



Thursday, 13 September 2012

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

Dear Sir / Madam

**HY2012 SECURITYHOLDER NEWSLETTER**

I enclose a copy of the newsletter that will be mailed tomorrow to Spark Infrastructure's securityholders with their distribution statements.

Yours faithfully,

A handwritten signature in blue ink, appearing to read "Alex Finley".

**Alexandra Finley**  
**Company Secretary**

# HY2012 NEWSLETTER

## Chairman's message

**DEAR SECURITYHOLDER,**

THE FIRST HALF OF 2012 HAS SEEN A PERIOD OF PROTRACTED GLOBAL MARKET UNCERTAINTY, DURING WHICH SPARK INFRASTRUCTURE HAS CONTINUED TO DELIVER A SOLID DISTRIBUTION FOR SECURITYHOLDERS, SUPPORTED THE AMPLE ORGANIC GROWTH IN THE EXISTING ASSETS AND EXPLORED A POTENTIAL EXTERNAL GROWTH OPPORTUNITY CONSISTENT WITH SPARK INFRASTRUCTURE'S STRATEGY AND RISK PROFILE.

All this follows from the changes made over the past eighteen months to two years including the internalisation of our management structure, increasing Spark Infrastructure's financial flexibility, simplifying the corporate structure and establishing a sustainable and growing distribution profile, supported by operating cash flows. As a result, we remain in a good position to take advantage of the substantial growth in the Asset Companies in which Spark Infrastructure holds a 49% interest – SA Power Networks (formerly ETSA Utilities), CitiPower and Powercor – over the five year regulatory periods to 2015.

An additional growth opportunity that we explored in the first half involved Spark Infrastructure's bid for the Sydney Desalination Plant (SDP). Our interest in SDP was based on the uniqueness of the offering and the fact that it is a regulated asset with a risk profile in line with Spark Infrastructure's long-held investment mandate. SDP offered predictable earnings and reliable cash flows, independent and transparent regulation, and importantly, would have been distribution accretive from day one at our bid price.

Although we were ultimately unsuccessful, we are satisfied that our bid was competitive, would have been complementary to our current portfolio, and was consistent with our strict investment criteria. The process enabled us to position Spark Infrastructure as a strong disciplined bidder, and the market response has ultimately been favourable. Spark Infrastructure will continue to maintain a disciplined approach and will only consider investment opportunities that will add value for our Securityholders.

Spark Infrastructure is in a solid financial position, with an experienced management team and Board in place. Our new Managing Director and CEO, Rick Francis, brings a safe pair of hands to the role and builds on his experience as our Chief Financial Officer for the past three and a half years, with an ongoing commitment to delivering yield and growth based on quality.

The Directors have reaffirmed their previous full year distribution guidance for 2012 of 10.5 cents per security (cps) and have consequently declared a cash distribution of 5.25 cps for the six months ended 30 June 2012. We have also maintained our medium term distribution growth target range of 3-5% per annum to 2015, subject to business conditions. Spark Infrastructure will continue to target a payout ratio of approximately 80% of standalone operating cashflow across the current regulatory periods to 2015.

Finally, I would like to thank you, our Securityholders, for your ongoing support of Spark Infrastructure as we continue to grow as a leading Australian specialist infrastructure fund.



**Brian Scullin**  
Chairman  
Spark Infrastructure



## INVESTING IN PEOPLE FOR FUTURE PRODUCTIVITY

### APPRENTICE SCHEME

CitiPower and Powercor have trained more than 264 apprentices and trainees since 2001, and this year's intake of 15 brings the total number of apprentices and trainees currently in training to 96. Apprentice training includes a focus on customer service, community engagement, business priorities, innovation, safety and performance. All staff can now also develop new skills with the launch of a new online learning system.

### 'LUMINARIES' FEMALE LEADERS

SA Power Networks (formerly ETSA Utilities) is supporting its female leaders through a professional coaching, mentoring and network for women with its invitation-only program 'behind closed doors'. The Program offers a 'luminaries' scholarship for promising female leaders to meet with and exchange with other women in executive and leadership roles across a range of industries.

