# SPARK INFRASTRUCTURE

FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

**Incorporating results of:**

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| **Spark Infrastructure Holdings No. 1 Limited** | **ABN 14 116 940 786** |
| **Spark Infrastructure Holdings No. 2 Limited** | **ABN 16 116 940 795** |
| **Spark Infrastructure Trust** | **ARSN 116 870 725** |
| **Spark Infrastructure Holdings International Limited** | **ARBN 117 034 492** |

Spark Infrastructure comprises of Spark Infrastructure Trust, Spark Infrastructure Holdings No. 1 Limited, Spark Infrastructure Holdings No. 2 Limited and Spark Infrastructure Holdings International Limited.

Each unit in Spark Infrastructure Trust is stapled to one share in Spark Infrastructure Holdings No. 1 Limited, one share in Spark Infrastructure Holdings No. 2 Limited, one CHESS Depositary Interest representing one share in Spark Infrastructure Holdings International Limited and one loan note issued by Spark Infrastructure Trust. The stapled securities trade on the Australian Securities Exchange.

**This financial report relates to the performance of Spark Infrastructure covering all the Stapled Entities and provides the most concise information regarding the performance of investors' funds.**

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# CORPORATE GOVERNANCE STATEMENT

## Introduction

### Background

Spark Infrastructure was listed on the Australian Securities Exchange ("ASX") in December 2005.

Spark Infrastructure's particular legal framework and structure are important to understanding its governance framework. Spark Infrastructure comprises three companies and a trust, the securities of which are stapled together. The companies are Spark Infrastructure Holdings No. 1 Limited, Spark Infrastructure Holdings No. 2 Limited and Spark Infrastructure Holdings International Limited. The trust is Spark Infrastructure Trust. These entities are referred to as the "Stapled Entities". A share in each of the companies, a unit in Spark Infrastructure Trust and a loan note issued by the responsible entity for Spark Infrastructure Trust are each "stapled" together to form the "Stapled Securities" of Spark Infrastructure which trade on the ASX effectively as one security.

Spark Infrastructure is managed by Spark Infrastructure Management Limited ("Manager"). The Manager and Spark Infrastructure RE Limited (the responsible entity of Spark Infrastructure Trust) are ultimately owned 50% each by Cheung Kong Infrastructure Holdings Limited ("CKI") and ("RREEF") Infrastructure, which is ultimately owned by Deutsche Bank AG. Under the Management Agreement, the Manager is contracted, for a fee, to provide management services to Spark Infrastructure including making available appropriately qualified individuals to perform the functions allocated to the Manager under the Management Agreement.

### Policies and Charters

Spark Infrastructure's corporate governance policies were set out in its Prospectus/Product Disclosure Statement document and have been reviewed by the Boards. Spark Infrastructure's corporate governance policies and charters are described below by reference to the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations (referred to as the "Guidelines"). Where Spark Infrastructure's practice differs from the Recommendations in the Guidelines, this is stated.

For ease of reference below, the term the "Board" is used in reference to the Boards of Spark Infrastructure Holdings No. 1 Limited, Spark Infrastructure Holdings No. 2 Limited, Spark Infrastructure RE Limited as responsible entity for Spark Infrastructure Trust and Spark Infrastructure Holdings International Limited. Where a particular entity has different arrangements from those described, this is mentioned specifically.

The tabular format below is adopted for ease of reference.

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| **Principle 1** | **Lay solid foundations for management and oversight**<br>Recognise and publish the respective roles and responsibilities of the Board and management. |
| **Recommendation 1.1** | Formalise and disclose the functions reserved to the Board and those delegated to management.<br><br>Spark Infrastructure has adopted a Board Charter which sets out the functions and responsibilities of the Board and the role of the Manager. Spark Infrastructure's Board Charter is available on the Spark Infrastructure website. |
| **Principle 2** | **Structure the Board to add value**<br>Have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties. |
| **Recommendation 2.1** | A majority of the Board should be independent Directors<br><br>*Board Structure*<br>Spark Infrastructure has adopted the definition of an independent Director from the Guidelines.<br><br>Spark Infrastructure Holdings No. 1 Limited, Spark Infrastructure Holdings No. 2 Limited and Spark Infrastructure RE Limited share a common Board of Directors which is comprised of two CKI representatives, two RREEF Infrastructure representatives and four independent Directors.<br><br>In the case of Spark Infrastructure Holdings No. 1 Limited, Spark Infrastructure Holdings No. 2 Limited and Spark Infrastructure Holdings International Limited, Stapled Security Holders elect the independent Directors and the Manager appoints the representatives of CKI and RREEF Infrastructure through a special voting share which grants the right to appoint half of the maximum number of Directors. In the case of Spark Infrastructure RE Limited, CKI and RREEF Infrastructure have the right to appoint all of the Directors.<br><br>CKI and RREEF Infrastructure have undertaken to ensure that all of the Directors of Spark Infrastructure Holdings No. 1 Limited, Spark Infrastructure Holdings No. 2 Limited, Spark Infrastructure RE Limited, and to the extent relevant, Spark Infrastructure Holdings International Limited are common.<br><br>Stephen Johns (Chairman), Don Morley, Cheryl Bart and Peter St George are independent Directors. Hing Lam Kam and Andrew Hunter are the CKI representatives and Shaun Mays and John Dorrian (who replaced Brian Scullin effective 24 August 2007) are the RREEF Infrastructure representatives.<br><br>The composition of the Board provides an appropriate balance between the expertise and resources brought to Spark Infrastructure by CKI and RREEF Infrastructure to fulfil Spark Infrastructure's investment mandate and the additional rigour and assurance provided by the fact that half of the Directors are independent Directors. Spark Infrastructure believes that all of its Directors act independently in the best interests of Spark Infrastructure and each also provides skills and experience which enhance Spark Infrastructure's ability to fulfil its investment mandate. |

# **CORPORATE GOVERNANCE STATEMENT** CONTINUED

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| Recommendation 2.1 continued | In addition, Spark Infrastructure maintains internal procedures to guide the Board in considering transactions that involve CKI or RREEF Infrastructure whether directly in an acquisition or disposal or indirectly such as through co-participation in a transaction or appointment as adviser for the purposes of a transaction. The procedures set out how the Board considers and votes on such matters and reinforce the obligation of Directors to avoid conflicts of interest.<br>The Directors of Spark Infrastructure Holdings International Limited are Stephen Johns, Shaun Mays and Andrew Hunter. The Board composition of Spark Infrastructure Holdings International Limited is of an interim nature and will be reviewed once a decision is made to acquire an offshore asset. |
| **Recommendation 2.2** | The chairperson should be an independent Director.<br><br>The Chairman, Stephen Johns, is an independent Director. |
| **Recommendation 2.3** | The roles of chairperson and chief executive officer should not be exercised by the same individual<br><br>The role of the Chairman is not combined with the Chief Executive Officer of the Manager, and may not be so under the Board Charter. |
| **Recommendation 2.4** | The Board should establish a Nomination Committee<br><br>Given the size and nature of Spark Infrastructure, the Board has not established a Nomination Committee. The role and responsibilities typically delegated to a Nomination Committee are undertaken by the Board. |
| **Recommendation 2.5** | Provide the information indicated in *Guide to reporting on Principle 2:*<br><br>• Skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report<br><br>Each Director brings skills relevant to the successful conduct of the Spark Infrastructure businesses. These include, on a combined basis, experience in infrastructure businesses, financial analysis and reporting skills, knowledge of the Asset Companies, experience in corporate activity such as mergers, acquisitions and structuring of transactions, experience in corporate governance and disclosure matters, experience in financial services and licence obligations. Further details are contained in the Director biographies at pages 8 to 10 in the Directors' Report.<br><br>• The names of the directors considered by the Board to constitute independent directors and the company's materiality thresholds<br><br>Refer Recommendation 2.1.<br><br>• A statement as to whether there is a procedure agreed by the Board for Directors to take independent professional advice at the expense of the company<br><br>The letter of appointment of directors states that, with the approval of the Chairman, Directors may seek independent professional advice at the expense of the relevant company within Spark Infrastructure, on any matter connected with the discharge of a Director's responsibilities as a member of the Board.<br><br>• The term of office held by each director in office at the date of the Annual Report<br><br>The director appointment dates are set out in the Directors biographies at pages 8 to 10 in the Directors' Report.<br><br>• The names of the members of the Nomination Committee and their attendance at meetings of the Committee, Nomination Committee Charter and Nomination Committee policy for appointment of directors<br><br>Refer Recommendation 2.4.<br><br>• A description of the procedure for selection and appointment of new directors to the Board<br><br>The nomination and appointment process for the independent Directors is described in Spark Infrastructure's Board Charter which is available on the Spark Infrastructure website. |
| **Principle 3** | **Promote ethical and responsible decision-making**<br><br>Actively promote ethical and responsible decision-making |
| **Recommendation 3.1** | Establish a code of conduct to guide the Directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:<br><br>3.1.1 the practices necessary to maintain confidence in the company's integrity;<br><br>3.1.2 the practices necessary to take into account their legal obligations and the reasonable expectations of their Stakeholders; and<br><br>3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. |

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| Recommendation 3.1 continued | Spark Infrastructure is committed to high standards of ethics and conduct on the part of its Directors and the employees of the Manager. Spark Infrastructure's Code of Conduct is available on the website and it applies to both the Directors of Spark Infrastructure and Directors and employees of the Manager. Spark Infrastructure has chosen to combine its code of conduct and corporate code of conduct under Principle 10. |
| **Recommendation 3.2** | Disclose the policy concerning trading in company securities by Directors, officers and employees<br><br>Spark Infrastructure has adopted a Trading Policy which applies to Directors of Spark Infrastructure and Directors and employees of the Manager. |
| **Recommendation 3.3** | Provide the information indicated in *Guide to reporting on Principle 3:*<br><br>• Code of conduct and trading policy<br><br>Spark Infrastructure's Code of Conduct and Trading Policy are available on Spark Infrastructure's website. |
| **Principle 4** | **Safeguard integrity in financial reporting**<br>Have a structure to independently verify and safeguard the integrity of the company's financial reporting |
| **Recommendation 4.1** | Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the Board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards<br><br>The Chief Executive Officer and Chief Financial Officer of the Manager provide the required statement in relation to half year and full year financial reports. |
| **Recommendation 4.2** | The Board should establish an Audit Committee<br><br>The Board has established an Audit and Risk Management Committee. |
| **Recommendation 4.3** | Structure the Audit Committee so that it consists of:<br><br>• only non-executive Directors;<br><br>• a majority of independent Directors;<br><br>• an independent chairperson, who is not chairperson of the Board; and<br><br>• at least three members.<br><br>Spark Infrastructure's Audit and Risk Management Committee is structured in accordance with the Recommendation. Its members are Don Morley (Chairman), Cheryl Bart, Peter St George, Andrew Hunter and John Dorrian (who replaced Brian Scullin effective 29 November 2007). |
| **Recommendation 4.4** | The Audit Committee should have a formal charter<br><br>The Audit and Risk Management Committee has adopted a formal charter. |
| **Recommendation 4.5** | Provide the information indicated in *Guide to reporting on Principle 4:*<br><br>• Details of the names and qualifications of the Audit Committee members<br><br>Refer Recommendation 4.3 and the Director biographies on pages 8 to 10 in the Directors' Report.<br><br>• The number of meetings of the Audit Committee and the names of the attendees<br><br>This is disclosed at page 15 in the Directors' Report.<br><br>• Audit Committee charter and information on procedures for selection and appointment of the external auditor, and for the rotation of external audit engagement partners<br><br>This information is available on the Spark Infrastructure website. |
| **Principle 5** | **Make timely and balanced disclosure**<br><br>Promote timely and balanced disclosure of all material matters concerning the company |
| **Recommendation 5.1** | Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance<br><br>These matters are addressed in Spark Infrastructure's Disclosure Policy. |
| **Recommendation 5.2** | Provide the information indicated in *Guide to reporting on Principle 5:*<br><br>• Summary of the policies and procedures designed to guide compliance with Listing Rule disclosure requirements<br><br>Spark Infrastructure's Disclosure Policy is available on the Spark Infrastructure website. |
| **Principle 6** | **Respect the rights of shareholders**<br>Respect the rights of shareholders and facilitate the effective exercise of those rights |

# **CORPORATE GOVERNANCE STATEMENT** CONTINUED

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| **Recommendation 6.1** | Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings<br><br>Spark Infrastructure has developed a Stapled Security Holder Communication Policy.<br><br>Spark Infrastructure's website also contains information designed to assist Stapled Security Holders to understand Spark Infrastructure and keep abreast of latest developments. For example, all ASX announcements are posted on the Spark Infrastructure website, as are web-casts of briefings to analysts and annual general meetings. |
| **Recommendation 6.2** | Request the external auditor to attend the Annual General Meeting and be available to answer shareholders' questions about the conduct of the audit and the preparation and content of the Auditor's Report<br><br>The external auditor of Spark Infrastructure will attend all annual general meetings of Spark Infrastructure and will be available to answer Stapled Security Holders' questions about the conduct of the audit and the preparation and content of the Auditor's Report. |
| **Recommendation 6.3** | Provide the information indicated in *Guide to reporting on Principle 6:*<br><br>• A description of the arrangements the company has to promote communication with shareholders<br><br>Spark Infrastructure's Stapled Security Holder Communication Policy is available on Spark Infrastructure's website. |
| **Principle 7** | **Recognise and Manage Risk**<br>Establish a sound system of risk oversight and management and internal control |
| **Recommendation 7.1** | The Board or appropriate Board committee should establish policies on oversight and management of material business risk<br><br>The Board is responsible for overseeing the processes in place to manage risk. It has delegated the detailed performance of this function to the Audit and Risk Management Committee. The Committee and the Board have both approved Spark Infrastructure's Risk Management Policy. The Board has also established a Compliance Committee. |
| **Recommendation 7.2** | The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the Board in writing that:<br><br>7.2.1 the statement given in accordance with best practice Recommendation 4.1 (the integrity of Financial Statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and<br><br>7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material aspects.<br><br>The Chief Executive Officer and Chief Financial Officer of the Manager provide the required statement in relation to half year and full year financial reports. |
| **Recommendation 7.3** | Provide the information indicated in *Guide to reporting on Principle 7:*<br><br>• A description of the company's risk management policy<br><br>A summary of Spark Infrastructure's Risk Management Policy is available on Spark Infrastructure's website. |
| **Principle 8** | **Encourage enhanced performance**<br>Fairly review and actively encourage enhanced Board and Management effectiveness |
| **Recommendation 8.1** | Disclose the process for performance evaluation of the Board, its committees and individual Directors, and key executives<br><br>Under the Board Charter, the Board is required to review its own performance, the performance of individual Directors, any Director to be elected or re-elected, Board committees and the Chief Executive Officer of the Manager at least annually.<br><br>A description of Spark Infrastructure's performance evaluation process is available on the Spark Infrastructure website. |
| **Principle 9** | **Remunerate fairly and responsibly**<br>Ensure that the level and composition of remuneration are sufficient and reasonable and that its relationship to corporate and individual performance is defined |
| **Recommendation 9.1** | Provide disclosure in relation to the company's remuneration policies to enable investors to understand<br>• the costs and benefits of those policies and<br>• the link between remuneration paid to Directors and key executives and corporate performance<br><br>Spark Infrastructure does not have senior executives. One of the responsibilities of the Manager under the Management Agreement is to make available senior executives to the Stapled Entities. Spark Infrastructure pays the Manager a management fee disclosed in Note 23 to the Financial Statements which is calculated by reference to the enterprise value of Spark Infrastructure and its performance as a listed structure with no reference. |

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| Recommendation 9.1 continued | to the remuneration paid to senior executives of the Manager. The Manager is responsible for and must bear the costs incurred by it in providing the management services, including staff costs.<br><br>On the basis of this structure, the remuneration details of individuals employed by the Manager are not disclosed in the financial reports.<br><br>Board remuneration policy is discussed at pages 15 to 17 in the Directors' Report. |
| **Recommendation 9.2** | The Board should establish a Remuneration Committee<br><br>The Board has not established a Remuneration Committee. Given the limited exposure to remuneration expenses (as set out above), the Board does not consider it necessary or appropriate to establish a Remuneration Committee. |
| **Recommendation 9.3** | Clearly distinguish the structure of non-executive Directors' remuneration from that of executives<br><br>The non-executive Directors' remuneration is disclosed at page 16. Spark Infrastructure has no executives. Refer Recommendation 9.1. |
| **Recommendation 9.4** | Ensure that payment of equity based executive remuneration is made in accordance with thresholds set in plans approved by shareholders<br><br>Spark Infrastructure does not have an equity compensation scheme in place for its Directors; nor does the Manager pay equity based compensation to its staff. |
| **Recommendation 9.5** | Provide the information indicated in *Guide to reporting on Principle 9:*<br><br>• Disclosure of the company's remuneration policies referred to in best practice Recommendation 9.1<br><br>• The names of the members of the Remuneration Committee and their attendance at meetings of the committee<br><br>• An explanation of any departures from best practice Recommendations 9.1, 9.2, 9.3, 9.4 or 9.5.<br><br>Board remuneration policy is discussed at pages 15 to 17 in the Directors' Report. See above for an explanation of Spark Infrastructure's departure from Recommendation 9.2 and consequent departure from certain disclosures in Recommendation 9.5.<br><br>• The existence and terms of any schemes for retirement benefits, other than statutory superannuation, for non-executive Directors<br><br>There are no retirement benefit schemes in existence.<br><br>• The charter of the Remuneration Committee or a summary of the role, rights, responsibilities and membership requirements for that committee<br><br>Refer Recommendation 9.2 |
| **Principle 10** | **Recognise the legitimate interests of stakeholders**<br>Recognise legal and other obligations to all legitimate stakeholders |
| **Recommendation 10.1** | Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders<br><br>Spark Infrastructure has combined this code of conduct with the Code of Conduct applying to Directors of the Stapled Entities and Directors and employees of the Manager. Spark Infrastructure's Code of Conduct is available on the Spark Infrastructure website. |

# **DIRECTORS'** REPORT

The Directors of Spark Infrastructure Holdings No. 1 Limited ("SIH No. 1" or "Company") as the parent entity of Spark Infrastructure provide this financial report for the year ended 31 December 2007 ("Financial Year") for the following entities:

- SIH No. 1 and its controlled entities;
- Spark Infrastructure Holdings No. 2 Limited ("SIH No. 2") and its controlled entities;
- Spark Infrastructure Trust ("Spark Trust"); and
- Spark Infrastructure Holdings International Limited ("Spark International");

  (together the above entities form "Spark Infrastructure").

