Friday, 12 September 2014

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

Dear Sir / Madam

HALF YEAR 2014 SECURITYHOLDER NEWSLETTER

I enclose the Spark Infrastructure newsletter that will be sent to securityholders today along with their distributions statements.

Yours faithfully,

Alexandra Finley
Company Secretary

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HY2014 NEWSLETTER

Chairman's Report

BRIAN SCULLIN
Chairman
Spark Infrastructure

DEAR SECURITYHOLDERS,

I AM PLEASED TO REPORT THAT IN THE FIRST HALF OF 2014, SPARK INFRASTRUCTURE HAS AGAIN PERFORMED WELL AND WE ARE ON TRACK FOR ANOTHER STRONG FULL YEAR.

The Asset Companies, SA Power Networks and Victoria Power Networks (comprising CitiPower and Powercor) continue to drive excellence and quality across their operations. Our strategy is underpinned by the strong and growing operating cashflows which they generate.

Their performance has enabled Spark Infrastructure to continue to deliver a growing distribution to our securityholders, representing an investment that has an attractive yield plus strong asset growth. This remains central to the Spark Infrastructure story.

In addition to our existing investments, we have also been alert to further opportunities to add value for securityholders. In May of this year we added to our portfolio by taking a 14.1% interest in DUET Group, a business with investments in quality assets with characteristics very similar to our own. We are also keenly aware of and are actively tracking developments in relation to the possible privatisation of infrastructure assets by the various State Governments as they look to recycle capital to invest in other critical infrastructure assets and to improve their internal finances.

UPCOMING REGULATORY RESETS

With the reviews of the regulatory framework now completed, Spark Infrastructure and the Asset Companies are now firmly focussed on the next regulatory periods which commence on 1 July 2015 in the case of SA Power Networks, and on 1 January 2016 in the case of Victoria Power Networks.

The respective regulatory teams in the Asset Companies are well advanced in their preparations, and have gathered valuable feedback from the community and customers as part of their consumer engagement programs which will serve to support their asset replacement and augmentation plans.

SA Power Networks will make its initial submission to the Australian Energy Regulator (AER) in October of this year, while CitiPower and Powercor's submissions will follow six months later in April 2015. These submissions will put forward the businesses' cases in relation to operating and capital expenditure, the rate of return and other important elements of the regime to apply in the next 5-year regulatory periods.

An important change to note is the move to a revenue cap form of revenue recovery, which has been confirmed for SA Power Networks and is also expected for Victoria Power Networks. This will remove electricity distribution volume risk in the next regulatory periods and will therefore further increase revenue certainty.

MEANINGFUL PROGRESS WITH ATO AUDITS

As we disclosed late in 2013, Spark Infrastructure and the Asset Companies have been in discussions with the ATO on a range of taxation matters. I am now pleased to report that we have achieved substantial progress in relation to specific matters in both businesses.

In January this year we announced the resolution of one matter in SA Power Networks which related to the deductibility of rental instalments associated with the 200 year lease which applies to business.

Continued Overleaf

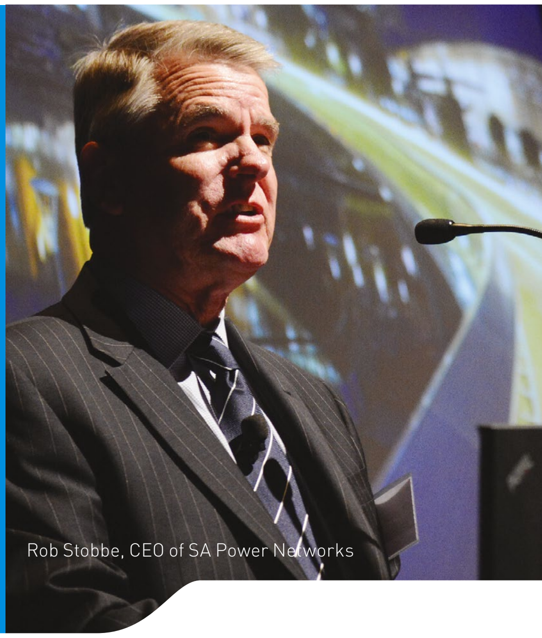
SA POWER NETWORKS ENGAGES ON 2015 – 2020 PROPOSALS

The Talking Power web site continues to be a useful mechanism for communicating with customers. In May, South Australians were asked to provide feedback to the company through Talking Power on its plans for operating South Australia's electricity distribution network in 2015-2020.

The release of the Directions and Priorities document was the culmination of extensive consultation and surveys of customers over an 18-month period which also included public hearings to determine their priorities and expectations.