# Managing Director's Report

**DEAR SECURITYHOLDER,**

I AM VERY EXCITED TO BE DELIVERING MY FIRST SET OF HALF YEAR RESULTS AS MANAGING DIRECTOR AND CEO, WHICH REINFORCES THE STRENGTH AND ROBUSTNESS OF OUR COMPANY IN TODAY'S UNCERTAIN CLIMATE.

In a volatile market that has negatively impacted many listed companies and investment funds across all investment sectors, Spark Infrastructure has continued to deliver solid results in 2012. Our strong position is based on the quality of the Asset Companies; the expertise of the management teams leading these businesses; our discipline in relation to growth and our considered approach to capital management.

On 27 August Spark Infrastructure reported its results for the six months ended 30 June 2012 which showed that SA Power Networks (formerly ETSA Utilities), CitiPower and Powercor (CHEDHA) have again demonstrated their resilience with a solid performance in a tough operating environment.

Regulated revenue was up 19.1% to \$805.8 million with aggregated EBITDA (excluding customer contributions and gifted assets) up 16.3% to \$635.2 million. Flat electricity sales volumes and working capital timing issues have been more than offset by higher distribution tariffs, in accordance with the applicable regulatory decisions. Operating cashflows at the Asset Company level were affected by working capital timing issues, particularly at SA Power Networks, where the business has had to fund the impact of the Solar Photo-Voltaic Feed-in tariff scheme implemented by the South Australian Government where demand for that scheme has far exceeded their expectations. Significant tariff increases have occurred in South Australia from 1 July and as a result of which we will see stronger cashflows in the second half of 2012.

The Asset Companies will also benefit from growing cashflows over the remainder of their current regulatory periods to 2015 as they continue to recover revenues related to regulatory approved growth capital expenditure for network augmentation, security of supply, the smart meter roll-out and other important projects designed to improve services and reliability to customers.

Despite a challenging business environment with flat electricity sales volumes, the Asset Companies have again demonstrated the quality of their operations and the robustness of the regulatory environment in which they operate. They continue to rank amongst the most efficient, reliable and safest businesses in their class.

Organic growth remains at the core of our growth strategy and the Asset Companies continue to invest in the renewal and expansion of their networks to maintain and where possible enhance asset performance and reliability. In the six months to 30 June 2012, the Asset Companies invested a total of \$368.9 million of capital expenditure, up 4.6% on the previous corresponding period.

The Australian Energy Regulator (AER) has approved capital expenditure over the current five year regulatory periods which will drive growth in the Regulatory Asset Bases (RABs) of the Asset Companies at 8% p.a. (CAGR). Funding of this capital expenditure in line with the AER's assumptions will lead to growth in Spark's equity investment in the Asset Companies' net RABs of around 14% p.a. (CAGR). De-leveraging will also reduce the ratio of Net Debt to RAB towards 75% at the Asset Company level by the end 2015.

Over the last few months we have also enhanced our team at Spark and I am confident that we will continue to grow Securityholder value and I look forward to keeping you updated on our progress in the years ahead.



**Rick Francis**

Managing Director & Chief Executive Officer  
Spark Infrastructure

## ETSA UTILITIES REBRANDING FROM 3 SEPTEMBER

In a move to help address misconceptions about energy production and distribution and retailing responsibilities, ETSA will be renamed SA Power Networks, effective 3 September. The name aims to clarify the company's role in the delivery of electricity across South Australia, effectively defining what the company does and doesn't do as part of the electricity supply chain. This is to overcome perceptions that ETSA Utilities has been responsible for all aspects of the electricity supply chain.

Together with the name change, the company will introduce a range of services aimed at keeping customers informed of power supply issues, including an SMS or email advisory and power outage notification service.

The company's services will be unaffected by the transition to SA Power networks, with no change to the way the company does business – continuing a long term commitment to the state of South Australia through the distribution of reliable and cost efficient electricity.