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

## Directors

The persons listed below were Directors of the Company at any time during the Financial Year and as at the date of this report:

Stephen Johns (Chairman)

Hing Lam Kam

Andrew Hunter

Shaun Mays

John Dorrian (Director from 24 August 2007, until that date Alternate Director for Brian Scullin)

Don Morley

Cheryl Bart

Peter St George

In addition, Brian Scullin was a Director until his retirement on 24 August 2007 and Andrew Fay was an Alternate Director for Shaun Mays until his resignation on 29 November 2007.

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

### Stephen Johns BEc, FCA

**Chairman and Independent Director (appointed 8 November 2005)**

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. He is also a Director of Sydney Symphony Limited.

### Hing Lam Kam BSc, MBA

**CKI Board Appointee and Non-executive Director (appointed 1 November 2005)**

Mr Kam has been Managing Director of Cheung Kong Infrastructure ("CKI") since its incorporation in May 1996 and the Deputy Managing Director of Cheung Kong (Holdings) Limited since February 1993. He has played a leading role in developing the Cheung Kong Group's corporate and strategic direction.

Mr Kam is also the President and Chief Executive Officer of CK Life Sciences International (Holdings) Inc. and an executive Director of Hutchison Whampoa Limited and Hong Kong Electric Holdings Limited.

In Australia, he is a Director of CitiPower, Powercor Australia ("Powercor"), ETSA Utilities ("ETSA"), AquaTower and Lane Cove Tunnel Holding Company.

### Andrew Hunter MA, MBA, MICAS, MHKICPA

**CKI Board Appointee and Non-executive Director (appointed 1 December 2006)**

Mr Hunter is currently an executive Director and Chief Operating Officer of CKI. In addition, he serves as Chief Financial Officer of Cheung Kong Holdings Limited and is an executive Director of Hong Kong Electric (Holdings) Limited.

Mr Hunter is a member of The Institute of Chartered Accountants of Scotland and of the Hong Kong Institute of Certified Public Accountants. Mr Hunter has more than 24 years experience in accounting and financial management and holds a range of directorships in CKI related companies. He is a Director of CitiPower, Powercor and ETSA.

Mr Hunter is a member of the Audit and Risk Management Committee ("ARMC").

## Shaun Mays BSc (Hons), MSc, MBA

**RREEF Board Appointee and Non-executive Director (appointed 1 November 2005)**

Mr Mays is a Managing Director of Deutsche Bank AG and the Global Head of RREEF Infrastructure, based in New York. He is responsible for managing the global RREEF business which is the fiduciary infrastructure investment operation within Deutsche Asset Management.

Prior to taking up this position, he was Chief Executive Officer of Deutsche Asset Management (Australia) Limited ("DeAM"). He has 20 years experience in the funds management industry in both executive management and investment positions in Australia, the USA and the UK. Prior to joining Deutsche Asset Management, Mr Mays was also the Managing Director of Westpac Financial Services Group. He was Chief Investment Officer of Commonwealth Financial Services after holding the position of Managing Director and Chief Investment Officer at Mercury Asset Management, where he also served on the board of Mercury Asset Management UK plc.

Mr Mays has made significant contributions to industry associations and Australian Government advisory boards throughout his career, including authoring the Australian Government report "Corporate Sustainability: an Investor Perspective (the Mays' Report)" in 2003.

He has held a wide range of directorships on the boards of listed and unlisted companies in Australia, the USA, the UK and Japan. Mr Mays is a non-executive Director of Spark Infrastructure Management Limited and non-executive Chairman of the board of Maher Terminals LLC.

Mr Mays was a member of the ARMC.

## John Dorrian BA, FCA, MAICD

**RREEF Board Appointee and Non-executive Director (appointed 24 August 2007)**

John Dorrian is a Managing Director of Deutsche Bank AG, Head of RREEF Australia and Co-Head of Infrastructure Investments for RREEF Asia Pacific, the alternative investment management division of Deutsche Asset Management. Prior to this, he advised RREEF on the establishment of Spark Infrastructure and the acquisition of its interests in CitiPower, Powercor and ETSA. He was Spark Infrastructure's Chief Financial Officer until October 2006 and was previously Head of Portfolio Management and Head of Infrastructure and Private Debt for the Global Private Capital division of AMP Henderson Global Investors.

Mr Dorrian has more than 25 years of senior experience in financial and investment markets, and has specialised in infrastructure, private equity and direct investment and funds management for over 15 years. He has been actively involved as a Director of a number of significant companies operating in a wide range of industries including airports, electricity generation, electricity and gas distribution and retailing, minerals processing and agribusiness.

He is a Director of CitiPower, Powercor and ETSA, DeAM, Spark Infrastructure Management Limited, Australia Pacific Airports Corporation Limited, the Port of Geelong, Northern Gas Networks Holdings Limited (UK) and St George Community Housing Limited. A Fellow of The Institute of Chartered Accountants in Australia and a member of the Australian Institute of Company Directors, he holds a Bachelor of Arts in financial management from Macquarie University.

Mr Dorrian is a member of the ARMC.

## Don Morley BSc, MBA, FAustIMM

**Independent Director (appointed 8 November 2005)**

Mr Morley is the Chairman of Alumina Limited (since 2002) and an independent Director of Iluka Resources Limited (since 2002). He was previously a Director of Finance at WMC Limited with over 30 years of service.

Mr Morley is the Chairman of the ARMC.

## Cheryl Bart BCom, LLB

**Independent Director (appointed 8 November 2005)**

Ms Bart is a lawyer and has been a non-executive Director on the board of ETSA since 1995.

She has significant utilities industry experience and is Chairman of the Audit Committee of ETSA and a member of its Compliance Committee.

Her other current directorships include ANZ Trustees Ltd, Economic Development Board (SA), Global Properties Limited, Shaw of Australia, and the Alcohol Education and Rehabilitation Foundation. She is Chairman of the South Australian Film Corporation, the Adelaide Film Festival and the Adelaide Film Festival Investment Fund.

Her previous directorships include Sydney Ports Corporation, the Australian Sports Foundation and the Information Economy Advisory Board.

Ms Bart is a member of the ARMC.

## Peter St George CA (SA), MBA

**Independent Director (appointed 8 November 2005)**

Mr St George is a Director of CHEDHA Holdings Pty Limited ("CHEDHA"), CitiPower and Powercor. He is also a Director of First Quantum Minerals Limited, a mining group listed in Toronto and London, and Boart Longyear Limited, an international mining services group, and is Chairman of Walter Turnbull, an Australian accounting and financial services group. He was also a Director of SFE Corporation Limited from 2000 until it merged with ASX Limited in July 2006.

He was Chief Executive Officer of NatWest Markets Australia from 1995 until its acquisition by Salomon Smith Barney Australia Limited in 1998 and then Co-Chief Executive Officer of Salomon Smith Barney Australia Limited from 1998 to 2001.

Prior to that, Mr St George had more than 20 years experience in senior corporate advisory roles with NatWest Markets and Hill Samuel & Co Limited in London. He qualified as a Chartered Accountant in South Africa and received a Master of Business Administration from the University of Cape Town.

Mr St George is a member of the ARMC.

# DIRECTORS' REPORT CONTINUED

## Other Directors

### Brian Scullin BEc

**RREEF Board Appointee and Non-executive Director (appointed 1 November 2005)**

Following a career in government and politics in Canberra, Mr Scullin was appointed the inaugural executive Director of the Association of Superannuation Funds of Australia in 1987.

Mr Scullin joined Bankers Trust in Australia in 1993 and held a number of senior positions, with responsibilities including marketing, technology, legal, tax and compliance, security services, investor services and margin lending. He was posted to Tokyo and became the President of Japan Bankers Trust in 1997. In 1999, he was appointed Chief Executive Officer – Asia/Pacific for DeAM.

Mr Scullin retired from full-time employment in 2002 but remains actively involved in the Australian funds management industry through his role as a non-executive Director of DeAM and associated companies.

He was previously a Vice Chairman of the Investment and Financial Services Association and remains on its Nominations Committee. He is a part-time member of the Australian Government's Financial Reporting Council and he is a Director of State Super Financial Services and DB RREEF.

Mr Scullin was the Chairman of the Compliance Committee and was a member of the ARMC. Mr Scullin retired as a Director on 24 August 2007.

### Andrew Fay B Ag Ec (Hons), ASIA

**Alternate Director to Shaun Mays (appointed 10 November 2006)**

Andrew Fay is Chairman of the Board at Deutsche Asset Management (Australia) Limited. He recently stepped down as Head of Deutsche Asset Management Australia following a 20 year career in the financial services sector. Mr Fay joined Deutsche Asset Management in 1994 as a senior portfolio manager in the Australian equities team and became head of the Australian equities team in 1997. In 2000, Fay was appointed Chief Investment Officer for Australia and in April 2005 he was promoted to the position of Head of Australia. He also held the position of Regional Chief Investment Officer, Asia Pacific, from 2002 to July 2006. He is credited with broadening Deutsche Asset Management's product range from its initial domestic manufacturing base to becoming a leading global and alternative investment house in Australia.

Prior to joining Deutsche, Mr Fay spent six years with the investment division of AMP Global Investors working in the fixed interest, economics and Australian equities areas. He graduated from Sydney University with a Bachelor of Agricultural Economics (Honours) degree and has completed a graduate diploma with the Securities Institute of Australia.

Andrew Fay resigned as Alternate Director on 29 November 2007.

## Company Secretary

### Mary Anne Brophy BA, LLM

Mary Anne Brophy has 25 years of legal and commercial experience gained in private practice and as an in-house General Counsel.

For the last 15 years, she has been involved in international energy projects in Australia, the UK and Asia. In the 1990s, Ms Brophy was extensively involved in the privatisation of the electricity industry in the UK.

Subsequently, she was General Counsel for Ogden Corporation's Asia Pacific energy business based in Hong Kong. Prior to joining Spark Infrastructure, Mary Anne was General Counsel and Company Secretary of Envestra Limited.

## Principal Activity

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

## Stapled Securities

Spark Infrastructure is a stapled structure, wherein:

- one share in SIH No. 1;
- one share in SIH No. 2;
- one unit in Spark Trust;
- one loan note issued by the responsible entity of Spark Trust; and
- one CHESS Depositary Interest ("CDI") representing one share in Spark International

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

## Review of Operations

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

| | Financial Year end 31 December | | | Change Compared to Underlying 2006 | |
|---|---|---|---|---|---|
| | 2007 Actual $' 000 | 2007 Underlying $' 000 | 2006 Underlying $' 000 | $' 000 | % |
| Interest Income from Associates | 93,578 | 93,578 | 96,336 | (2,758) | (2.9) |
| Share of Equity Accounted Profits[a] | 131,239 | 127,519 | 87,788 | 39,731 | 45.3 |
| | 224,817 | 221,097 | 184,124 | 36,973 | 20.1 |
| Other Interest Income | 3,599 | 3,599 | 2,157 | 1,442 | 66.9 |
| Total Income | 228,416 | 224,696 | 186,281 | 38,415 | 20.6 |
| Management Fees | (12,019) | (12,019) | (10,901) | (1,118) | (10.2) |
| Senior Debt Interest | (27,921) | (27,921) | (28,041) | 120 | 0.4 |
| General and Administrative Expenses | (5,202) | (5,202) | (2,959) | (2,243) | (75.8) |
| Profit before Loan Note Interest and tax | 183,274 | 179,554 | 144,380 | 35,174 | 24.4 |
| Loan Note Interest | (137,014) | (137,014) | (137,014) | – | – |
| Profit before Tax | 46,260 | 42,540 | 7,366 | 35,174 | 477.6 |
| Income Tax Benefit/(Expense)[b] | 10,672 | (5,651) | (3,878) | (1,773) | (45.7) |
| Profit Attributable to the Stapled Security Holders[c] | 56,932 | 36,889 | 3,488 | 33,401 | 958.0 |
| Operating Cash Flow | 123,384 | 123,384 | 105,673 | 17,711 | 16.8 |
| Gross Capital Expenditure – Asset Companies | 489,700 | 489,700 | 464,900 | 24,800 | 5.3 |

The underlying profit reflects the operating results of Spark Infrastructure by excluding certain non-cash and non-operating items which do not relate to the respective years underlying performance. The Directors consider that underlying profit provides users of these reports with a clearer explanation of Spark Infrastructure's operating performance for the period. The following adjustments have been made to the reported results of 2006 and 2007 in order to calculate the underling results:

[a] The favourable impact of movement in "mark to market" value of financial instruments in the Asset Companies, ETSA and CHEDHA, that does not qualify for hedge accounting has been excluded. These are non-cash and non-operating impacts and therefore not relevant to the comparison of underlying financial performance between the periods. The movements resulted in a favourable impact of $3.720 million in the financial year (2006: $26.000 million) in share of equity accounted profits, with post tax impact of $4.108 million (2006 period: 21.257 million) on profit attributable to the Stapled Security Holders.

[b] An amount of $15.936 million in income tax benefit arising from items directly recognised in equity in SIH No. 2 has also been excluded, as it does not relate to operating performance.

[c] Spark Infrastructure was incorporated on 1 November 2005 and listed on 16 December 2005. As required by accounting standards, the reported 2006 results are from the date of incorporation to 31 December 2006. In order to enable comparison year-on-year, the underlying figures above exclude the period from incorporation to 31 December 2005 and relate only to the year ended 31 December 2006 ("Previous Period"). This resulted in a reduction of $1.138 million in profit attributable to the Stapled Security Holders.

# **DIRECTORS' REPORT** CONTINUED

## **Review of Operations** (continued)

The Directors consider that underlying profit provides users of these reports with a clearer explanation of Spark Infrastructure's operating performance for the period. The underlying net profit for the Financial Year increased by 958.0% from $3.488 million in the Previous Period to $36.889 million. The principal reason for the increase was due to strong performance of the Asset Companies resulting in a significant increase in the share of equity accounted profits.

### Performance of the Asset Companies

The earnings before interest, tax, depreciation and amortisation ("EBITDA") of CHEDHA increased by 10.7% over the Previous Period to $577.598 million.

The regulated electricity distribution revenue in CHEDHA increased by 2.6% over the Previous Period to $607.924 million. This was largely due to an increase in approved tariffs, increased consumption by higher tariff rated customers and an increase in volume delivered. The volume of electricity delivered increased by 1.4% over the Previous Period to 16,342 GWh. The growth in volume was achieved even though the Previous Period benefited from favourable weather conditions.

CHEDHA's unregulated revenue increased by 35.9% over the Previous Period to $203.804 million. Customer contributions increased by 105.1% over the Previous Period to $83.138 million, with cash contributions increasing by 145.8% over the Previous Period to $49.900 million. The increase was due to an increase in number of projects and an increase in projects which had relatively high customer contribution rates. In addition, the external revenue (which includes revenue from metering services, public lighting and construction and maintenance services undertaken for third parties) increased by 10.3% over the Previous Period to $120.666 million.

The EBITDA of ETSA increased by 11.1% to $504.179 million compared to the Previous Period.

The regulated electricity distribution revenue in ETSA increased by 5.1% to $490.436 million as a result of both an increase in tariffs and volume growth. The volume of electricity delivered increased by 1.4% to 11,300 GWh during the Financial Year.

ETSA's unregulated revenue increased by 34.3% over the Previous Period to $259.585 million. Customer contributions increased by 22.5% to $82.075 million as a consequence of an increase in customer driven projects. Of this, cash customer contributions increased by 16.8% over the Previous Period to $55.900 million. External revenue increased by 40.6% over the Previous Period to $177.510 million, due to the completion of a number of major construction projects for third parties. Specifically, an amount of $48.800 million was generated from the Oxiana project during the Financial Year.