The proposals will ensure customers get what they have said they most value: reliable, safe and secure electricity supply now; even better service; and a network that is ready to deal with the changing way they want to manage their energy needs in the future.

The proposal will be lodged at the end of October this year. Preliminary estimates indicate that customers will experience network price increases of less than CPI on average over the next regulatory period.



Rob Stobbe, CEO of SA Power Networks

Chairman's Report CONTINUED

While the outcome was not of a material nature, it was indeed positive, and showed that meaningful engagement can lead to sensible outcomes.

Much more significant was the announcement we made in May that the ATO has advised Victoria Power Networks that it will be not be pursuing its position in respect of Division 974 of the Income Tax Assessment Act 1997, being a denial of deductions for interest paid on certain shareholder loans.

This particular issue involved the most material potential impact on the Asset Companies and was the single greatest issue for us. The decision by the ATO has put an end to the matter for all years in question. We have consistently stated our confidence and that of the Asset Companies in their positions and have asserted the intention to defend those positions vigorously. This very important and positive outcome confirms that our confidence was not ill-founded. Discussions on the remaining matters continue.

ACQUISITION OF 14.1% INTEREST IN DUET GROUP

Also in May, we announced that Spark Infrastructure had acquired a 14.1% interest in DUET Group, on terms which we believe will be accretive. The terms include cash settled equity swaps for 4.6% and forward contracts for 9.5% of DUET's securities, which together provide an interest of at least 14.1% at an average entry price of $2.16 per DUET security.

We are confident the strategic investment in DUET will pay for itself, make a cash accretive return to Spark Infrastructure, and open up significant opportunities for Spark to capture additional value in the future for securityholders.

Naturally we will review our interest in DUET periodically to ensure that it continues to adhere to our investment criteria, which we assess over the longer term; and to consider value creating opportunities as they may arise.

We completed a capital raising as part of this transaction, by way of a Placement to institutional investors, for $200 million at $1.76 per stapled security. We chose to raise these funds in this way because it enabled us to have a fully underwritten raising with certainty around timing, price and execution. We believe this was the optimal method for a transaction of this size and nature.

We also subsequently launched a Security Purchase Plan (SPP) in the interests of fairness to non-institutional securityholders and to ensure they were provided with the same opportunity to participate in the growth of the business. The SPP raised an additional $45.7 million, with the new SPP securities being issued on equivalent terms to the Placement securities.

The next 12 months will provide new opportunities to Spark Infrastructure, with the Asset Company regulatory resets approaching, the prospect of partial privatisation of network assets in NSW as foreshadowed by the NSW Government and the potential privatisation of the other infrastructure assets on the agendas of other State Governments. I look forward to updating you all again on Spark Infrastructure's progress in early 2015.

Brian Scullin
Chairman

Managing Director and Chief Executive Officer's Report

RICK FRANCIS
Managing Director
and Chief Executive Officer
Spark Infrastructure

DEAR SECURITYHOLDERS,

ON 25 AUGUST 2014 WE RELEASED OUR RESULTS FOR THE 6 MONTHS ENDED 30 JUNE 2014. I WAS PLEASED TO REPORT THAT SPARK INFRASTRUCTURE POSTED A 13.2% INCREASE IN PROFIT BEFORE LOAN NOTE INTEREST AND TAX TO $166.1 MILLION AND A 4.0% INCREASE IN STANDALONE OPERATING CASHFLOWS TO $86.7 MILLION BASED ON SOLID OPERATIONAL RESULTS AND HIGHER DISTRIBUTIONS FROM THE ASSET COMPANIES[1].

The Directors have declared an interim distribution of 5.75 cents per security (cps) to be paid on 12 September 2014. This is in line with the previous distribution guidance of 11.5cps for 2014, which reflects an increase of 4.5% on 2013. The Directors have also re-affirmed their guidance for 2015 distribution growth of between 3-5% per annum, subject to business conditions. Future distributions will continue to be fully covered by operating cashflows.

Total regulated revenue of the Asset Companies was up 4.9% to $915.0 million with aggregated Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) excluding customer contributions, up 2.1% to $717.6 million. (Spark 49% share $351.6 million).

The Regulated Asset Base (RAB) of the Asset Companies grew by 2.8% in the 6 months ended 30 June 2014 taking the total RAB[2] to $8.9 billion (Spark share $4.3 billion) at the end of the period. This follows on from the 6.6% growth in RAB in 2013. In aggregate, gearing as measured by net debt to RAB at the Asset Company level was 77.8% at 30 June 2014, down 1.7% over the preceding 12 months.