## PERFORMANCE HIGHLIGHTS – SPARK INFRASTRUCTURE

(six months to 30 June 2012)

- Cash distributions to Spark Infrastructure up 1.3%<sup>1</sup> to \$90.4 million in accordance with Asset Company business plans
- Standalone operating cashflow up 6.4% to \$80.1 million<sup>1</sup>
- Underlying profit before Loan Note Interest and tax up 19.0% to \$141.8 million
- Statutory net profit after tax of \$88.7 million, up from \$8.9 million in previous corresponding period
- Full Year distribution guidance of 10.5 cents per security (cps) reaffirmed, up 5% on 2011
- Fully cash covered Interim distribution of 5.25cps payable on 14 September 2012 (payout ratio 87.0%)

## PERFORMANCE HIGHLIGHTS – ASSET COMPANIES

(100% results for the six months to 30 June 2012)

- EBITDA (excluding customer contributions<sup>2</sup>) up 16.3% to \$635.2 million
- Regulated revenue (including Advanced Metering Infrastructure) up 19.1% to \$805.8 million
- Net capital expenditure up 4.6% to \$368.9 million and no equity injections required from Spark Infrastructure to fund the substantial growth capital expenditure until 2015 at the earliest
- Regulatory Asset Base currently at \$7.67 billion, growth of 4.0% for HY 2012 and 9.3% for 12 months to 30 June 2012
- Positive appeal outcomes for CHEDHA are expected to add approximately \$145 million of revenue to 2015, expected to flow from 1 January 2013
- Successful debt refinancings in the domestic corporate bond market and the US Private Placement market raising a total of approximately A\$600 million year to date
- Net debt to RAB of 81.8%, up marginally from 81.5% at 31 December 2011, was impacted by working capital movements which are expected to reverse over the coming 12 months
- Spark Infrastructure's share of free cashflow (after an allowance for maintenance capital expenditure) of \$72.4 million set to grow along with revenues and as the working capital impacts reverse

Spark Infrastructure's financial performance	HY 2012 (\$m)	HY 2011 (\$m)	Variance (%)
Total income (underlying) <sup>3,4</sup>	153.7	131.0	17.3
Profit before Loan Note interest and tax (underlying) <sup>4</sup>	141.8	119.2	19.0
Net Profit after tax (underlying) <sup>4</sup>	96.2	68.9	39.6
Net Profit after tax (statutory)	88.7	8.9	n.m
Operating cashflows (standalone) <sup>1</sup>	80.1	75.3	6.4
<b>Cash received from Asset Companies (Spark's 49%)</b>			
ETSA Utilities	50.0	48.0	4.2
CitiPower and Powercor (CHEDHA) <sup>1</sup>	40.4	41.2	(1.9)
Total	90.4	89.2	1.3

Aggregated Asset Company performance (100%)	HY2012 (\$m)	HY2011 (\$m)	Variance (%)
Prescribed revenue, including			
– Distribution revenue	743.2	617.0	20.5
– Prescribed metering Revenue (including AMI)	62.6	59.6	5.0
Non-prescribed revenue <sup>5</sup> (excluding customer contributions <sup>2</sup> )	145.4	170.4	(14.7)
<b>Total revenue (excluding customer contributions)</b>	<b>951.3</b>	<b>847.0</b>	<b>12.3</b>
Customer contributions	91.1	108.1	(15.7)
<b>Total revenue<sup>6</sup></b>	<b>1,042.4</b>	<b>955.1</b>	<b>9.1</b>
<b>EBITDA (excluding customer contributions)</b>	<b>635.2</b>	<b>546.0</b>	<b>16.3</b>
<b>Net capital expenditure</b>	<b>368.9</b>	<b>352.7</b>	<b>4.6</b>

<sup>1</sup> Half Year 2011 cashflows adjusted to exclude \$17.6 million of deferred interest from 2010 which was subsequently paid in May 2011

<sup>2</sup> Customer contributions (including gifted assets) revenue are a pass-through which do not contribute to profit

<sup>3</sup> Underlying figures exclude certain non-cash and non-operating items which do not relate to the underlying performance for the period

<sup>4</sup> Consists of interest income from associates, Spark Infrastructure's share of equity accounted profits and other income less movements in financial instruments taken to the Profit & Loss account by the associates

<sup>5</sup> Non-prescribed business activities includes semi-regulated activities such as meter reading (ETSA), and public lighting; and unregulated activities such as the provision of construction, maintenance and back office services to third parties

<sup>6</sup> Aggregated revenue excludes transmission revenue, which is collected on behalf of others and does not contribute to profit

# Rick Francis

## Managing Director Q&A

**Q** *Tell us about your professional background.*

"I've dedicated much of my career to energy and utilities. I joined Spark Infrastructure in February 2009, as CFO, which means I'm extremely familiar with Spark Infrastructure, its investments, our investors and the industry in general. Previously I worked for four years as CFO with the ASX listed APA Group in the natural gas transmission and distribution infrastructure industry in Australia, and prior to that I spent eight years with Origin Energy in a number of senior management roles, both financial and operational."