The cash operating expenses increased in both CHEDHA and ETSA principally as a result of the anticipated increase to labour and material costs relating to operating the distribution networks and an increase in costs associated with the generation of additional unregulated revenue (these costs were more than offset by increased revenue from unregulated activities).

### Corporate Expenses

The corporate expenses of Spark Infrastructure comprise management fees, interest on senior debt and other general and administrative expenses. The management fee is calculated based on the enterprise value of Spark Infrastructure. The fee was higher than the Previous Period as a consequence of an increase in the market price of the Stapled Securities.

The increase in general and administrative expenses is principally due to costs associated with due diligence work undertaken in relation to investment opportunities considered cost increases on account of timing of expenses and costs associated with instalment receipts payments during the Financial Year.

### Cash Flow

Spark Infrastructure's cash flow from operating activities increased by 16.8% over the Previous Period to $123.384 million. In addition to the operating cash, Spark Infrastructure also received $57.038 million in repayment of loans which were paid out of the operating cash flows of the Asset Companies. The operating cash flows were higher than the Previous Period largely due to differences arising from the timing of the receipt of distributions from the Asset Companies between the two periods, as well as the improved trading performance of the Asset Companies.

Spark Infrastructure distributed $167.840 million to the Stapled Security Holders during the Financial Year.

### Capital Expenditure

CHEDHA and ETSA continue to replace existing assets at the end of their useful life and continue to invest in the expansion of their networks, improving asset performance and reliability. During the Financial Year, $489.700 million was invested in gross capital expenditure compared to $464.900 million in the Previous Period. Capital expenditure is added to the regulated asset base of the Asset Companies, which in turn results in increased revenue in future periods.

### Gearing and Hedging

Spark Infrastructure's stand alone net gearing was 16.0% at the end of the Financial Year. Including the proportionate share of debt of CHEDHA and ETSA, Spark Infrastructure's net gearing was 57.9% as at 31 December 2007 (2006: 58.1%).

On a proportionate basis, 90.8% of the senior structured debt was hedged at the end of the Financial Year. This high hedging level substantially limits the impact of any volatility in the movement on interest rates on the financial results of Spark Infrastructure.

A portion of the syndicated debt ($200 million) has been re-classified as current liability as the debt matures in December 2008. Based on discussions with various lenders the Directors are confident that the debt will be renegotiated or replaced in accordance with Spark Infrastructure's Treasury Policy, which requires debt to be renegotiated or replaced at least 6 months prior to maturity.

## Future Growth

Spark Infrastructure expects to grow from organic extensions to the networks of the Asset Companies, growth in their unregulated revenue and acquisition opportunities.

The Asset Companies have significant regulatory capital expenditure requirements. During the current regulatory period (2005 - 2010), an amount of $2,165.900 million (in 2005 prices) has been approved by the regulators in Victoria and South Australia for capital expenditure in the Asset Companies. The actual capital expenditure is included in the regulated asset base and earns revenue in future years.

Further, in April 2007 the Council of Australian Governments endorsed a rollout of Advance Interval Meters ("AIM") or "smart meters" subject to a cost/benefit analysis being undertaken by the individual states. AIM are a two way communication device that provide meter reads at regular intervals. AIM are an effective tool for differential pricing for customers based on time of electricity usage and for demand management.

The Victorian Government has already passed the necessary legislation for AIM deployment and currently CHEDHA is trialling such meters with the target for a complete rollout across CHEDHA's network by 2012. The majority of the rollout is expected to occur in 2011/2012. AIM capital expenditure will result in an increase to the regulated asset base and will thereby increase regulated revenue in future years.

In addition, the Asset Companies are also seeking to grow their unregulated business activities through targeted marketing initiatives.

The Directors believe that these organic growth opportunities provide a platform for sound growth in addition to any growth that may result from acquisitions.

Spark Infrastructure's mandate extends to the acquisition of assets in the regulated utilities infrastructure sector in OECD countries. This includes regulated transmission and distribution of electricity and gas assets, and regulated water and sewer assets.

During the Financial Year, Spark Infrastructure considered a number of investment opportunities. Some did not meet Spark Infrastructure's stringent investment criteria, and were not pursued. A number of opportunities were actively pursued however Spark Infrastructure was unsuccessful in acquiring these assets. Spark Infrastructure will continue to adopt a disciplined approach to investments and will only invest in opportunities that are value accretive to the Stapled Security Holders.

## Distributions

Due to the better than expected performance of the Asset Companies during the period, Spark Infrastructure has increased the cash distribution in respect of the Financial Year to 18.06 cents per security ("cps"), which represents an increase over the forecast provided in the Prospectus of 1.0 cps or 5.9%. The total cash distribution yield for 2007 based on the issue price of $1.80 per Stapled Security is 10.0%.

An interim cash distribution of 8.53 cps was paid on 14 September 2007 relating to the Financial Year. A final distribution of 9.53 cps represented by 6.85 cps interest on loan notes and 2.68 cps capital distribution will be paid on 14 March 2008.

The following table summarises distributions in respect of the Financial Year:

| | | **Cents per Security ("cps")** | | | **Cash Distribution ($'000)** | | |
|---|---|---|---|---|---|---|---|
| **Distribution Period** | **Distribution Date** | **Interest on Loan Notes** | **Capital Distribution** | **Total** | **Interest on Loan Notes** | **Capital Distribution** | **Total** |
| Interim distribution for the year ended 31 December 2007 | 14 September 2007 | 6.74 | 1.79 | 8.53 | 67,983 | 18,055 | 86,038 |
| Final distribution for the year ended 31 December 2007 | 14 March 2008 | 6.85 | 2.68 | 9.53 | 69,093 | 27,032 | 96,125 |
| **Total** | | 13.59 | 4.47 | 18.06 | 137,076 | 45,087 | 182,163 |

All distributions were unfranked and made by Spark Trust.

# **DIRECTORS' REPORT** CONTINUED

## Review of Operations (continued)

### Outlook

The Asset Companies operate in regulated industries and generate substantial cash-flows. In addition, they are conservatively geared with no major debt re-financing due before 2010. Moreover, in this uncertain credit environment, the Australian Energy Regulator has confirmed in a recent determination that increased cost of debt will be provided for in regulatory determinations, affirming the principle that these regulated businesses are protected from interest rate rises through the regulatory review process. As a consequence, Spark Infrastructure is well placed to manage the impacts of recent events in global financial markets.

The distribution of 18.06 cps for the 2007 year, represents a yield of 9.51% per security based on a security price[a] of $1.90. Subject to business conditions, the Directors expect to increase distributions to the Security Holders by 2.0% to 2.5% in 2008.

a The security price is based on the volume weighted average price for the 20 business days up to and including 21 February 2008.

## Information Applicable to Registered Schemes

The fees paid to Spark RE and its associates (including Directors) are disclosed in Note 23 to the Financial Statements.

Spark RE does not hold any Stapled Securities. The number of Stapled Securities at the beginning and end of the Financial Year are disclosed in Note 14 to the Financial Statements.

## Changes in State of Affairs

There has been no change in the activities of Spark Infrastructure during the Financial Year.

## Future Developments

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

## Events Occurring after Reporting Date

The Directors are not aware of any other matter or circumstance not otherwise dealt with in this report that has significantly affected or may significantly affect the operations or the state of affairs in the period since 31 December 2007.

## Non-Audit Services

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

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

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

## Indemnification of Officers and Auditors

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

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

## Options over Securities

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

## Environmental Regulations

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

## Directors' Meetings

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

During the Financial Year, 10 Board meetings, 7 ARMC meetings and 4 Compliance Committee meetings of the Company were held:

| | Board of Directors | | Audit and Risk Management Committee | | Compliance Committee | |
|---|---|---|---|---|---|---|
| Directors | Eligible to Attend | Attended | Eligible to Attend | Attended | Eligible to Attend | Attended |
| Stephen Johns | 10 | 10 | – | – | – | – |
| Hing Lam Kam | 9 | 2 | – | – | – | – |
| Andrew Hunter (as Director) | 9 | 9 | 7 | 2 | – | – |
| Shaun Mays | 10 | 8 | 3 | - | – | – |
| Brian Scullin[a] | 6 | 5 | 3 | 2 | 4 | 4 |
| John Dorrian[b] (as Director) | 4 | 4 | 1 | 1 | – | – |
| Don Morley | 10 | 10 | 7 | 7 | – | – |
| Cheryl Bart | 10 | 8 | 7 | 5 | – | – |
| Peter St George | 10 | 10 | 7 | 7 | – | – |
| John Dorrian[b] (as Alternate Director) | 3 | 3 | – | – | – | – |
| Andrew Fay[c] | 2 | 2 | – | – | – | – |
| Andrew Hunter[d] (as Alternate Director) | 7 | 7 | – | – | – | – |

a Brian Scullin retired on 24 August 2007.

b John Dorrian was an Alternate Director for Brian Scullin until 24 August 2007. He was appointed Director from that date.

c Alternate Director for Shaun Mays until his resignation on 29 November 2007.

d Alternate Director for HL Kam.

Meetings of Board Committees were held on 25 February 2007 and 27 August 2007 and attended by Stephen Johns, Don Morley and Shaun Mays.

## Directors' Stapled Security Holdings

The following table sets out each Director's relevant interest in the Stapled Securities as at the date of this report:

| Directors | Opening Balance (No.) | Net Movement Acquired/Disposed (No.) | Closing Balance (No.) |
|---|---|---|---|
| Stephen Johns | 330,000 | 25,000 | 355,000 |
| Hing Lam Kam | – | – | – |
| Andrew Hunter | – | – | – |
| Shaun Mays[a] | 167,000 | (167,000) | – |
| Brian Scullin | – | – | – |
| John Dorrian | 162,150 | – | 162,150 |
| Don Morley | 225,000 | – | 225,000 |
| Cheryl Bart | 125,000 | – | 125,000 |
| Peter St George | 71,400 | – | 71,400 |
| Andrew Fay | – | – | – |

a Shaun Mays was required to dispose of his holdings because of legal restrictions relating to his residency in the United States of America.

## Remuneration Report

### Remuneration of Directors

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

The Directors' fees are reviewed annually by the Board and are subject to an aggregate fees pool limit of $2,000,000 per annum (inclusive of superannuation). Any increase to this limit will be submitted to the Stapled Security Holders at an Annual General Meeting for approval.

The Directors do not receive securities, options or any performance related incentives. The Alternate Directors are not paid any fees.

# **DIRECTORS' REPORT** CONTINUED

## **Remuneration Report** (continued)

### Remuneration of Directors

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

| **Directors** | | **Directors' Fees $** | **Post-Employment Benefits – Superannuation $** | **Total $** |
|---|---|---|---|---|
| Stephen Johns | **2007** | **211,871** | **13,129** | **225,000** |
| | 2006 | 187,585 | 12,415 | 200,000 |
| Hing Lam Kame | **2007** | **100,000** | **–** | **100,000** |
| | 2006 | 75,000 | – | 75,000 |
| Andrew Huntera | **2007** | **106,500** | **–** | **106,500** |
| | 2006 | – | – | – |
| Shaun Mayse | **2007** | **106,500** | **–** | **106,500** |
| | 2006 | 75,000 | – | 75,000 |
| Brian Scullinb | **2007** | **71,263** | **–** | **71,263** |
| | 2006 | 75,000 | – | 75,000 |
| John Dorrianc e | **2007** | **35,215** | **–** | **35,215** |
| | 2006 | – | – | – |
| Don Morley | **2007** | **102,830** | **10,170** | **113,000** |
| | 2006 | 17,202 | 57,798 | 75,000 |
| Cheryl Bart | **2007** | **96,915** | **9,585** | **106,500** |
| | 2006 | 68,807 | 6,193 | 75,000 |
| Peter St George | **2007** | **106,500** | **–** | **106,500** |
| | 2006 | 75,000 | – | 75,000 |
| Eric Kwand e | **2007** | **–** | **–** | **–** |
| | 2006 | 75,000 | – | 75,000 |
| **Total** | **2007** | **937,594** | **32,884** | **970,478** |
| | 2006 | 648,594 | 76,406 | 725,000 |

a Andrew Hunter was an Alternate Director in 2006 and was therefore not entitled to any remuneration.

b Brian Scullin retired on 24 August 2007.

c John Dorrian was appointed as Director on 24 August 2007, the remuneration relates to the period from that date.

d Eric Kwan retired as a Director on 1 December 2006.

e The Directors' fee for Mr Kam, Mr Hunter and Mr Kwan was paid to CKI, while the fee for Mr Mays and Mr Dorrian was paid to RREEF Infrastructure.

Spark Infrastructure appointed a leading external consulting firm to benchmark the remuneration of the Directors with that of comparable enterprises. The firm utilised market remuneration information from various sources and compared the remuneration paid to Spark Infrastructure's Directors with comparable enterprise based on:

- market capitalisation;
- revenue;
- total assets; and
- a combination of all the above parameters.

Based on the report from the firm, the Board approved annual remuneration, including post-employment benefits payable to Directors, as follows with effect from 1 January 2007 as follows:

| Role | $ |
|---|---|
| Chairman | 225,000 |
| Non-Executive Director | 100,000 |
| Additional fee for enhanced responsibility: | |
| – Chairman of ARMC | 13,000 |
| – ARMC member | 6,500 |
| – Chairman of Compliance Committee | 10,000 |
| – Compliance Committee member | 5,000 |

Ms Cheryl Bart was entitled to a Director's fee of $30,000 (2006: $30,000) and Mr Peter St George to $25,000 (2006: $25,000) to act as representative Directors of Spark Infrastructure on the ETSA and CHEDHA boards respectively. This was in addition to the fees received as Directors of Spark Infrastructure.

### Remuneration of Executives

Spark Infrastructure does not have any employees. Spark Infrastructure Management Limited ("Manager"), as the manager of Spark Infrastructure, makes employees (including senior executives) available under the Management Agreement. Spark Infrastructure is not liable for expenses referable to the executives. Accordingly, executive remuneration details are not provided in this report. The Manager is paid management fees as mentioned below.

## Management Fees

The Management Agreement sets out the services to be provided by and the fees payable to the Manager. During the Financial Year, an amount of $12.019 million (2006 period: $11.225 million) was paid to the Manager as a Base Fee. No Performance Fee was payable. Further details on fees paid to the Manager are set out in Note 23 to the Financial Statements.

## Auditor's Independence Declaration

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 18.

## Rounding of Amounts

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

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

On behalf of the Directors:

**S Johns**
Chairman
Sydney
25 February 2008

**D Morley**
Director

# **AUDITOR'S** INDEPENDENCE DECLARATION

**Deloitte.**

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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The Board of Directors
Spark Infrastructure Holdings No.1 Limited
255 George Street
Sydney, NSW 2000

25 February 2008

Dear Directors

**Spark Infrastructure Holdings No.1 Limited**

In accordance with section 307C of the Corporations Act 2001, I provide the following declaration of independence to the directors of Spark Infrastructure Holdings No.1 Limited.

As lead audit partner for the audit of the financial statements of Spark Infrastructure Holdings No.1 Limited for the financial year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

S C Gustafson
Partner
Chartered Accountants

Member of
**Deloitte Touche Tohmatsu**

# **INCOME** STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

| | | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | **Notes** | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 |
| Income from Associates: | | | | | |
| – Share of equity profits | 7 (c) | 131,239 | 113,482 | – | – |
| – Interest Income | | 93,578 | 99,255 | – | – |
| Other income – interest | | 3,599 | 2,156 | – | – |
| | | 228,416 | 214,893 | – | – |
| Management fees | | (12,019) | (11,225) | – | – |
| Interest expense – other | | (27,921) | (28,867) | – | – |
| General and administrative expenses | | (5,202) | (3,258) | (853) | (531) |
| **Profit/(Loss) Before Income Tax and Loan Notes Interest** | 2 | 183,274 | 171,543 | (853) | (531) |
| Interest expense – loan notes | | (137,014) | (141,144) | – | – |
| **Profit/(Loss) Before Income Tax Attributable to Stapled Security Holders** | | 46,260 | 30,399 | (853) | (531) |
| Income tax benefit/(expense) | 3 | 10,672 | (4,517) | 256 | 159 |
| **Net Profit/(Loss) for The Period Attributable to Stapled Security Holders** | | 56,932 | 25,882 | (597) | (372) |
| Attributable to Stapled Security Holders as: | | | | | |
| – Equity Holders of the Parent Entity | | 12,283 | 10,540 | (597) | (372) |
| – Minority Interests in Other Spark Infrastructure Entities | | 44,649 | 15,342 | – | – |
| **Basic and Diluted Earnings per Security (cents)** | 18 | 5.64 | 2.57 | – | – |

Notes to the Financial Statements are included on pages 23 to 42.