Spark Infrastructure's distributions are more than 1.5x covered by the free cashflows generated by SA Power Networks and Victoria Power Networks. At the same time, the strength of these Asset Companies' cashflows allows them to fund their organic growth internally, that is, without the need for equity injections from their shareholders, and to continue to progress towards a gearing level of around 75% net debt to RAB, which is expected be achieved by the end of 2015.

As outlined by the Chairman, we acquired a 14.1% interest in DUET Group in May this year. DUET Group went ex-dividend with a 2014 final distribution of 8.5cps on 24 June 2014. We received this distribution ($15.8 million) on 22 August 2014 which will be reported in our results for the second half of the year.

Performance highlights – Asset Companies

(100% RESULTS, FOR THE 6 MONTHS ENDED 30 JUNE 2014)

PERFORMANCE SUMMARIES

Spark Infrastructure's financial performance	**HY 2014($m)**	**HY 2013($m)**	**Variance (%)**
Total income[3]	175.3	156.6	12.0
Profit before Loan Note interest and tax	166.1	146.7	13.2
Net Profit after tax	89.0	76.0	17.1
Operating cashflows (standalone)	86.7	83.3	4.0
Cash received from Asset Companies (Spark's 49% share)			
SA Power Networks	52.2	51.0	2.4
CitiPower and Powercor (Victoria Power Networks)	40.4	40.3	0.2
Total	**92.7**	**91.3**	**1.4**

Aggregated Asset Company performance (100%)	**HY 2014($m)**	**HY 2013 ($m)**	**Variance (%)**
Prescribed revenue, including			
- Distribution revenue	855.0	802.5	6.5
- Prescribed metering revenue (AMI)	59.9	69.3	(13.5)
Non-prescribed revenue[4] (excluding customer contributions)	152.5	177.4	(14.0)
Total revenue (excluding customer contributions [5])	**1,067.5**	**1,049.2**	**1.7**
Customer contributions	71.9	77.3	(6.9)
Total revenue[6]	**1,139.4**	**1,126.5**	**1.1**
EBITDA (excluding customer contributions)	**717.6**	**702.9**	**2.1**
Net capital expenditure	383.5	422.3	(9.2)
Net Debt to RAB (Asset Company level)	77.8%	79.5%	-1.7

- → Net revaluation gain on derivative contracts of $19.5 million associated with the interest in DUET Group
- → EBITDA (excluding customer contributions[5]) up 2.1% to $717.6 million
- → Electricity Distribution revenue up 6.5% to $855.0 million
- → Total revenue (excluding customer contributions[5]) up 1.7% to $1,067.5 million
- → Electricity sales volumes are down on the previous corresponding period by 2.7% for SA Power Networks and 4.5% for Victoria Power Networks, which are also down on regulatory volume allowances
- → Net capital expenditure down 9.2% to $383.5 million
- → Regulatory Asset Base up 2.8% to $8.9 billion
- → Net debt to RAB of 77.8%, reduced 1.7% over the last 12 months

The Asset Companies continue to demonstrate strong growth through the delivery of regulator approved capital expenditure over the five years to 2015. The adoption of a revenue cap as the preferred method of revenue recovery will remove volume risk in the next regulatory periods and will therefore increase revenue certainty for the Asset Companies. SA Power Networks and Victoria Power Networks are generating reliable cashflows which will continue to be used to fund the required equity portion of capital expenditure and to de-gear towards a net debt to RAB level of around 75% by the end of 2015.

1. Spark Infrastructure holds 49% interests in electricity distribution businesses SA Power Networks, CitiPower and Powercor Australia (Victoria Power Networks), ("the Asset Companies").
2. The calculation of RAB at the end of a financial period is an estimate only.
3. Includes interest income from associates, Spark Infrastructure's share of equity accounted profits, gains from derivative contracts and other income.
4. Non-prescribed business activities includes semi-regulated activities such as meter reading (SA Power Networks), public lighting and unregulated activities such as the provision of construction, maintenance and back office services to third parties.
5. Customer contributions (including gifted assets) revenue does not contribute to operating cash flow.
6. Aggregated revenue excludes transmission revenue, which is collected on behalf of others and does not contribute to profit.

Spark Infrastructure takes an interest in DUET Group

Spark Infrastructure and its Board of Directors remain alert to opportunities to capture value and build on our quality portfolio of assets for our securityholders, as and when they arise.

In May this year, we acquired a 14.1% interest in DUET Group – a business with investments in quality assets with characteristics very similar to Spark Infrastructure.

This investment is entirely consistent with our long term commitment to quality and provides Spark Infrastructure with greater exposure to prime assets in the regulated gas and electricity infrastructure sector. It also provides further diversification, by geography, energy class and regulation.