**Q** *How have you seen Spark Infrastructure change since you joined in 2009?*

"Over the last few years we've put in place a number of changes, restructuring the organisation by simplifying its structure, increasing financial flexibility and internalising the management function. After this set of reforms Spark Infrastructure is well placed and in excellent shape to face any challenges ahead. We've been able to raise our field of vision from internal activities to also include external opportunities. We've had good results. The market better appreciates our defensive attributes and is more appropriately valuing those in comparison to 2009. Our share price has risen accordingly, particularly over the past year."

**Q** *What opportunities do you see on the horizon?*

"We are currently monitoring the potential privatisation of state-owned assets in NSW and Queensland, which has been flagged by the governments in those States. We believe there is a good case to be made for privatising those businesses in terms of potential efficiency gains and improvements in reliability and customer service. If this were to happen, then we would take a serious look at the relevant electricity distribution and transmission assets. We believe our experience in similar businesses in Victoria and South Australia leaves us well placed to participate in a sale process and to operate these assets for the long term benefit of customers in those States."

**Q** *And what are the challenges you are currently facing?*

"The sector is experiencing increasing scrutiny of pricing and energy efficiency by consumers, governments and regulatory bodies. This is something we are monitoring closely and responding to as appropriate.

However, it is important to remember that the cost of electricity distribution has not grown as a proportion of total costs to consumers over the past decade. The increases in prices which consumers are seeing, at least as pertains to Victoria and South Australia, are being influenced by other parts of the supply chain and by government initiatives. For example, while the average South Australian consumers saw their annual bills rise over \$300 from 1 July 2012, SA Power Networks (formerly ETSA Utilities) is responsible for a modest increase of \$45 of this total, and this is due to capital investment in the distribution network to ensure reliability and cater for network growth. In comparison, \$122 of the total increase is attributable to the feed in tariff scheme for solar panels as mandated by the State government, \$74 is attributable to the Federal Government's Carbon Pricing Scheme, \$46 goes to electricity retailers and \$14 to the transmission provider, ElectraNet.

In addition, the Australian Energy Regulator has proposed a number of regulatory changes which are currently under consideration by the Australian Energy Markets Commission (AEMC). Spark Infrastructure is participating in the process individually as well as through our membership of the Financial Investors Group. The Asset Companies are also heavily involved, leading the discussion at the industry level in their own right and through their participation in their national representative body, the Energy Networks Association (ENA). The AEMC issued its draft rule determinations at the end of August. This is currently being considered and we intend to make further submissions in response by 4 October, with final rule determinations expected from the AEMC in November."

**Q** *What is your main focus over the next 12 months?*

"The next 12 months will be focused on continuing to deliver a solid distribution to our securityholders which grows over time and on supporting the substantial growth in capital expenditure in the Asset Companies. We do not face any regulatory resets until 2015, and we're in a good financial position to keep delivering for our securityholders over that period. Our central plan is to continue to grow the Asset Companies' Regulatory Asset Bases (RAB) while degearing at the asset level towards a level of 75% net debt to RAB. The end result will be increasing equity ownership for our securityholders."

## CITIPOWER AND POWERCOR GROWS ITS REPUTATION IN THE COMMUNITY

Thanks to their positive stakeholder engagement strategies, CitiPower and Powercor have achieved demonstrable improvements in their respective community reputation survey results. Powercor continues to remain the highest ranked distribution business amongst its peers and CitiPower jumped significantly to fourth spot, indicating increasing consumer confidence in its brand and reputation.

The increased focus by both businesses on customer service and community engagement comes in the wake of floods, bushfires and controversy around the introduction of smart meters. Working in and with communities has proven advantageous, particularly given heightened regulatory and media scrutiny of the sector.

Survey results are calculated by measuring customer ratings of visual presence in the community, perceived community consultation and safety measures, bushfire prevention, commitment to the environment, and support for community events, local businesses and business awards.