# **BALANCE** SHEET

AS AT 31 DECEMBER 2007

| | | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | Notes | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| **Current Assets** | | | | | |
| Cash and cash equivalents | 26 | 61,853 | 49,271 | – | – |
| Receivables from associates | 4 | 15,422 | 16,586 | – | – |
| Loans – other | 5 | 23,769 | 42,318 | – | – |
| Other financial assets | 9 | 2,957 | – | – | – |
| Other | 6 | 1,287 | 539 | – | – |
| **Total Current Assets** | | 105,288 | 108,714 | – | – |
| **Non-Current Assets** | | | | | |
| Investments in associates: | | | | | |
| – Investments accounted for using the equity method | 7 | 1,458,811 | 1,350,348 | – | – |
| – Loans to associates | 8 | 842,973 | 881,463 | – | – |
| Deferred tax assets | 3 | – | – | 3,153 | 2,165 |
| Other financial assets | 9 | 9,509 | 6,557 | 186,213 | 186,213 |
| **Total Non-Current Assets** | | 2,311,293 | 2,238,368 | 189,366 | 188,378 |
| **Total Assets** | | 2,416,581 | 2,347,082 | 189,366 | 188,378 |
| **Current Liabilities** | | | | | |
| Payables | 10 | 5,415 | 4,660 | 7,352 | 5,767 |
| Loan notes interest payable to Stapled Security Holders | | 68,963 | 69,025 | – | – |
| Interest bearing liabilities | 11 | 199,789 | – | – | – |
| **Total Current Liabilities** | | 274,167 | 73,685 | 7,352 | 5,767 |
| **Non-Current Liabilities** | | | | | |
| Loan notes attributable to Stapled Security Holders | 12 | 1,231,515 | 1,231,515 | – | – |
| Other interest bearing liabilities | 13 | 224,221 | 423,552 | – | – |
| Deferred tax liabilities | 3 | 23,215 | 10,443 | – | – |
| **Total Non-Current Liabilities** | | 1,478,951 | 1,665,510 | – | – |
| **Total Liabilities** | | 1,753,118 | 1,739,195 | 7,352 | 5,767 |
| **Net Assets** | | 663,463 | 607,887 | 182,014 | 182,611 |
| **Equity** | | | | | |
| Issued capital attributable to Stapled Security Holders | | | | | |
| – Equity holders of the parent entity | | 182,983 | 182,983 | 182,983 | 182,983 |
| – Minority interests – issued capital of other entities in Spark Infrastructure | | 323,179 | 353,943 | – | – |
| **Issued Capital Attributable to Stapled Security Holders** | 14 | 506,162 | 536,926 | 182,983 | 182,983 |
| Reserves | 15 | 46,416 | 20,480 | – | – |
| Retained earnings/(accumulated losses) attributable to: | | | | | |
| – Equity holders of the parent entity | 16 | 30,823 | 15,000 | (969) | (372) |
| – Minority interests | 16 | 80,062 | 35,481 | – | – |
| **Total Equity** | | 663,463 | 607,887 | 182,014 | 182,611 |
| **Attributable to Stapled Security Holders as:** | | | | | |
| **– Equity Holders of the Parent Entity** | | 243,110 | 213,306 | 182,014 | 182,611 |
| **– Minority Interests in Other Spark Infrastructure Entities** | | 420,353 | 394,581 | – | – |
| **Total Equity** | | 663,463 | 607,887 | 182,014 | 182,611 |
| **– Loan notes attributable to Security Holders** | | 1,231,515 | 1,231,515 | – | – |
| **Total Equity and Loan Notes** | | 1,894,978 | 1,839,402 | 182,014 | 182,611 |

Notes to the Financial Statements are included on pages 23 to 42.

# STATEMENT OF **CHANGES IN EQUITY**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

| | | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | **Notes** | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 |
| Total equity at beginning of the period | | 607,887 | – | 182,611 | – |
| Cash flow hedges – gains on interest rate swaps | 15 | 5,909 | 6,557 | – | – |
| Share of associates' income recognised directly in equity | | 46,943 | 47,000 | – | – |
| Related tax | | (23,444) | (8,478) | – | – |
| Net income recognised directly in equity | | 29,408 | 45,079 | – | – |
| Net profit/(loss) | 16 | 56,932 | 25,882 | (597) | (372) |
| **Total Recognised Income and Expense** | | 86,340 | 70,961 | (597) | (372) |
| Transactions with Stapled Security Holders | | | | | |
| – Equity contributed | | – | 552,768 | – | 186,213 |
| – Equity issue costs | | – | (13,695) | – | (4,613) |
| – Related tax | | – | 1,383 | – | 1,383 |
| – Capital distribution | | (30,764) | (3,530) | – | – |
| **Total Equity at end of the Period** | | 663,463 | 607,887 | 182,014 | 182,611 |
| Total equity at end of the period attributable to: | | | | | |
| Equity holders of the parent entity | | 243,110 | 213,306 | 182,014 | 182,611 |
| Minority interests | | 420,353 | 394,581 | – | – |
| | | 663,463 | 607,887 | 182,014 | 182,611 |

Notes to the Financial Statements are included on pages 23 to 42.

# **CASH FLOW** STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

| | | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | Notes | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 |
| **Cash Flows Related to Operating Activities** | | | | | |
| Income from associates – preferred partnership capital | | 69,635 | 59,905 | – | – |
| Interest received - associates | | 94,742 | 82,670 | – | – |
| Interest received - other | | 3,108 | 1,923 | – | – |
| Interest paid - other | | (27,634) | (27,164) | – | – |
| Management fees | | (11,739) | (8,480) | – | – |
| Other | | (4,728) | (3,181) | (853) | – |
| **Net Cash Inflow/(Outflow) Related to Operating Activities** | 26 (c) | 123,384 | 105,673 | (853) | – |
| **Cash Flows Related to Investing Activities** | | | | | |
| Amounts advanced to associates | | – | (892,824) | – | – |
| Net amounts repaid/(advanced) – other | | 18,549 | (42,318) | – | – |
| Repayment of borrowings by associates | | 38,489 | 11,361 | – | – |
| Payments for investments | | – | (1,250,691) | – | (186,213) |
| **Net Cash Inflow/(Outflow) Related to Investing Activities** | | 57,038 | (2,174,472) | – | (186,213) |
| **Cash Flows Related to Financing Activities** | | | | | |
| Proceeds from issues of shares and units | | – | 552,768 | – | 186,213 |
| Payments for share and unit issue costs | | – | (13,695) | – | (4,614) |
| Proceeds from issue of loan notes | | – | 1,262,803 | – | – |
| Payment of loan notes issue costs | | – | (31,288) | – | – |
| Proceeds from external borrowings | | – | 425,000 | – | – |
| Payment for external borrowing costs | | – | (1,869) | – | – |
| Amounts advanced by related parties | | – | – | 853 | 4,614 |
| Distributions to Stapled Security Holders: | | | | | |
| – Loan notes interest | | (137,076) | (72,119) | – | – |
| – Capital distributions | | (30,764) | (3,530) | – | – |
| **Net Cash (Outflow)/Inflow Related to Financing Activities** | | (167,840) | 2,118,070 | 853 | 186,213 |
| **Net Increase in Cash and Cash Equivalents for the Period** | | 12,582 | 49,271 | – | – |
| Cash and cash equivalents at beginning of the period | | 49,271 | – | – | – |
| **Cash and Cash Equivalents at end of the Period** | 26 (a) | 61,853 | 49,271 | – | – |

Notes to the Financial Statements are included on pages 23 to 42.

# **NOTES** TO THE FINANCIAL STATEMENTS

## 1. Summary of Accounting Policies

### Basis of Preparation and Statement of Compliance

This financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001, accounting standards and interpretations, and complies with other requirements of the law.

This report includes separate financial statements of the Company and the consolidated financial statements of Spark Infrastructure.

This financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of consideration given in exchange for assets.

The Financial Statements comply with Australian equivalents to International Financial Reporting Standards ("A-IFRS"). Compliance with A-IFRS ensures that the Financial Statements and notes comply with International Financial Reporting Standards ("IFRS").

The financial report was authorised for issue by the Directors on 25 February 2008.

### Standards Not Yet Effective

During the Financial Year, Spark Infrastructure adopted all the new and revised standards and interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to its operations and effective for the current accounting period. However, certain standards, amendments and interpretations that are on issue but not effective have not been applied in the preparation of this report. The following standards have not been applied in preparation of this report:

- AASB 101 "Presentation of Financial Statements" – revised standard (effective for annual reporting periods beginning on or after 1 January 2009).

  The standard will result in a number of changes to the presentation of the financial statements, including:

  - presenting all non-owner changes in equity ('comprehensive income') either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income may not be presented in the statement of changes in equity;
  - presenting an additional statement of financial position (balance sheet) as at the beginning of the earliest comparative period when the entity applies an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in its financial statements (this would generally mean that three balance sheets are presented in these circumstances);
  - disclosing income tax relating to each component of other comprehensive income; and
  - disclosing reclassification adjustments relating to components of other comprehensive income.

  The standard will not have any financial impact on the disclosed results of Spark Infrastructure.

- AASB 2007-4 "Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments" (effective for annual reporting periods beginning on or after 1 July 2007).

The above amendments arise as a result of the AASB's decision that, in principle, all options that currently exist under IFRS should be included in the A-IFRS and additionally Australian disclosures should be eliminated, other than those considered particularly relevant to the Australian reporting environment.

While the Standard increases the accounting policy options available to organisations, these changes are not expected to significantly impact Spark Infrastructure. The principal impact on the consolidated entity, would relate to disclosures (eg the Standard allows cash flow statement to be presented using the indirect method). This option will be attractive to Spark Infrastructure as it would provide better disclosure given the nature of income (e.g. interest income) that is derived.

### Significant Accounting Policies

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

#### (a) Basis of Consolidation

Spark Infrastructure is a stapled structure where in one ordinary share in SIH No. 1, one ordinary share in SIH No. 2, one CDI representing one share in Spark International, one ordinary unit in Spark Trust and one loan note issued by the responsible entity of Spark Trust, have been stapled pursuant to a Stapling Agreement. The Stapled Securities are listed and trade on the ASX, as if they were a single security.

Spark Infrastructure is a business combination by contract alone and thus, is prima facie, not a business combination for the purposes of the application of Australian Accounting Standard AASB3 "Business Combinations".

*Principles of Consolidation*

In preparing the consolidated Financial Statements for Spark Infrastructure, SIH No. 1 has been identified as the parent entity on the basis that it has issued the largest amount of ordinary equity. As SIH No. 1 does not own any shares or units in other Stapled Entities, the entire amount of the issued shares and units of those entities has been reflected as a minority interest in the consolidated balance sheet. The minority interests are attributable to the Stapled Security Holders.

#### (b) Acquisition of Assets

The purchase method of accounting is used for all acquisitions of assets. Cost is determined as the fair value of the assets given up, equity issued or liabilities assumed at the date of acquisition plus incidental costs directly attributable to the acquisition.

# **NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

## 1. Summary of Accounting Policies (continued)

### (c) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

### (d) Cash and Cash Equivalents

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

### (e) Creditors and Accruals

Trade creditors and accruals are recognised when there is an obligation to make future payments resulting from the purchase of goods and services.

### (f) Derivative Financial Instruments

Spark Infrastructure enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps. Further details are disclosed in Note 27.

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

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

*Hedge Accounting*

Spark Infrastructure designates certain hedging instruments, which include derivatives, as either fair value hedges or cash flow hedges.

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

Note 27 contains details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in Note 15.

*Fair Value Hedges*

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

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

*Cash Flow Hedges*

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

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

### (g) Financial Instruments

*Debt and Equity Instruments*

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

*Transaction Costs on the Issue of Equity Instruments*

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

*Interest, Dividends and Distributions*

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

### (h) Goods and Services Tax

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

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

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

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

### (i) Impairment of Tangible and Intangible Assets

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

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

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

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

### (j) Income Tax

*Current Tax*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

*Deferred Tax*

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the Financial Statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in associates except where Spark Infrastructure is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Spark Infrastructure expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and each Stapled Entity intends to settle its current tax assets and liabilities on a net basis.

*Current and Deferred Tax for the Period*

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

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

*Tax Consolidation Legislation*

Tax consolidated groups have been formed within Spark Infrastructure, whereby wholly owned Australian resident entities have combined together to form a tax consolidated group that will be taxed under Australian taxation law as if it was a single entity. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of members of a tax consolidated group are recognised in the separate Financial Statements of the members of the tax consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the head entity in the relevant tax consolidated group. Further details are provided in Note 3.

# **NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

## 1. Summary of Accounting Policies (continued)

### (k) Incorporation/Registration

The date of incorporation or registration of each Stapled Entity was as follows:

| Stapled Entity | Date of Incorporation/ Registration |
|---|---|
| Spark Infrastructure Holdings No. 1 Limited | 1 November 2005 |
| Spark Infrastructure Holdings No. 2 Limited | 1 November 2005 |
| Spark Infrastructure Trust | 8 November 2005 |
| Spark Infrastructure Holdings International Limited | 8 November 2005 |

### (l) Investments in Associates

Investments in associates are accounted for using the equity method of accounting. The associates are entities over which Spark Infrastructure has significant influence and that are neither subsidiaries nor joint ventures.

Under the equity method, investments in the associates are carried in the balance sheet at cost plus post-acquisition changes in share of net assets of the associates. After application of the equity method, Spark Infrastructure determines whether it is necessary to recognise any impairment loss with respect to its net investment in associates.

Spark Infrastructure's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in equity is recognised in reserves/retained earnings, as appropriate. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the individual entity's income statement.

### (m) Loans and Receivables

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

### (n) Revenue Recognition

*Dividend and Interest Revenue*

Dividend revenue from investments is recognised when the right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### (o) Investments in Subsidiaries

Investments in subsidiaries are recorded at cost.

### (p) Critical Accounting Estimates and Judgements

The preparation of this report required the use of certain critical accounting estimates and exercises judgement in the process of applying the accounting policies. The estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectation of future events. The Directors believe the estimates and judgements are reasonable. Actual results in the future may differ from those reported.

The key accounting estimate and judgement used in the preparation of this report is as follows:

- *Accounting for Acquisitions*
  On 15 December 2005, Spark Infrastructure acquired a 49% interest in each of three electricity distribution businesses, CitiPower and Powercor in Victoria and ETSA in South Australia. Spark Infrastructure is required to reflect its equity accounted investments in the three businesses by reference to its share of fair value of net assets of the businesses. This assessment of fair value by Spark Infrastructure resulted in a notional increase in the carrying value of certain depreciable assets and amortisable intangible assets (ie licences), which are depreciated/amortised over the estimated useful life of such assets, extending up to 200 years. As a result of this, the share of Spark Infrastructure's equity accrued profits has been adjusted by additional depreciation and amortisation arising from the increase in the carrying value.
- *Impairment of Assets*
  At each reporting date, Spark Infrastructure tests whether there are any indicators of impairment in accordance with Note 1(i). Each Asset Company is regarded as a cash generating unit for the purposes of such testing. If any indicators are established, a discounted cashflow analysis is undertaken.
- *Deferred Tax Assets*
  Deferred Tax Assets are recognised to the extent that it is probable that there is sufficient taxable amounts available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. As at 31 December 2007, an amount of $86.697 million (2006: $77.821 million) has not been recognised on the basis that the above recognition criteria was not met.

### (q) Working Capital Deficiency

These financial statements have been prepared on a going concern basis. As at 31 December 2007, Spark Infrastructure had a working capital deficiency of $168.879 million on account of inclusion in current liabilities of a bank loan of $199.879 million (at amortised cost) which matures on 15 December 2008. Spark Infrastructure is in discussions with various lenders to renew or replace the facility. The Directors are confident this can be achieved by June 2008, in accordance with internal policies.