Security Purchase Plan

Following feedback from our securityholders and as foreshadowed at our AGM in May, Spark Infrastructure launched a Security Purchase Plan (SPP) in June. The terms of this initiative mirrored the company's placement of stapled securities to institutional and professional investors ("the Placement") which raised $200 million and was used to partly fund Spark Infrastructure's acquisition of the 14.1% interest in DUET Group.

Chairman Brian Scullin said: "The Board remains comfortable that the 14.1% interest in DUET Group has been prudently funded via the Placement, but in the interests of fairness and consistency, the Board decided to undertake a SPP. The SPP provides non-institutional securityholders with the opportunity to increase their holding at the same price at which stapled securities were issued to institutional and professional investors under the Placement."

The SPP enabled eligible securityholders to subscribe for up to approximately $15,000 worth of new stapled securities in Spark Infrastructure. Consistent with the terms of the Placement, the issue price for the SPP was $1.76 per new stapled security, representing a discount of 6.4% to the closing price of $1.88 per stapled security on 19 May 2014 (being the last trading day before the Placement) and a discount of 3.6% to the closing price of $1.825 per stapled security on 5 June 2014 (being the last trading day before the Record Date for the SPP).

The SPP was completed on 30 June 2014 and Spark Infrastructure was pleased to accept valid applications from eligible securityholders for $45.7 million of new stapled securities.

"We are pleased that we could provide all securityholders with the same opportunity to participate in the growth of the business" said Mr Scullin.

NEWS FROM THE ASSET COMPANIES

As highlighted in previous newsletters, both SA Power Networks and our VPN businesses, CitiPower and Powercor, take the safety of employees, customers and wider community very seriously.

The businesses start each year with a set of work, health and safety objectives to address and improve upon. The businesses have regularly been recognised and awarded by several industry bodies for their diligence, commitment and approach.

SA Power Networks has now received a top accreditation in safety and recorded a milestone in days without injury. These stories, outlined below, speak to the culture of the businesses and their high quality standards.

VICTORIA POWER NETWORKS IMPLEMENTS "WORLD CLASS OPERATIONS PROGRAM"

Earlier this year, Victoria Power Networks (VPN) began the execution of its 'World Class Operations Program' designed to move it beyond the upper echelons of performance amongst Australian distribution businesses, to the next, world class level of performance, which they expect will deliver significant benefits for customers, staff and its owners.

The program is focussed on minimising the cost of work that VPN needs to do; closely analysing exactly what and when work needs to be done; using internal resources more efficiently; and optimising external spend. Some of the broad initiatives include:

- Reduced corporate function headcount in People & Culture, IT, Finance and Company Secretary & Legal
- Improved contractor management, more rigorous and competitive tendering and policy reviews
- Streamlined maintenance processes and avoidance of unnecessary maintenance
- Multiple field workforce productivity initiatives – including roll-out of iPads to the field to improve communication, knowledge management, work scheduling and administration /automation of forms.

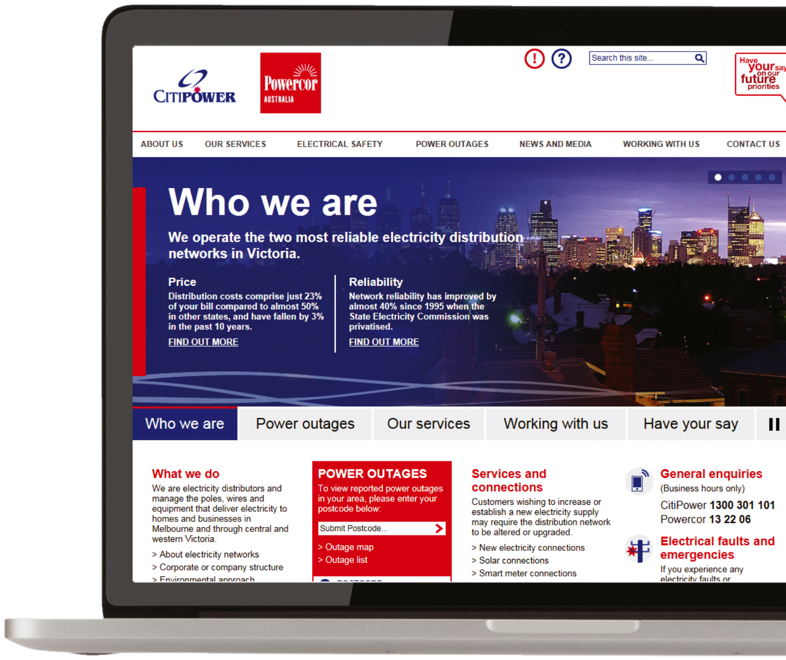
New Customer Website for CitiPower and Powercor

Keeping customers informed and providing updated access to outages were key enhancements added to a newly branded CitiPower and Powercor website.

