote by appointing an attorney. Attorneys who plan to attend the Meeting should bring with them the original, or a certified copy of, the power of attorney under which they have been authorised to attend and vote at the Meeting.

Voting by corporate representative

To vote at the Meeting (other than by proxy or attorney), a corporation that is a Securityholder must appoint a person to act as its representative to attend the Meeting on your behalf, the appointment must comply with the relevant legal requirements. The representative should bring to the Meeting evidence of his or her appointment, including any authority under which it is signed.

Voting by proxy

If you cannot attend the Meeting and you are entitled to attend and vote at the Meeting, you have a right to appoint a proxy to attend and vote on your behalf.

A proxy need not be a holder of Securities and may be an individual or a body corporate. A personalised proxy form is included with this Explanatory Memorandum.

You may appoint one or two proxies. If you appoint two proxies, you may specify the proportion or number of votes each proxy is appointed to exercise. If you do not specify a proportion or number, each proxy may exercise half of the votes. If you require a second proxy form, please contact the Registry using the contact details given below.

You may also complete the proxy form in favour of the Chairman of the Meeting. If a proxy appointment is signed by, or validly authenticated by, the Securityholder but does not name the proxy or proxies in whose favour it is given, the Chairman of the Meeting will act as a proxy.

If you appoint a proxy, you may still attend the Meeting. However, your proxy's right to speak and vote are suspended while you are present. Accordingly, you will be asked to suspend your proxy if you register at the Meeting.

ANNEXURE II – NOTICE OF MEETING CONT.

How the Chairman of the Meeting will vote undirected proxies

The Chairman of the Meeting will vote undirected proxies addressed to him in favour of the resolutions. Spark Infrastructure encourages all Securityholders who submit proxies to direct their proxy how to vote on each resolution.

Lodging your proxy form

If you wish to appoint a proxy to attend and vote at the Meeting on your behalf, please complete and sign the personalised proxy forms accompanying this Explanatory Memorandum in accordance with the instructions set out on the proxy forms. Please note that proxy forms must be received by the Registry by 2.00pm (Sydney time) on 18 May 2011.

THE PROXY FORMS SHOULD BE COMPLETED AND RETURNED IN ACCORDANCE WITH THE INSTRUCTIONS ON THE PROXY FORMS.

You can lodge your completed proxy form by:

// mailing it to the Registry using the reply paid envelope enclosed with this notice;

// mailing it to the Registry, Computershare Investor Services Pty Limited, GPO Box 242 Melbourne Victoria 3001;

// lodging it online on the Registry's website at www.investorvote.com.au using the Control Number located on the front of your proxy form. You will be taken to have signed your proxy form if you lodge it in accordance with the instructions on the website;

// faxing it to the Registry on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia); or

// hand delivering it to the Registry at Level 4, 60 Carrington Street, Sydney NSW 2000.

YOUR COMPLETED PROXY FORM (AND ANY NECESSARY SUPPORTING DOCUMENTATION) MUST BE RECEIVED BY THE REGISTRY, COMPUTERSHARE INVESTOR SERVICES PTY LIMITED, NO LATER THAN 2.00PM (SYDNEY TIME) WEDNESDAY 18 MAY 2011.

If the proxy form is signed by an attorney, the original power of attorney under which the proxy form was signed (or a certified copy of the authority) must also be received by the Registry by 2.00pm (Sydney time) on 18 May 2011 unless it has been previously provided to the Registry.

Webcast and your privacy

Attendees at the Meeting may be video recorded and the tapes may be used at the discretion of Spark Infrastructure for security purposes. A live audio webcast of the Meeting will be available on the website at www.sparkinfrastructure.com.

By order of the board of Spark Infrastructure RE Limited as the responsible entity of the Spark Infrastructure Trust.

Stephen Johns
Chairman
20 April 2011

CORPORATE DIRECTORY

Spark Infrastructure Group

Level 6, 255 George Street
Sydney NSW 2000

Directors of Spark Infrastructure RE Limited as responsible entity of the Spark Infrastructure Trust

Stephen Johns (Chairman)
Cheryl Bart (AO)
Don Morley
Anne McDonald
Dr Keith Turner
Andrew Hunter
Andrew Fay
John Dorrian
Dominic Chan

Registry:

Computershare Investor Services Pty Limited

Level 4,
60 Carrington Street
Sydney NSW 2000

Postal address:
GPO Box 7045
Sydney NSW 2000

Telephone (within Australia): 1300 608 629
(outside Australia): +61 3 9415 4068
Email: webqueries@computershare.com.au
Website: www.computershare.com

FINANCIAL ADVISOR TO SPARK INFRASTRUCTURE

Investec Bank (Australia) Limited

Level 31
The Chifley Tower
2 Chifley Square
Sydney NSW 2000

LEGAL ADVISOR TO SPARK INFRASTRUCTURE

Mallesons Stephen Jaques

Level 61
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

TAX ADVISOR TO SPARK INFRASTRUCTURE

Ernst & Young

Ernst & Young Centre
680 George Street
Sydney NSW 2000

DESIGN: COLLIER & ASSOCIATES THE STRATEGIC DESIGN COMPANY #15688

CORPORATE CONTACT DETAILS

REGISTERED OFFICE

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Chief Executive Officer
LAURA REED

Chief Financial Officer
RICK FRANCIS

Investor Relations
MARIO FALCHONI

Company Secretary
ALEXANDRA FINLEY

SECURITY REGISTRY

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SparkInfrastructure