### (r) Rounding of Amounts

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

### (s) Comparatives

The comparatives are for the period from the date of incorporation/registration of each Stapled Entity (as set out in Note 1(k)) to 31 December 2006.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 |
| **2. Profit for the Period** | | | | |
| **(a) Income** | | | | |
| Income from Associates: | | | | |
| – Share of equity accounted profits | 131,239 | 113,482 | – | – |
| – Interest income | 93,578 | 99,255 | – | – |
| | 224,817 | 212,737 | – | – |
| **(b) Expenses** | | | | |
| Interest expense – other: | | | | |
| – Interest and other associated costs on senior debt | 27,921 | 28,867 | – | – |
| **(c) General and Administrative Expenses** | | | | |
| Directors' fees | 970 | 725 | 323 | 242 |
| Due diligence cost relating to unsuccessful acquisitions written off | 1,790 | 962 | – | – |
| Other expenses | 2,442 | 1,571 | 530 | 289 |
| | 5,202 | 3,258 | 853 | 531 |
| **3. Income Taxes** | | | | |
| **(a) Income Tax Recognised in Profit or Loss** | | | | |
| Tax (benefit)/expense comprises: | | | | |
| Deferred tax benefit | (16,192) | (159) | (256) | (159) |
| Deferred tax expense | 5,520 | 4,676 | – | – |
| Total tax expense/(benefit) | (10,672) | 4,517 | (256) | (159) |
| Attributable to: | | | | |
| Continuing operations | (10,672) | 4,517 | (256) | (159) |
| The prima facie income tax expense/(benefit) on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense/(benefit) in the Financial Statements as follows: | | | | |
| Profit/(loss) from continuing operations | 46,260 | 30,399 | (853) | (531) |
| Income tax expense/(benefit) calculated at 30% | 13,878 | 9,120 | (256) | (159) |
| Tax effect on operating results of Spark Trust (Note 1(j)) | (2,219) | (2,276) | – | – |
| Offsets from unused tax losses | (6,395) | (2,327) | – | – |
| Tax benefit in respect of losses for items directly recognised in equity | (15,936) | – | – | – |
| Income tax (benefit)/expense | (10,672) | 4,517 | (256) | (159) |

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

# **NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 |
| **3. Income Tax** (continued) | | | | |
| **(b) Income Tax Recognised Directly in Equity** | | | | |
| The following deferred amounts were recognised directly in equity during the period: | | | | |
| – Security issue costs | – | (1,382) | – | (1,382) |
| – Revaluations of financial instrument treated as cash flow hedges | 1,772 | 1,967 | – | – |
| – Share of associates' reserves recognised directly in equity | 21,672 | 6,511 | – | – |
| | 23,444 | 7,096 | – | (1,382) |

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| **(c) Deferred Tax Balances** | | | | |
| Deferred tax assets comprise: | | | | |
| Tax losses – revenue | 67,617 | 1,058 | 2,323 | 1,058 |
| Temporary differences | 1,751 | 1,765 | 830 | 1,107 |
| | 69,368 | 2,823 | 3,153 | 2,165 |
| Deferred tax liabilities comprise: | | | | |
| Temporary differences | 92,583 | 13,266 | – | – |
| Taxable and deductible temporary differences arise from the following: | | | | |
| Gross deferred tax liabilities: | | | | |
| Cash flow hedges | 3,739 | 1,967 | – | – |
| Investment in associates | 60,661 | 4,788 | – | – |
| Share of associates reserves recognised directly in equity | 28,183 | 6,511 | – | – |
| | 92,583 | 13,266 | – | – |
| **(d) Unrecognised Deferred Tax Balances** | | | | |
| The following deferred tax assets have not been brought to account as assets: | | | | |
| Tax losses – revenue | 86,697 | 77,821 | – | – |

### Tax Consolidation

*Relevance of Tax Consolidation to Spark Infrastructure*
SIH No. 1 and SIH No. 2 and their wholly owned Australian resident entities have each formed a tax consolidated group and therefore each group is taxed as a single entity. The head entity within each tax consolidated group is SIH No. 1 and SIH No. 2 respectively. The members of the tax consolidated groups are identified in Note 25.

*Nature of Tax Funding Arrangements and Tax Sharing Agreements*
Entities within each tax consolidated group have entered into a tax funding arrangement and a tax sharing agreement with their respective head entities. Under the terms of the funding agreement, SIH No. 1 and SIH No. 2 and each of the entities in the relevant tax consolidated group have agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group.

The tax sharing agreement between members of the tax consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the Financial Statements in respect of this agreement as payment of any amounts under the agreement is considered remote at this time.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| **4. Receivables from Associates** | | | | |
| CHEDHA Holdings Pty Limited ("CHEDHA")[a] | 15,422 | 16,586 | – | – |

[a] Receivables from associates relates to interest receivable on loans.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| **5. Loans – Other** | | | | |
| Interest free loan[a] | 23,769 | 42,318 | – | – |

[a] The loan is repayable on written demand of the lender. The loan was established as a part of ETSA acquisition.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| **6. Other Current Assets** | | | | |
| GST recoverable | 392 | – | – | – |
| Prepayments | 143 | – | – | – |
| Other receivables | 752 | 539 | – | – |
| | 1,287 | 539 | – | – |

## 7. Investments Accounted for Using the Equity Method

**(a) Investments in Associates**

| Name of Entity | Principal Activity | Ownership Interest (%) 2007 | Ownership Interest (%) 2006 | Country of Incorporation /Formation |
|---|---|---|---|---|
| CHEDHA | Ownership of electricity distribution networks in Victoria | 49 | 49 | Australia |
| ETSA Utilities Partnership | Ownership of an electricity distribution network in South Australia | 49 | 49 | Australia |

# **NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

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

**(b) Share of Assets and Liabilities of Associates**

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| Current assets | 276,951 | 251,357 | – | – |
| Non-current assets | 4,510,860 | 4,357,443 | – | – |
| Total assets | 4,787,811 | 4,608,800 | – | – |
| Current liabilities | 917,666 | 592,947 | – | – |
| Non-current liabilities | 2,895,563 | 3,155,716 | – | – |
| Total liabilities | 3,813,229 | 3,748,663 | – | – |
| Net assets | 974,582 | 860,137 | – | – |
| Preferred partnership capital - | | | | |
| ETSA | 622,300 | 622,300 | – | – |
| Net assets applicable to Spark Infrastructure | 1,596,882 | 1,482,437 | – | – |

**(c) Share of Associates' Revenue and Expenses**

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 |
| Revenue – distribution | 538,196 | 534,330 | – | – |
| Revenue – unregulated | 227,006 | 176,722 | – | – |
| Operating revenue | 765,202 | 711,052 | – | – |
| Revenue – transmission | 157,137 | 142,501 | – | – |
| | 922,339 | 853,553 | – | – |
| Expenses | (809,796) | (775,980) | – | – |
| Profit before income tax | 112,543 | 77,573 | – | – |
| Income tax (expense)/benefit | (10,916) | 5,069 | – | – |
| Net profits accounted for using the equity accounting method | 101,627 | 82,642 | – | – |
| Additional share of profits from preferred partnership capital[a] | 35,324 | 36,583 | – | – |
| | 136,951 | 119,225 | – | – |
| Additional depreciation/amortisation charge[b] | (5,712) | (5,743) | – | – |
| | 131,239 | 113,482 | – | – |

[a] Under the partnership agreement, Spark Infrastructure is entitled to an additional share of profit in the ETSA partnership.

[b] Relates to fair value on uplift of assets on acquisition.

| | CONSOLIDATED 2007 $'000 | CONSOLIDATED 2006 $'000 | COMPANY 2007 $'000 | COMPANY 2006 $'000 |
|---|---|---|---|---|
| **(d) Movement in Carrying Amounts** | | | | |
| Carrying amount at beginning of the period | 1,350,348 | – | – | – |
| Equity investments acquired | – | 1,249,771 | – | – |
| Share of profits after income tax | 131,239 | 113,482 | – | – |
| Preferred partnership distribution received | (69,635) | (59,905) | – | – |
| Share of associates' income recognised directly in equity | 46,943 | 47,000 | – | – |
| Other movements | (84) | – | – | – |
| Carrying amount at end of the period | 1,458,811 | 1,350,348 | – | – |

**(e) Capital Commitments and Contingent Liabilities**

Spark Infrastructure's share of capital commitments and contingent liabilities are provided in Note 20 and Note 21 respectively.

## 8. Loans to Associates

| | | | | |
|---|---|---|---|---|
| Loans to CHEDHA - interest bearing[a] | 842,973 | 881,463 | – | – |

[a] 100 year loans at fixed interest rate of 10.85% per annum unless agreed otherwise. The loans are repayable at the discretion of the borrower.

## 9. Other Financial Assets

| | | | | |
|---|---|---|---|---|
| Shares in controlled entities – at cost | – | – | 186,213 | 186,213 |
| Fair value of interest rate swaps (current) | 2,957 | – | – | – |
| Fair value of interest rate swaps (non-current) | 9,509 | 6,557 | – | – |

## 10. Payables

| | | | | |
|---|---|---|---|---|
| Payables to Related Parties | 3,026 | 2,745 | 7,352 | 5,767 |
| Other | 2,389 | 1,915 | – | – |
| | 5,415 | 4,660 | 7,352 | 5,767 |

## 11. Interest Bearing Liabilities

| | | | | |
|---|---|---|---|---|
| Syndicated bank loans at amortised cost[a] | 199,789 | – | – | – |

[a] Refer to Note 1(q).

## 12. Loan Notes Attributable to Stapled Security Holders

| | | | | |
|---|---|---|---|---|
| Loan notes[a] | 1,231,515 | 1,231,515 | – | – |

[a] Loan notes (100 year term) carry an interest rate of 10.85% per annum for the period to 30 November 2010 and for periods thereafter interest is based on a five year swap rate plus a credit margin to be determined.

## 13. Other Interest Bearing Liabilities

| | | | | |
|---|---|---|---|---|
| Syndicated bank loans at amortised cost[a] | 224,221 | 423,552 | – | – |

[a] The loan matures in 2010 and is unsecured.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| **14. Issued Capital** | | | | |
| Balance at beginning of the period | 536,926 | – | 182,983 | – |
| Securities issued: | | | | |
| – Attributable to the parent entity | – | 186,213 | – | 186,213 |
| – Minority interests – other entities in Spark Infrastructure | – | 366,555 | – | – |
| | 536,926 | 552,768 | 182,983 | 186,213 |
| Security issue costs | – | (12,312) | – | (3,230) |
| Capital distribution | (30,764) | (3,530) | – | – |
| Balance at end of the period | 506,162 | 536,926 | 182,983 | 182,983 |
| **Fully paid securities** | **No.'000** | No.'000 | **No.'000** | No.'000 |
| Balance at beginning of the period | 1,008,651 | – | 1,008,651 | – |
| Issued during the period | – | 1,008,651 | – | 1,008,651 |
| Balance at end of the period | 1,008,651 | 1,008,651 | 1,008,651 | 1,008,651 |

The ordinary shares and units carry one vote per share and the right to distributions.

Each share in SIH No. 1 is "stapled" to one share in SIH No. 2, one unit in Spark Trust, one loan note issued by the responsible entity of Spark Trust and one CDI representing one share in Spark International. The stapled securities are quoted as if they are a single security.

## 15. Reserves

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| **Hedging Reserve** | | | | |
| Balance at beginning of the period | 20,480 | – | – | – |
| Gain/(loss) recognised: | | | | |
| Interest rate swaps[a] | 5,909 | 6,557 | – | – |
| Deferred tax | (1,773) | (1,967) | – | – |
| | 4,136 | 4,590 | – | – |
| Share of associates' gains on hedges[a] | 33,353 | 20,490 | – | – |
| Deferred tax | (11,553) | (4,600) | – | – |
| Balance at end of the period | 46,416 | 20,480 | – | – |
| Attributable to Stapled Security Holders as: | | | | |
| Equity holders of the parent entity | 30,273 | 15,323 | – | – |
| Minority interests in other Stapled entities | 16,143 | 5,157 | – | – |

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

## 16. Retained Earnings

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| Balance at beginning of the period | 50,481 | – | (372) | – |
| Net profit for the period | 56,932 | 25,882 | (597) | (372) |
| Share of associates' actuarial gain recognised directly in retained earnings | 13,590 | 26,510 | – | – |
| Related tax | (10,118) | (1,911) | – | – |
| Balance at end of the period | 110,885 | 50,481 | (969) | (372) |

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2007 $** | 2006 $ | **2007 $** | 2006 $ |
| **17. Remuneration of External Auditor** | | | | |
| Audit or review of financial report | 181,300 | 146,185 | 60,367 | 48,938 |
| Tax advice | 107,818 | 31,360 | – | – |
| Due diligence reporting on acquisitions | 450,000 | 155,333 | – | – |
| Other accounting services | – | 10,395 | – | – |
| | 739,118 | 343,273 | 60,367 | 48,938 |
| The auditor of Spark Infrastructure and the Company is Deloitte Touche Tohmatsu | | | | |
| | **$'000** | $'000 | **$'000** | $'000 |
| **18. Earnings per Security ("EPS")[a]** | | | | |
| Net profit after tax used to calculate EPS | 56,932 | 25,882 | – | – |
| Weighted average number of Securities ('000) | 1,008,651 | 1,008,651 | – | – |
| Earnings per Security (cents) | 5.64 | 2.57 | – | – |
| Profit before income tax and income tax and loan note interest per Security | 183,274 | 171,543 | – | – |
| Weighted average number of Securities ('000) | 1,008,651 | 1,008,651 | – | – |
| Profit before loan note interest per Security (cents) | 18.17 | 17.01 | – | – |

[a] Basic EPS is the same as diluted EPS.

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | **Cents per Security** | **Total $'000** | Cents per Security | Total $'000 |
| **19. Distribution Paid and Payable** | | | | |
| Distribution Paid: | | | | |
| Interim distribution in respect of year ended 31 December 2007 paid on 14 September 2007 (2006: 15 September 2006) | | | | |
| Interest on loan notes | 6.74 | 67,983 | 6.77 | 68,286 |
| Capital distribution | 1.79 | 18,055 | 0.34 | 3,429 |
| | 8.53 | 86,038 | 7.11 | 71,715 |
| Distribution Payable: | | | | |
| Final distribution in respect of the year ended 31 December 2007 payable on 14 March 2008 (2006: 15 March 2007) | | | | |
| Interest on loan notes[a] | 6.85 | 69,093 | 6.85 | 69,093 |
| Capital distribution[b] | 2.68 | 27,032 | 1.26 | 12,709 |
| | 9.53 | 96,125 | 8.11 | 81,802 |
| Total paid and payable | 18.06 | 182,163 | 15.22 | 153,517 |

The distributions are unfranked and are made by Spark Trust.

[a] Recognised amount.

[b] Unrecognised amount.

# **NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| **20. Commitments for Expenditure** | | | | |
| **(a) Capital Expenditure commitments** | | | | |
| Share of associates' capital expenditure commitments | | | | |
| – Not longer than 1 year | 954 | 1,184 | – | – |
| – Longer than 1 year and not longer than 5 years | – | – | – | – |
| – Longer than 5 years | – | – | – | – |
| | 954 | 1,184 | – | – |
| **(b) Other Expenditure Commitments** | | | | |
| Share of associates' other expenditure commitments | | | | |
| – Not longer than 1 year | 2,341 | 2,038 | – | – |
| – Longer than 1 year and not longer than 5 years | 8,779 | 8,372 | – | – |
| – Longer than 5 years | 19,144 | 27,516 | – | – |
| | 30,264 | 37,926 | – | – |
| There are no capital expenditure or other expenditure commitments in Spark Infrastructure. | | | | |
| **21. Contingent Liabilities** | | | | |
| Share of associates' contingent liabilities | 11,257 | 6,818 | – | – |
| | 11,257 | 6,818 | – | – |

The contingent liabilities relate to guarantees provided to various parties. There are no contingent liabilities or contingent assets in any of the Stapled Entities.

## 22. Segment Information

Spark Trust, SIH No. 1 and SIH No. 2 operate in Australia. Spark International was incorporated in the Bahamas with the intention of holding Spark Infrastructure's offshore assets. However, Spark International has been dormant. It does not hold any asset nor does it generate any revenue.

SIH No. 1, along with its subsidiaries, holds a 49% interest in electricity distribution businesses in Victoria and SIH No. 2, along with its subsidiaries, holds a 49% interest in an electricity distribution business in South Australia. Spark Trust provides loans to related parties.

Each Stapled Entity is regarded as a separate segment.

| | SIH No. 1 | | SIH No. 2 | | Spark Trust | | Elimination | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **1/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 | **1/01/2007 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 | **1/01/2007 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 | **1/01/2007 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 | **1/01/2007 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 |
| **Segment Revenue** | | | | | | | | | | |
| Share of equity accounted profits | 21,636 | 15,959 | 109,603 | 97,523 | – | – | – | – | 131,239 | 113,482 |
| Interest income – associates | 93,578 | 99,255 | – | – | – | – | – | – | 93,578 | 99,255 |
| Other interest income | 3,526 | 2,116 | – | 5 | 73 | 35 | – | – | 3,599 | 2,156 |
| Inter-segment revenue | 81,340 | 83,791 | – | – | 145,553 | 149,409 | (226,893) | (233,199) | – | – |
| **Segment Revenue** | 200,080 | 201,121 | 109,603 | 97,528 | 145,626 | 149,444 | (226,893) | (233,199) | 228,416 | 214,893 |
| **Segment Results** | | | | | | | | | | |
| Profit for the period (from continuing operations) | 12,283 | 10,540 | 37,251 | 7,756 | 7,398 | 7,586 | – | – | 56,932 | 25,882 |
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| **Segment Assets and Liabilities** | | | | | | | | | | |
| Investment accounted using equity method | 261,439 | 220,683 | 1,197,371 | 1,129,665 | – | – | – | – | 1,458,810 | 1,350,348 |
| Other segment assets | 1,971,991 | 1,994,350 | 23,840 | 42,323 | 1,527,503 | 1,558,755 | (2,565,564) | (2,598,695) | 957,771 | 996,734 |
| **Total Assets** | 2,233,430 | 2,215,033 | 1,221,211 | 1,171,988 | 1,527,503 | 1,558,755 | (2,565,564) | (2,598,695) | 2,416,581 | 2,347,082 |
| **Total Liabilities** | 1,990,323 | 2,001,727 | 1,005,848 | 1,005,764 | 1,322,511 | 1,330,399 | (2,565,564) | (2,598,695) | 1,753,118 | 1,739,195 |

## 23. Related Party Disclosures

**(a) Directors**

The persons listed below were Directors of the Company during the Financial Year and as at the date of this report except where otherwise stated:

Stephen Johns (Chairman)
Hing Lam Kam
Andrew Hunter
Shaun Mays
John Dorrian (Director from 24 August 2007, until that date Alternate Director to Brian Scullin)
Don Morley
Cheryl Bart
Peter St George

In addition, Brian Scullin was a Director until his retirement on 24 August 2007 and Andrew Fay was an Alternate Director to Shaun Mays until his resignation on 27 November 2007.