The new corporate website, which has a modern, easy to use design and layout, is a key component of CitiPower and Powercor's efforts to make its customers' experience easier when dealing with the company. The re-design of the website was based on feedback from residential and commercial customers, and expert advice on how to improve the online user experience.

Customers are now able to access an interactive map that will feature information on power outages, the number of customers affected, the specific areas affected, estimated restoration times, and useful tips to employ during an outage. The information is updated real time every 15 minutes.

"Our customers need the most reliable and up-to-date information on power outages affecting their area. This website is now fully integrated with other CitiPower and Powercor technologies, such as SMS updates, mobile sites, and smartphone apps, providing Victorians with a full range of options to access the information they need," said Tim Rourke, CEO of CitiPower and Powercor.



ATO decides not to pursue Division 974

Following constructive discussions between the ATO and Victoria Power Networks (VPN) the ATO has advised VPN that it will not be pursuing its position in respect of Division 974 of the Income Tax Assessment Act 1997 (Division 974). This involved denying deductions for interest paid by VPN on certain shareholder loans.

This is an excellent outcome and concludes the matter for all years in question. VPN is currently engaged in ongoing discussions with the ATO with a view to concluding all outstanding matters as soon as possible, while protecting the interests of shareholders.

Milestone in Lost Time Injury

SA Power Networks has achieved a milestone in safety performance, successfully reaching 643 successive days without a Lost Time Injury (LTI), which is a noteworthy achievement within the industry.

The company's safety record can be attributed to many things, including the priority given to safety through the company's strategies, policies and risk assessments, and in the way daily tasks are addressed.

It also reflects a concerted effort to support people involved in safety-related incidents to get back to work, which is recognised as an essential part of best practice in post-incident management.

EMPLOYEE FOUNDATION DONATES $1 MILLION TO CHARITY

Thanks to the hard work and generosity of SA Power Networks employees, the organisation's Employee Foundation is preparing to donate its millionth dollar to charity later this year.

Since its beginning in 2006, the Foundation has enabled SA Power Networks employees to contribute to the South Australian community, either directly through payroll donation, indirectly by participation in specific fundraising activities, or by volunteering their time and skills. Through its annual commitment, SA Power Networks donates $50,000 to the Foundation, matching the first $50,000 in donations and funds raised by employees.

2013 was the Foundation's biggest year yet, with more than $228,000 donated to charities including $91,500 to the Cancer Council of South Australia and $31,400 to the Neonatal Unit of the Women's & Children's Hospital. A record number of 800 employees are involved in the Foundation and its fundraising activities, which included a golf day, family day, raffles, morning teas and BBQs, and the flagship event, the Relay for Life.

The Foundation is planning a number of celebrations later in 2014 to mark the $1 million dollar milestone and to thank SA Power Networks' employees.

Top safety accreditation takes SA Power Networks to a new league

SA Power Networks has successfully achieved one of Australia's highest safety accreditations – the Australian Government Building and Construction OHS Accreditation Scheme – following an extensive and comprehensive 18-month program of works across the business.

Developed by the Office of the Federal Safety Commissioner, the Scheme provides one of the most stringent and robust safety audits of Australian building and construction companies.

"It's an invaluable recognition of SA Power Networks' ongoing commitment to its safety management system, and everyone in the company had to work together effectively to achieve this outcome", said Mark Rogers, Strategic Advisor Work Health and Safety.

"In all the years I've been involved in safety, this was the most difficult audit criteria to achieve. It is one of the most stringent and robust safety audits within the building and construction industry".

Not only does this accreditation add rigour to the safety management system, it also adds further value the business in terms of our work in the construction industry. This accreditation is often required as a minimum when tendering for non-regulated building and construction work, particularly for Federally-funded projects.

REGIONAL ENGAGEMENT FORUMS SUCCESSFULLY COMPLETED

As an integral part of the community, CitiPower and Powercor conducted six forums across the state in May and June. The forums were attended by stakeholders, together with residential and business customers, and provided an opportunity to find out more about the company, distribution network services, program of works, and major projects for maintaining local electricity supply reliability.

Customers and stakeholders were encouraged to provide their feedback and views on the priority areas for future electricity investment and planning to ensure the needs of local communities are well represented. CitiPower and Powercor will review all the feedback and look at how to continue to deliver better services in the coming years.

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