*Remuneration*

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

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007 $** | 2006 $ | **2007 $** | 2006 $ |
| Directors' fees | 937,594 | 648,594 | 312,531 | 216,198 |
| Post-employment benefits | 32,884 | 76,406 | 10,962 | 25,469 |
| | 970,478 | 725,000 | 323,493 | 241,667 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 23. Related Party Disclosures (continued)

### (a) Directors (continued)

*Individual Directors' and Executives Compensation Disclosures*

Information regarding individual Directors compensation disclosure is provided in the Remuneration Report section of the Directors' Report on pages 15 to 17, as permitted by Corporations Regulations 2.M3.03 and 2M.6.04.

Apart from the details disclosed in this Note, no Director has entered into any material contract with the Company or the consolidated entity during or since the end of the previous period, and there were no material contracts involving Directors' interests existing at year end.

*Security Holdings*

The relevant interest of each Director in the Stapled Securities of Spark Infrastructure as at the date of this report is as follows:

| **Directors** | **Opening Balance 1/1/2007 (No.)** | **Net Movement Acquired/Disposed (No.)** | **Closing Balance 31/12/2007 (No.)** |
|---|---|---|---|
| Stephen Johns | 330,000 | 25,000 | 355,000 |
| Hing Lam Kam | – | – | – |
| Andrew Hunter | – | – | – |
| Shaun Mays[a] | 167,000 | (167,000) | – |
| Brian Scullin[b] | – | – | – |
| John Dorrian | 162,150 | – | 162,150 |
| Don Morley | 225,000 | – | 225,000 |
| Cheryl Bart | 125,000 | – | 125,000 |
| Peter St George | 71,400 | – | 71,400 |
| Andy Fay[b] | – | – | – |

a Shaun Mays was required to dispose of his holdings because of legal restrictions relating to his residency in the United States of America.

b Retired in the Financial Year.

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

| **Directors** | Opening Balance at Incorporation (No.) | Net Movement Acquired/Disposed (No.) | Closing Balance 31/12/2006 (No.) |
|---|---|---|---|
| Stephen Johns | – | 330,000 | 330,000 |
| Hing Lam Kam | – | – | – |
| Eric Kwan[a] | – | – | – |
| Andrew Hunter | – | – | – |
| Shaun Mays | – | 167,000 | 167,000 |
| Brian Scullin | – | – | – |
| Don Morley | – | 225,000 | 225,000 |
| Cheryl Bart | – | 125,000 | 125,000 |
| Peter St. George | – | 71,400 | 71,400 |
| Edmond Ip[a] | – | – | – |
| John Dorrian | – | 162,150 | 162,150 |
| Andrew Fay | – | – | – |
| Daniel Latham[a] | – | – | – |

a Retired in 2006 period.

## 23. Related Party Disclosures (continued)

### (b) Manager

Spark Infrastructure has entered into a Management Agreement with the Manager to provide management services, as set out in the agreement. The services provided include development of financial and investment strategy, preparation of investment proposals for approval by the Board, development of proposals for debt and equity raising, management of day to day operations etc.

The term of the Management Agreement is 25 years and terminable by Spark Infrastructure or the Manager under certain circumstances.

The Manager is entitled to a base fee and a performance fee. The base fee is calculated at 0.5% of enterprise value of Spark Infrastructure up to $2.443 billion plus 1.0% of any amount over $2.443 billion. The performance fee is equal to 20% of the amount (if any) by which the accumulated return from Spark Infrastructure exceeds the benchmark return calculated by reference to the S&P/ASX 200 Industrials Accumulation Index and is calculated each half year. Any deficit arising from the calculation of the Performance Fee during a period will be carried forward and deducted from the Performance Fee calculated in the next period.

During the Financial Year, an amount of $12.019 million (2006 period: $11.225 million) was payable to the Manager in base fee. No performance fee was payable. There was a carried forward deficit of $189.939 million (2006 period: $380.933 million) in performance fee as at 31 December 2007. The Manager is jointly owned by CKI and RREEF.

### (c) Responsible Entity

The responsible entity of Spark Trust is Spark RE. During the Financial Year, in addition to reimbursing costs incurred by Spark RE, an amount of $0.100 million (2006 period: $0.100 million) was paid as management fees.

### (d) Key Management Personnel ("KMP")

KMP are those having the authority and responsibility for directing and controlling the activities of an entity. The Directors meet the definition of KMP. However, since the authority and responsibility for directing and controlling activities has not been delegated to the Manager, there are no other KMP in Spark Infrastructure. The Stapled Entities have no employees.

### (e) Other Related Parties

The other related parties include:

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

*Associates*

The details of ownership interests in associates are provided in Note 7. The details of loans provided to associates and interest receivable are detailed in Notes 8 and 4 respectively. During the Financial Year, an amount of $93.578 million (2006 period: $99.255 million) was received as interest in respect of the loans.

*Subsidiaries*

The details of ownership interest in subsidiaries are provided in Note 25. The details of amounts owing at the end of the Financial Year are provided in Note 10. The terms of the tax sharing and tax funding agreements entered into by SIH No. 1 and SIH No. 2 with their subsidiaries are provided in Note 3.

*Entities within Spark Infrastructure*

There are no loans receivable/payable from/to the Company from other Stapled Entities within Spark Infrastructure.

## 24. Subsequent Events

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

## 25. Controlled Entities

| Entity | Country of Incorporation | Equity Holdings (%) |
|---|---|---|
| Controlled entities of SIH No. 1[a] | | |
| – Spark Infrastructure (Victoria) Pty Limited[b] | Australia | 100 |
| Controlled entities of SIH No. 2[a] | | |
| – Spark Infrastructure (South Australia) Pty Limited[c] | Australia | 100 |
| – Spark Infrastructure SA (No 1) Pty Limited (formerly CKI Utilities Holdings Pty Limited)[c] | Australia | 100 |
| – Spark Infrastructure SA (No 2) Pty Limited (formerly CKI/HEI Utilities Distribution Pty Limited)[c] | Australia | 100 |
| – Spark Infrastructure SA (No 3) Pty Limited (formerly HEI Utilities Holdings Pty Limited)[c] | Australia | 100 |

[a] Head entity of a tax consolidated group.

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

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

# **NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| **26. Notes to the Cash Flow Statement** | | | | |
| **(a) Reconciliation of Cash and Cash Equivalents** | | | | |
| For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents as at the end of the Financial Year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows: | | | | |
| Cash on hand and at bank | 1,765 | 2,035 | – | – |
| Cash at call | 88 | 35,236 | – | – |
| Cash on deposit | 60,000 | 12,000 | – | – |
| **Cash and Cash Equivalents** | 61,853 | 49,271 | – | – |
| **(b) Financing Facilities** | | | | |
| Syndicated unsecured bank loan facility[a]: | | | | |
| – Amount used | 425,000 | 425,000 | – | – |
| – Amount unused | – | – | – | – |
| | 425,000 | 425,000 | – | – |
| a Refer to Note 1(q) and Note 13. | | | | |
| Unsecured working capital facility, reviewed annually and payable at call: | | | | |
| – Amount used | – | – | – | – |
| – Amount unused | 50,000 | 50,000 | – | – |
| | 50,000 | 50,000 | – | – |
| **(c) Reconciliation of Profit for the Period to Net Cash inflow/(Outflow) related to Operating Activities** | | | | |
| Net profit/(loss) after tax for the period | 56,932 | 25,882 | (597) | (372) |
| Loan note interest expensed | 137,014 | 141,144 | | – |
| Non-cash interest expense | 458 | 420 | | – |
| (Decrease)/Increase in deferred tax liability | (10,672) | 4,517 | (256) | (159) |
| Share of profits of associates (less dividends) | (61,604) | (53,577) | – | – |
| Changes in net assets and liabilities | | | | |
| Decrease/(Increase) in assets: | | | | |
| Current receivables | 501 | (17,125) | – | – |
| Increase in liabilities: | | | | |
| Current payables | 755 | 4,412 | – | 531 |
| Net cash inflow/(outflow) related to operating activities | 123,384 | 105,673 | (853) | – |

## 27. Financial Instruments

### (a) Financial Risk Management Objectives

Spark Infrastructure's treasury function manages the financial risks and co-ordinates access to financial markets.

Spark Infrastructure does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by Spark Infrastructure's policies, approved by the Board, which has written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis.

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

### (b) Capital Management

The capital structure of Spark Infrastructure comprises of debt, loan notes attributable to the Security Holders and equity. As the loan notes are a long term instrument and subordinated, they are regarded as part of capital. On this basis the total capital of Spark Infrastructure as at 31 December 2007 was $1,894.978 million (2006: 1,839.402 million) comprising of $1,231.515 million in loan notes and $663.463 million in equity attributable to the Stapled Security Holders.

Spark Infrastructure manages its capital to ensure that it will be able to operate as a going concern, while maximising the return to Stapled Security Holders through optimum use of debt and equity.

The debt covenants under senior debt facility requires, inter alia, that the gearing at Spark Infrastructure does not exceed 30% and on a consolidated basis (including proportionate share of debt of the Asset Companies) the gearing does not exceed 75% at any time. During the Financial Year, Spark Infrastructure complied with the covenants. There has been no change in the capital management strategy during the Financial Year.

### (c) Significant Accounting Policies

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

### (d) Categories of Financial Instruments

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| **Financial assets:** | | | | |
| Derivative instruments in designated hedge accounting relationships | 12,466 | 6,557 | – | – |
| Loans receivable | 866,742 | 923,781 | – | – |
| **Financial liabilities:** | | | | |
| Loans at amortised cost | 424,010 | 423,552 | – | – |
| Loan notes at amortised cost | 1,231,515 | 1,231,515 | – | – |

# **NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

## 27. Financial Instruments (continued)

### (e) Market Risk

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

### (f) Interest Rate Risk Management

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

*Interest Rate Swap Contracts*

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

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

A 0.5% movement in interest rates would have resulted in a $2.125 million impact on equity arising from the revaluation of interest rate swaps.

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

| Outstanding Floating for Fixed Contracts | Average Contracted Fixed Interest rate | | Notional Principal Amount | | Fair Value | |
|---|---|---|---|---|---|---|
| | **2007 %** | 2006 % | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| Less than 1 year | 5.91 | – | 200,000 | – | 2,956 | – |
| 1 to 2 years | – | 5.91 | – | 200,000 | – | 2,431 |
| 2 to 5 years | 6.00 | 6.00 | 225,000 | 225,000 | 9,510 | 4,126 |
| | | | 425,000 | 425,000 | 12,466 | 6,557 |

All interest rate swap contracts on behalf of Spark Infrastructure have been entered into by a subsidiary of SIH No. 1.

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

## 27. Financial Instruments (continued)

### (f) Interest Rate Risk Management (continued)

The following tables detail the consolidated entity's exposure to interest rate risk as at 31 December 2007 and 2006 respectively:

| **2007** | **Weighted Average Effective Interest Rate % pa** | **Variable Interest Rate $'000** | **Fixed Maturity Dates** | | | **Non-Interest Bearing $'000** | **Total $'000** |
|---|---|---|---|---|---|---|---|
| | | | **Less than 1 Year $'000** | **1 - 5 Years $'000** | **5 Years + $'000** | | |
| Cash and cash equivalents | 6.96 | 61,853 | – | – | – | – | 61,853 |
| Receivables from associates | – | – | – | – | – | 15,422 | 15,422 |
| Other current assets | – | – | – | – | – | 1,287 | 1,287 |
| Loans to associates | 10.85 | – | – | – | 842,973 | – | 842,973 |
| Loans - other | – | – | – | – | – | 23,769 | 23,769 |
| Other financial assets | – | – | – | – | – | 12,466 | 12,466 |
| | – | 61,853 | – | – | 842,973 | 52,944 | 957,770 |
| Payables | – | – | – | – | – | 5,415 | 5,415 |
| Loan note interest payable | – | – | – | – | – | 68,963 | 68,963 |
| Loan notes attributable to Stapled Security Holders | 10.85 | – | – | – | 1,231,515 | – | 1,231,515 |
| Other interest bearing liabilities[a] | 6.95 | 424,010 | – | – | – | – | 424,010 |
| | | 424,010 | – | – | 1,231,515 | 74,378 | 1,729,903 |

| 2006 | Weighted Average Effective Interest Rate % pa | Variable Interest Rate $'000 | Fixed Maturity Dates | | | Non-Interest Bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| | | | Less than 1 Year $'000 | 1 - 5 Years $'000 | 5 Years + $'000 | | |
| Cash and cash equivalents | 5.99 | 49,271 | – | – | – | – | 49,271 |
| Receivables from associates | – | – | – | – | – | 16,586 | 16,586 |
| Other current assets | – | – | – | – | – | 539 | 539 |
| Loans to associates | 10.85 | – | – | – | 881,463 | – | 881,463 |
| Loans – other | – | – | – | – | – | 42,318 | 42,318 |
| Other financial assets | – | – | – | – | – | 6,557 | 6,557 |
| | – | 49,271 | – | – | 881,463 | 66,000 | 996,734 |
| Payables | – | – | – | – | – | 4,660 | 4,660 |
| Loan note interest payable | – | – | – | – | – | 69,025 | 69,025 |
| Loan notes attributable to Stapled Security Holders | 10.85 | – | – | – | 1,231,515 | – | 1,231,515 |
| Other interest bearing liabilities[a] | 6.95 | 423,552 | – | – | – | – | 423,552 |
| | – | 423,552 | – | – | 1,231,515 | 73,685 | 1,728,752 |

[a] The unamortised value of the liability is $425 million of which $200 million is due for repayment in December 2008 and the balance in December 2010.

**Company:**

As at the end of the Financial Year, the Company had payables of $7.352 million (2006: $5.767 million). Weighted average effective interest rate was nil (2006: nil).

# **NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

## 27. Financial Instruments (continued)

### (g) Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to Spark Infrastructure. Spark Infrastructure's credit risk primarily arises primarily from cash held on deposit. Spark Infrastructure has adopted a policy of dealing with creditworthy counterparties and establishing and maintaining limits, as a means of mitigating the risk of financial loss from defaults. Spark Infrastructure's exposure and the credit ratings of its counterparties are continuously monitored and the transactions are spread amongst approved counterparties to minimise risk to any single counterparty.

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

### (h) Liquidity Risk Management

Spark Infrastructure manages liquidity by maintaining adequate cash reserves, banking facilities (including undrawn working capital facility) and monitoring continuously the forecast and actual cash flows. Details of undrawn facility are provided in Note 26.

### (i) Fair Value of Financial Instruments

The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the Financial Statements approximates their fair values.

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

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

## 28 Additional Company Information

SIH No. 1 is incorporated in Australia.

The registered office of business of SIH No. 1 is as follows:

Level 6, 255 George Street
Sydney NSW 2000
Australia.

# **DIRECTORS'** DECLARATION

The Directors declare that:

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

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

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

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

On behalf of the Directors:

**S Johns**
Chairman
Sydney
25 February 2008

**D Morley**
Director

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SPARK INFRASTRUCTURE GROUP

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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We have audited the accompanying financial report of Spark Infrastructure Group, which comprises the balance sheet as at 31 December 2007, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising Spark Infrastructure Holdings No.1 Limited (the parent entity) and the entities it controlled (including the stapled entities of Spark Infrastructure Holdings No.2 Limited, Spark International Holdings Limited and Spark Infrastructure Trust) (collectively "Spark Infrastructure Group") at the year's end or from time to time during the financial year set out on pages 19 to 43.

We have also audited the compensation disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the compensation of key management personnel ("compensation disclosures") as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("AASB 124"), under the heading "remuneration report" on pages 15 to 17 of the directors' report, and not in the financial report.

*Directors' Responsibility for the Financial Report and the AASB 124 Compensation Disclosures Contained in the Directors' Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for the compensation disclosures contained in the directors' report. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report and compensation disclosures contained in the directors' report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and the compensation disclosures comply with AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the compensation disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the compensation disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the compensation disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the compensation disclosures contained in the directors' report.

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

*Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's Opinion on the Financial Report*

In our opinion:

(a) the financial report of Spark Infrastructure Group is in accordance with the *Corporations Act 2001*, including:
 (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2007 and of their performance for the year ended on that date; and
 (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

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

*Auditor's Opinion on the AASB 124 Compensation Disclosures Contained in the Directors' Report*

In our opinion, the compensation disclosures that are contained on pages 15 to 17 under the heading"remuneration report" of the directors' report, comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

S C Gustafson
Partner
Chartered Accountants
Sydney, 25 February 2008

# **SPARK**
# INFRASTRUCTURE TRUST

**(ARSN 116 870 725)**

## FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

Spark Infrastructure comprises of Spark Infrastructure Trust, Spark Infrastructure Holdings No. 1 Limited, Spark Infrastructure Holdings No. 2 Limited and Spark Infrastructure Holdings International Limited.

Each Unit in Spark Infrastructure Trust is stapled to one share in Spark Infrastructure Holdings No. 1 Limited, one share in Spark Infrastructure Holdings No. 2 Limited, one CHESS Depositary Interest representing one share in Spark Infrastructure Holdings International Limited and one loan note issued by Spark Infrastructure Trust. The Stapled Securities trade on the Australian Securities Exchange.

**This financial report relates to the performance of Spark Infrastructure Trust only. As the Securities are held by investors in a stapled structure, the financial results of Spark Infrastructure (as lodged with the Australian Securities Exchange on 25 February 2008 and contained in pages 1 to 44) represent the most concise information regarding the performance of investors' funds.**

# TABLE OF **CONTENTS**

# **DIRECTORS'** REPORT

The Directors of Spark Infrastructure RE Limited ("Spark RE") as responsible entity of Spark Infrastructure Trust ("Trust") provide this financial report for the year ended 31 December 2007 ("Financial Year").

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

## Directors

The persons listed below were Directors of Spark RE at any time during the Financial Year and as at the date of this report:

Stephen Johns (Chairman)

Hing Lam Kam

Andrew Hunter

Shaun Mays

John Dorrian (Director from 24 August 2007, until that date alternate to Brian Scullin)

Don Morley

Cheryl Bart

Peter St George

In addition, Brian Scullin was a Director until his retirement on 24 August 2007 and Andrew Fay was Alternate Director for Shaun Mays until his resignation on 29 November 2007.

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

### Stephen Johns BEc, FCA

**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. He is also a Director of Sydney Symphony Limited.

### Hing Lam Kam BSc, MBA

**CKI Board Appointee and Non-Executive Director**

Mr Kam has been Managing Director of Cheung Kong Infrastructure ("CKI") since its incorporation in May 1996 and the Deputy Managing Director of Cheung Kong (Holdings) Limited since February 1993. He has played a leading role in developing the Cheung Kong Group's corporate and strategic direction.

Mr Kam is also the President and Chief Executive Officer of CK Life Sciences International (Holdings) Inc. and an executive director of Hutchison Whampoa Limited and Hong Kong Electric Holdings Limited.

In Australia, he is a Director of CitiPower, Powercor Australia ("Powercor"), ETSA Utilities ("ETSA"), AquaTower and Lane Cove Tunnel Holding Company.

### Andrew Hunter MA, MBA, MICAS, MHKICPA

**CKI Board Appointee and Non-executive Director**

Mr Hunter is currently an executive Director and Chief Operating Officer of CKI. In addition, he serves as Chief Financial Officer of Cheung Kong (Holdings) Limited and is an executive Director of Hong Kong Electric (Holdings) Limited.

Mr Hunter is a member of The Institute of Chartered Accountants of Scotland and of the Hong Kong Institute of Certified Public Accountants. Mr Hunter has more than 24 years experience in accounting and financial management and holds a range of directorships in CKI related companies. He is a Director of CitiPower, Powercor and ETSA.

Mr Hunter is a member of the Audit and Risk Management Committee ("ARMC").

### Shaun Mays BSc (Hons), MSc, MBA

**RREEF Board Appointee and Non-executive Director**

Mr Mays is a Managing Director of Deutsche Bank AG and the Global Head of RREEF Infrastructure, based in New York. He is responsible for managing the global RREEF business which is the fiduciary infrastructure investment operation within Deutsche Asset Management.

Prior to taking up this position, he was Chief Executive Officer of Deutsche Asset Management (Australia) Limited ("DeAM"). He has 20 years experience in the funds management industry in both executive management and investment positions in Australia, the USA and the UK. Prior to joining Deutsche Asset Management, Mr Mays was also the Managing Director of Westpac Financial Services Group. He was Chief Investment Officer of Commonwealth Financial Services after holding the position of Managing Director and Chief Investment Officer at Mercury Asset Management, where he also served on the board of Mercury Asset Management UK plc.

Mr Mays has made significant contributions to industry associations and Australian Government advisory boards throughout his career, including authoring the Australian Government report "Corporate Sustainability: an Investor Perspective (the Mays' Report)" in 2003.

He has held a wide range of directorships on the boards of listed and unlisted companies in Australia, the USA, the UK and Japan. Mr Mays is a non-executive Director of Spark Infrastructure Management Limited and non-executive Chairman of the board of Maher Terminals LLC.

Mr Mays was a member of the ARMC.

# DIRECTORS' REPORT CONTINUED

## John Dorrian BA, FCA

**RREEF Board Appointee and Non-executive Director**
John Dorrian is a Managing Director of Deutsche Bank AG, Head of RREEF Australia and Co-Head of Infrastructure Investments for RREEF Asia Pacific, the alternative investment management division of Deutsche Asset Management. Prior to this, he advised RREEF on the establishment of Spark Infrastructure and the acquisition of its interests in CitiPower, Powercor and ETSA. He was Spark Infrastructure's Chief Financial Officer until October 2006 and was previously Head of Portfolio Management and Head of Infrastructure and Private Debt for the Global Private Capital division of AMP Henderson Global Investors.

Mr Dorrian has more than 25 years of senior experience in financial and investment markets, and has specialised in infrastructure, private equity and direct investment and funds management for over 15 years. He has been actively involved as a director of a number of significant companies operating in a wide range of industries including airports, electricity generation, electricity and gas distribution and retailing, minerals processing and agribusiness.

He is a Director of CitiPower, Powercor and ETSA, DeAM, Spark Infrastructure Management Limited, Australia Pacific Airports Corporation Limited, the Port of Geelong, Northern Gas Networks Holdings Limited (UK) and St George Community Housing Limited. A Fellow of The Institute of Chartered Accountants in Australia and a member of the Australian Institute of Company Directors, he holds a Bachelor of Arts in financial management from Macquarie University.

Mr Dorrian is a member of the ARMC.

## Don Morley BSc, MBA, FAustIMM

**Independent Director**
Mr Morley is the Chairman of Alumina Limited (since 2002) and an independent Director of Iluka Resources Limited (since 2002). He was previously a Director of Finance at WMC Limited with over 30 years of service.

Mr Morley is the Chairman of the ARMC.

## Cheryl Bart BCom, LLB

**Independent Director**
Ms Bart is a lawyer and has been a non-executive Director on the board of ETSA since 1995.

She has significant utilities industry experience and is Chairman of the Audit Committee of ETSA and a member of its Compliance Committee.

Her other current directorships include ANZ Trustees Ltd, Economic Development Board (SA), Global Properties Limited, Shaw of Australia, and the Alcohol Education and Rehabilitation Foundation. She is Chairman of the South Australian Film Corporation, the Adelaide Film Festival and the Adelaide Film Festival Investment Fund.

Her previous directorships include Sydney Ports Corporation, the Australian Sports Foundation and the Information Economy Advisory Board.

Ms Bart is a member of the ARMC.

## Peter St George CA (SA), MBA

**Independent Director**
Mr St George is a Director of CHEDHA Holdings Pty Limited, CitiPower and Powercor. He is also a Director of First Quantum Minerals Limited, a mining group listed in Toronto and London, and Boart Longyear Limited, an international mining services group, and is Chairman of Walter Turnbull, an Australian accounting and financial services group. He was also a Director of SFE Corporation Limited from 2000 until it merged with ASX Limited in July 2006.

He was Chief Executive Officer of NatWest Markets Australia from 1995 until its acquisition by Salomon Smith Barney Australia Limited in 1998 and then Co-Chief Executive Officer of Salomon Smith Barney Australia Limited from 1998 to 2001.

Prior to that, Mr St George had more than 20 years experience in senior corporate advisory roles with NatWest Markets and Hill Samuel & Co Limited in London. He qualified as a Chartered Accountant in South Africa and received an Master of Business Administration from the University of Cape Town.

Mr St George is a member of the ARMC.

# Other Directors

## Brian Scullin BEc

**RREEF Board Appointee and Non-executive Director**
Following a career in government and politics in Canberra, Mr Scullin was appointed the inaugural executive Director of the Association of Superannuation Funds of Australia in 1987.

Mr Scullin joined Bankers Trust in Australia in 1993 and held a number of senior positions, with responsibilities including marketing, technology, legal, tax and compliance, security services, investor services and margin lending. He was posted to Tokyo and became the President of Japan Bankers Trust in 1997. In 1999, he was appointed Chief Executive Officer – Asia/Pacific for DeAM.

Mr Scullin retired from full-time employment in 2002 but remains actively involved in the Australian funds management industry through his role as a non-executive Director of DeAM and associated companies.

He was previously a Vice Chairman of the Investment and Financial Services Association and remains on its Nominations Committee. He is a part-time member of the Australian Government's Financial Reporting Council and he is a Director of State Super Financial Services and DB RREEF.

Mr Scullin was the Chairman of the Compliance Committee and was a member of the ARMC. Mr Scullin retired as a Director on 24 August 2007.

### Andrew Fay B Ag Ec (Hons), ASIA

**Alternate Director to Shaun Mays**

Andrew Fay is Chairman of the Board at Deutsche Asset Management (Australia) Limited. He recently stepped down as Head of Deutsche Asset Management Australia following a 20 year career in the financial services sector. Mr Fay joined Deutsche Asset Management in 1994 as a senior portfolio manager in the Australian equities team and became head of the Australian equities team in 1997. In 2000, Fay was appointed Chief Investment Officer for Australia and in April 2005 he was promoted to the position of Head of Australia. He also held the position of Regional Chief Investment Officer, Asia Pacific, from 2002 to July 2006. He is credited with broadening Deutsche Asset Management's product range from its initial domestic manufacturing base to becoming a leading global and alternative investment house in Australia.

Prior to joining Deutsche, Mr Fay spent six years with the investment division of AMP Global Investors working in the fixed interest, economics and Australian equities areas. He graduated from Sydney University with a Bachelor of Agricultural Economics (Honours) degree and has completed a graduate diploma with the Securities Institute of Australia.

Andrew Fay resigned as Alternate Director on 29 November 2007.

## Company Secretary

### Mary Anne Brophy BA, LLM

Mary Anne Brophy has 25 years of legal and commercial experience gained in private practice and as an in-house General Counsel.

For the last 15 years, she has been involved in international energy projects in Australia, the UK and Asia. In the 1990s, Ms Brophy was extensively involved in the privatisation of the electricity industry in the UK.

Subsequently, she was General Counsel for Ogden Corporation's Asia Pacific energy business based in Hong Kong. Prior to joining Spark Infrastructure, Mary Anne was General Counsel and Company Secretary of Envestra Limited.

## Principal Activity

The principal activity of the Trust during the Financial Year was providing loans to related parties.

## Stapled Securities

Spark Infrastructure is a stapled structure, wherein:

- one share in Spark Infrastructure Holdings (No. 1) Limited ("SIH No. 1");
- one share in Spark Infrastructure Holdings (No. 2) Limited ("SIH No. 2");
- one Unit in the Trust;
- one CHESS Depositary Interest representing one share in Spark Infrastructure Holdings International Limited (Spark International); and
- one loan note issued by the responsible entity of the Trust

are "stapled" and are quoted on the Australian Securities Exchange as if they were a single Security.

## Review of Operations

The Trust made a profit after tax of $7.398 million (2006 period: $7.586 million ) during the Financial Year.

### Distributions

The Trust has increased its cash distribution in respect of the Financial Year to 18.06 cents per Security ("cps"), which represents an increase of 1.0 cps (or 5.5%) over the forecast provided in the Prospectus/Product Disclosure Statement. The final distribution in respect of the Financial Year of 9.53 cps will be paid on 14 March 2008 and will comprise of 6.85cps interest on loan notes and 2.68 cps capital distribution.

The following table summarises distributions in respect of the Financial Year:

| | | Cents per Security | | | Cash Distribution ($'000) | | |
|---|---|---|---|---|---|---|---|
| **Distribution Period** | **Distribution Date** | **Interest on Loan Notes** | **Capital Distribution** | **Total** | **Interest on Loan Notes** | **Capital Distribution** | **Total** |
| Interim distribution for the year ended 31 December 2007 | 14 September 2007 | 6.74 | 1.79 | 8.53 | 67,983 | 18,055 | 86,038 |
| Final distribution for the year ended 31 December 2007 | 14 March 2008 | 6.85 | 2.68 | 9.53 | 69,093 | 27,032 | 96,125 |
| **Total** | | 13.59 | 4.47 | 18.06 | 137,076 | 45,087 | 182,163 |

All distributions were unfranked.

## Information Applicable to Registered Schemes

The fees paid to Spark RE, the responsible entity of the Trust, and its associates (including Directors) are disclosed in Note 15 to the Financial Statements.

Spark RE does not hold any Stapled Securities. The number of Stapled Securities at the beginning and end of the Financial Year are disclosed in Note 9 to the Financial Statements.

## Changes in State of Affairs

There has been no change in the activities of the Trust during the Financial Year.

# **DIRECTORS' REPORT** CONTINUED

## Future Developments

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

## Events Occurring after Reporting Date

The Directors of Spark RE are not aware of any other matter or circumstance not otherwise dealt with in this report that has significantly affected or may significantly affect the operations or the state of affairs in the period since 31 December 2007.

## Non-Audit Services

Details of amounts paid or payable to the external auditor for non-audit services provided during the Financial Year are outlined in Note 11 to the Financial Statements.

The Directors are satisfied that the non-audit services, provided by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are of the opinion that the services as disclosed in Note 11 to the Financial Statements do not compromise the external auditor's independence, based on advice received from the ARMC, for the following reasons:

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

## Indemnification of Officers and Auditors

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

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

## Options over Securities

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

## Environmental Regulations

The Trust is not subject to any environmental regulations.

## Directors' Meetings

The business of the Trust is carried out by the responsible entity, Spark RE.

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

During the Financial Year, ten Board meetings, seven ARMC meetings and four Compliance Committee meetings were held:

| | Board of Directors | | Audit and Risk Management Committee | | Compliance Committee | |
|---|---|---|---|---|---|---|
| **Directors** | **Eligible to Attend** | **Attended** | **Eligible to Attend** | **Attended** | **Eligible to Attend** | **Attended** |
| Stephen Johns | 10 | 10 | – | – | – | – |
| Hing Lam Kam | 9 | 2 | – | – | – | – |
| Andrew Hunter (as Director) | 9 | 9 | 7 | 2 | – | – |
| Shaun Mays | 10 | 8 | 3 | – | – | – |
| Brian Scullin[a] | 6 | 5 | 3 | 2 | 4 | 4 |
| John Dorrian (as Director)[b] | 4 | 4 | 1 | 1 | – | – |
| Don Morley | 10 | 10 | 7 | 7 | – | – |
| Cheryl Bart | 10 | 8 | 7 | 5 | – | – |
| Peter St George | 10 | 10 | 7 | 7 | – | – |
| John Dorrian (as Alternate Director)[b] | 3 | 3 | – | – | – | – |
| Andrew Fay[c] | 2 | 2 | – | – | – | – |
| Andrew Hunter (as Alternate Director)[d] | 7 | 7 | – | – | – | – |

[a] Brian Scullin retired on 24 August 2007.

[b] John Dorrian was an Alternate Director for Brian Scullin until 24 August 2007. He was appointed Director from that date.

[c] Alternate Director for Shaun Mays until his resignation on 29 November 2007.

[d] Alternate Director for HL Kam.

## Directors' Stapled Security Holdings

The relevant interest of each Director in the Stapled Securities of Spark Infrastructure as at the date of this report is as follows:

| Directors | Opening Balance (No.) | Net Movement Acquired/Disposed (No.) | Closing Balance (No.) |
|---|---|---|---|
| Stephen Johns | 330,000 | 25,000 | 355,000 |
| Hing Lam Kam | – | – | – |
| Andrew Hunter | – | – | – |
| Shaun Mays[a] | 167,000 | (167,000) | – |
| Brian Scullin | – | – | – |
| John Dorrian | 162,150 | – | 162,150 |
| Don Morley | 225,000 | – | 225,000 |
| Cheryl Bart | 125,000 | – | 125,000 |
| Peter St George | 71,400 | – | 71,400 |
| Andrew Fay | – | – | – |

[a] Shaun Mays was required to dispose of his holdings because of legal restrictions relating to his residency in the United States of America.

## Remuneration Report

### Remuneration of Directors

The Directors' fees are reviewed annually by the Board and are subject to an aggregate fees pool limit of $2,000,000 per annum (inclusive of superannuation). Any increase to this limit will be submitted to the Stapled Security Holders at an Annual General Meeting for approval.

The Trust's share of remuneration (including superannuation) of each Director paid or accrued in respect of the Financial Year is set out below:

| Directors | | Director's Fees $ | Post-Employment Benefits – Superannuation $ | Total $ |
|---|---|---|---|---|
| Stephen Johns | **2007** | **70,624** | **4,376** | **75,000** |
| | 2006 | 62,528 | 4,139 | 66,667 |
| Hing Lam Kam[e] | **2007** | **33,333** | **–** | **33,333** |
| | 2006 | 25,000 | – | 25,000 |
| Andrew Hunter[a e] | **2007** | **35,500** | **–** | **35,500** |
| | 2006 | – | – | – |
| Shaun Mays[e] | **2007** | **35,500** | **–** | **35,500** |
| | 2006 | 25,000 | – | 25,000 |
| Brian Scullin[b] | **2007** | **23,754** | **–** | **23,754** |
| | 2006 | 25,000 | – | 25,000 |
| John Dorrian[c e] | **2007** | **11,738** | **–** | **11,738** |
| | 2006 | – | – | – |
| Don Morley | **2007** | **34,277** | **3,390** | **37,667** |
| | 2006 | 5,734 | 19,266 | 25,000 |
| Cheryl Bart | **2007** | **32,305** | **3,195** | **35,500** |
| | 2006 | 22,936 | 2,064 | 25,000 |
| Peter St George | **2007** | **35,500** | **–** | **35,500** |
| | 2006 | 25,000 | – | 25,000 |
| Eric Kwan[d e] | **2007** | **–** | **–** | **–** |
| | 2006 | 25,000 | – | 25,000 |
| **Total** | **2007** | **312,531** | **10,961** | **323,492** |
| | 2006 | 216,198 | 25,469 | 241,667 |

[a] Andrew Hunter was an Alternate Director in the 2006 period and was therefore not entitled to any remuneration.

[b] Brian Scullin retired on 24 August 2007.

[c] John Dorrian was appointed as a Director on 24 August 2007; the remuneration relates to the period from that date.

[d] Eric Kwan retired as a Director on 1 December 2006.

[e] The Director's fee for Mr Kam, Mr Hunter and Mr Kwan was paid to CKI, while the fee for Mr Mays and Mr Dorrian was paid to RREEF Infrastructure.

# **DIRECTORS' REPORT** CONTINUED

The Directors do not receive Securities, options or other performance related incentives. Alternate Directors are not paid any fees.

Spark Infrastructure appointed a leading external consulting firm to benchmark the remuneration of the Directors with that of comparable enterprises. The firm utilised market remuneration information from various sources and compared the remuneration paid to Spark Infrastructure's Directors with comparable enterprises based on:

- market capitalisation;
- revenue;
- total Assets; and
- a combination of all the above parameters.

Based on the report from the firm, the Board approved annual remuneration, including post-employment benefits payable to Directors, as follows with effect from 1 January 2007, as follows:

| **Role** | **$** |
|---|---|
| Chairman | 225,000 |
| Non-executive Director | 100,000 |
| Additional fee for enhanced responsibility: | |
| – Chairman of ARMC | 13,000 |
| – ARMC member | 6,500 |
| – Chairman of Compliance Committee | 10,000 |
| – Compliance Committee member | 5,000 |

The remuneration paid to Directors is shared equally by the three operating entities in Spark Infrastructure. The Trust incurred a fee of $323,492 in 2007 (2006 period: $241,667).

### Remuneration of Executives

The Trust does not have any employees. Spark Infrastructure Management Limited (the "Manger"), as the manager of Spark Infrastructure, makes employees (including senior executives) available under the Management Agreement. The Trust is not liable for expenses referable to the executives. Accordingly, executive remuneration details are not provided in this report.

## Management Fees

Spark RE was paid a management fee of $100,000 (2006 period: $100,000).

## Auditor's Independence Declaration

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 53.

## Rounding of Amounts

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

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

On behalf of the Directors:

**S Johns**
Chairman
Sydney
25 February 2008

**D Morley**
Director

# AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Sydney NSW 2000
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The Board of Directors
Spark Infrastructure RE Limited
as responsible entity for Spark Infrastructure Trust
255 George Street
Sydney, NSW 2000

25 February 2008

Dear Directors

**Spark Infrastructure Trust**

In accordance with section 307C of the Corporations Act 2001, I provide the following declaration of independence to the directors of Spark Infrastructure RE Limited as responsible entity for Spark Infrastructure Trust.

As lead audit partner for the audit of the financial statements of Spark Infrastructure Trust for the financial year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

S C Gustafson
Partner
Chartered Accountants

Member of
Deloitte Touche Tohmatsu

# **INCOME** STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

| | Notes | **01/01/07 – 31/12/07 $'000** | 08/11/05 – 31/12/06 $'000 |
|---|---|---|---|
| Interest income from related parties | | 137,014 | 141,143 |
| Other income from related parties | | 8,539 | 8,264 |
| Other income - interest | | 73 | 36 |
| | | 145,626 | 149,443 |
| General and administrative expenses | | (1,214) | (713) |
| **Profit before Income Tax and Loan Notes Interest** | 2 | 144,412 | 148,730 |
| Interest expense – loan notes | | (137,014) | (141,144) |
| **Profit before Income Tax Attributable to Stapled Security Holders** | | 7,398 | 7,586 |
| Income tax (expense)/benefit | 3 | – | – |
| **Net Profit for the Period Attributable to Stapled Security Holders** | | 7,398 | 7,586 |
| **Basic and Diluted Earnings per Unit (cents)** | 12 | 0.73 | 0.75 |

Notes to the Financial Statements are included on pages 58 to 66.

# BALANCE SHEET

AS AT 31 DECEMBER 2007

| | Notes | 2007 $'000 | 2006 $'000 |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | 17 | 26 | 456 |
| Loans to related parties | 4 | 195,706 | 226,470 |
| Other receivables | 5 | 47,011 | 40,133 |
| **Total Current Assets** | | 242,743 | 267,059 |
| **Non-Current Assets** | | | |
| Loans to related parties | 6 | 1,262,804 | 1,262,804 |
| **Total Non-Current Assets** | | 1,262,804 | 1,262,804 |
| **Total Assets** | | 1,505,547 | 1,529,863 |
| **Current Liabilities** | | | |
| Payables | 7 | 78 | 966 |
| Loan notes interest payable to Stapled Security Holders | | 68,963 | 69,025 |
| **Total Current Liabilities** | | 69,041 | 69,991 |
| **Non-Current Liabilities** | | | |
| Loan notes attributable to Stapled Security Holders | 8 | 1,231,515 | 1,231,515 |
| **Total Non-Current Liabilities** | | 1,231,515 | 1,231,515 |
| **Total Liabilities** | | 1,300,556 | 1,301,506 |
| **Net Assets** | | 204,991 | 228,357 |
| **Equity** | | | |
| Unitholders' Funds | 9 | 190,007 | 220,771 |
| Retained earnings | 10 | 14,984 | 7,586 |
| **Total Equity** | | 204,991 | 228,357 |
| **Attributable to Stapled Security Holders as:** | | | |
| Total equity | | 204,991 | 228,357 |
| Loan notes | | 1,231,515 | 1,231,515 |
| **Total Equity and Loan Notes** | | 1,436,506 | 1,459,872 |

Notes to the Financial Statements are included on pages 58 to 66.

# STATEMENT OF **CHANGES IN EQUITY**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

| | Notes | 01/01/07 – 31/12/07 $'000 | 08/11/05 – 31/12/06 $'000 |
|---|---|---|---|
| Total equity at beginning of the Financial period | | 228,357 | - |
| Net profit | 10 | 7,398 | 7,586 |
| **Total Recognised Income and Expense** | | 235,755 | 7,586 |
| Transactions with Stapled Security Holders: | | | |
| – Units Issued | 9 | – | 230,000 |
| – Unit issue cost | 9 | – | (5,699) |
| – Capital distributions | 9 | (30,764) | (3,530) |
| **Total Equity at end of the Period** | | 204,991 | 228,357 |

Notes to the Financial Statements are included on pages 58 to 66.

# **CASH FLOW** STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

| | Notes | **01/01/07 – 31/12/07 $'000** | 08/11/05 – 31/12/06 $'000 |
|---|---|---|---|
| **Cash Flows Related to Operating Activities** | | | |
| Interest received – related parties | | 137,076 | 72,119 |
| Other income – related parties | | 8,539 | – |
| Other expenses | | (2,107) | – |
| Interest received – other | | 73 | 36 |
| **Net Cash Inflow Related to Operating Activities** | 17(b) | 143,581 | 72,155 |
| **Cash Flows Related to Investing Activities** | | | |
| Amounts advanced to related parties | | (6,935) | (1,492,803) |
| **Net Cash Outflow Related to Investing Activities** | | (6,935) | (1,492,803) |
| **Cash Flows Related to Financing Activities** | | | |
| Proceeds from issue of Units | | – | 230,000 |
| Payments for Unit issue costs | | – | (5,699) |
| Proceeds from issue of loan notes | | – | 1,262,803 |
| Payment of loan notes issue costs | | – | (31,288) |
| Amounts received from related parties | | 30,764 | 40,937 |
| Distributions to Stapled Security Holders: | | | |
| – Loan notes interest | | (137,076) | (72,119) |
| – Capital Distribution | | (30,764) | (3,530) |
| **Net Cash (Outflow)/Inflow Related to Financing Activities** | | (137,076) | 1,421,104 |
| **Net (Decrease)/Increase in Cash and Cash Equivalents for the period** | | (430) | 456 |
| Cash and cash equivalents at beginning of the period | | 456 | – |
| **Cash and Cash Equivalents at end of the Period** | 17(a) | 26 | 456 |

Notes to the Financial Statements are included on pages 58 to 66.

# **NOTES** TO THE FINANCIAL STATEMENTS

## 1. Summary of Accounting Policies

### Basis of Preparation and Statement of Compliance

This financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001, accounting standards and interpretations, and complies with other requirements of the law.

This financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of consideration given in exchange for assets.

The Financial Statements comply with Australian equivalents to International Financial Reporting Standards ("A-IFRS"). Compliance with A-IFRS ensures that the Financial Statements and notes comply with the International Financial Reporting Standards ("IFRS").

The financial report was authorised for issue by the Directors of Spark RE on 25 February 2008.

### Standards Not Yet Effective

During the Financial Year, the Trust adopted all the new and revised standards and interpretations issued by the Australian Accounting Standards Board (the "AASB") that are relevant to its operations and effective for the current accounting period. However, certain standards, amendments and interpretations that are on issue but not effective have not been applied in the preparation of this report. The following standards have not been applied in preparation of this report:

- AASB 101 "Presentation of Financial Statements" – revised standard (effective for annual reporting periods beginning on or after 1 January 2009).

  The standard will result in a number of changes to the presentation of the financial statements, including:
  - presenting all non-owner changes in equity ('comprehensive income') either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income may not be presented in the statement of changes in equity;
  - presenting an additional statement of financial position (balance sheet) as at the beginning of the earliest comparative period when the entity applies an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in its financial statements (this would generally mean that three balance sheets are presented in these circumstances);
  - disclosing income tax relating to each component of other comprehensive income; and
  - disclose reclassification adjustments relating to components of other comprehensive income.

  The standard will not have any financial impact on the disclosed results of the Trust.
- AASB 2007-4 "Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments" (effective for annual reporting periods beginning on or after 1 July 2007).

The above amendments arise as a result of the AASB's decision that, in principle, all options that currently exist under IFRS should be included in the A-IFRS and additionally Australian disclosures should be eliminated, other than those considered particularly relevant to the Australian reporting environment.

While the Standard increases the accounting policy options available to organisations, these changes are not expected to significantly impact Spark Infrastructure. The principal impact on Spark Infrastructure, would relate to disclosures (eg the standard allows cash flow statement to be presented using the indirect method). This option will be attractive to the Trust given the nature of income (e.g. interest income) that is derived.

### Significant Accounting Policies

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

#### (a) Acquisition of Assets

The purchase method of accounting is used for all acquisitions of assets. Cost is determined as the fair value of the assets given up, equity issued or liabilities assumed at the date of acquisition plus incidental costs directly attributable to the acquisition.

#### (b) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

#### (c) Cash and Cash Equivalents

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

#### (d) Creditors and Accruals

Trade creditors and accruals are recognised when there is an obligation to make future payments resulting from the purchase of goods and services.

#### (e) Financial Instruments

*Debt and Equity Instruments*

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

*Transaction Costs on the Issue of Equity Instruments*

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

*Interest, Dividends and Distributions*

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

### (f) Goods and Services Tax

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

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

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

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

### (g) Impairment of Other Tangible and Intangible Assets

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

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

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

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

### (h) Taxes

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

### (i) Registration

The Trust was registered on 8 November 2005.

### (j) Loans and Receivables

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

### (k) Revenue Recognition

*Dividend and Interest Revenue*

Dividend revenue from investments is recognised when the right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### (l) Rounding of Amounts

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

### (m) Comparatives

The comparatives are for the period from the date of registration of the Trust (as set out in Note 1(i)) to 31 December 2006.

# **NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

| | **01/01/07 – 31/12/07 $'000** | 08/11/05 – 31/12/06 $'000 |
|---|---|---|
| **2. Profit for the Financial Period** | | |
| **General and Administrative Expenses** | | |
| Management fee – Spark RE | 100 | 100 |
| Directors' fees | 323 | 242 |
| Other expenses | 791 | 371 |
| | 1,214 | 713 |
| **3. Income Taxes** | | |
| **Income Tax Recognised in Profit or Loss** | | |
| The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the Financial Statements as follows: | | |
| Profit from continuing operations | 7,398 | 7,586 |
| Income tax expense calculated at 30% | 2,219 | 2,276 |
| Tax effect on operating results of the Trust (Note 1(h)) | (2,219) | (2,276) |
| Income tax expense/(benefit) | – | – |

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

| | **2007 $'000** | 2006 $'000 |
|---|---|---|
| **4. Loans to Related Parties** | | |
| Non-interest bearing loan[a] | 195,706 | 226,470 |
| **5. Other Receivables** | | |
| GST recoverable | 4 | – |
| Related party receivable | 47,007 | 40,133 |
| | 47,011 | 40,133 |
| **6. Loans to related parties** | | |
| Non-interest bearing loan[a] | 1,262,804 | 1,262,804 |
| **7. Payables** | | |
| Payables to related parties | – | 966 |
| Other | 78 | – |
| | 78 | 966 |
| **8. Loan notes Attributable to Stapled Security Holders** | | |
| Loan notes[a] | 1,231,515 | 1,231,515 |

Note 4: a The loan is repayable on written demand of the lender.

Note 6: a 100 year loan to a related party within Spark Infrastructure at an interest rate of 10.85% per annum unless agreed otherwise.

Note 8: a Loan notes (term of 100 years) carry an interest rate of 10.85% per annum for the period to 30 November 2010 and for periods thereafter interest will be based on a five year swap rate plus a credit margin to be determined.

| | 2007 $'000 | 2006 $'000 |
|---|---|---|

## 9. Unitholders' Funds

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| Balance at beginning of the period | 220,771 | – |
| Units issued | – | 230,000 |
| Unit issue costs | – | (5,699) |
| Capital distributions | (30,764) | (3,530) |
| Balance at end of the period | 190,007 | 220,771 |
| Fully paid Securities | No.'000 | No.'000 |
| Balance at beginning of the period | 1,008,651 | – |
| Issued during the period | – | 1,008,651 |
| Balance at end of the period | 1,008,651 | 1,008,651 |

Each ordinary Unit carries one vote and the right to distributions. Each Unit in the Trust is "stapled" to one share in SIH (No. 1), one share in SIH (NO. 2), one loan note issued by Spark RE and one CHESS Depositary Interest representing one share in Spark International. The stapled Securities are quoted as if they are a single Security.

## 10. Retained Earnings

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| Balance at beginning of the period | 7,586 | – |
| Net profit for the period | 7,398 | 7,586 |
| Balance at end of the period | 14,984 | 7,586 |

## 11. Remuneration of External Auditor

| | $ | $ |
|---|---|---|
| Audit or review of financial report | 60,366 | 48,938 |

The auditor of the Trust is Deloitte Touche Tohmatsu

## 12. Earnings per Unit ("EPU")

| | $'000 | $'000 |
|---|---|---|
| Net profit after tax used to calculate EPU | 7,398 | 7,586 |
| Weighted average number of Unit ('000) | 1,008,651 | 1,008,651 |
| Earnings per Unit (cents) | 0.73 | 0.75 |
| Profit before income tax and loan note interest per Unit | 144,412 | 148,730 |
| Weighted average number of Unit ('000) | 1,008,651 | 1,008,651 |
| Profit before loan note interest per Unit (cents) | 14.32 | 14.75 |

Basic EPU is the same a diluted EPU.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | **Cents Per Unit** | **Total $'000** | Cents Per Unit | Total $'000 |
| **13. Distributions Paid and Payable** | | | | |
| **Distributions Paid:** | | | | |
| Interim distribution in respect of year ended 31 December 2007 paid on 14 September 2007 (2006 period: 15 September 2006) | | | | |
| Interest on loan notes | 6.74 | 67,983 | 6.77 | 68,286 |
| Capital distribution | 1.79 | 18,055 | 0.34 | 3,429 |
| | 8.53 | 86,038 | 7.11 | 71,715 |
| **Distribution Payable:** | | | | |
| Final distribution in respect of the year ended 31 December 2007 payable on 14 March 2008 (2006 period: 15 March 2007) | | | | |
| Interest on loan notes[a] | 6.85 | 69,093 | 6.85 | 69,093 |
| Capital distribution[b] | 2.68 | 27,032 | 1.26 | 12,709 |
| | 9.53 | 96,125 | 8.11 | 81,802 |

[a] recognised amount.

[b] unrecognised amount.

The distributions were unfranked.

## 14. Segment Information

The Trust operates in one business segment, being lending funds to related parties, and one geographical area, being Australia. Therefore, no segment information is provided.

## 15. Related Party Disclosures

### (a) Directors

The persons listed below were Directors of Spark RE during the Financial Year and as at the date of this report except where otherwise stated:

Stephen Johns (Chairman)

Hing Lam Kam

Andrew Hunter

Shaun Mays

John Dorrian (Director since 24 August 2007, until then alternate to Brian Scullin)

Don Morley

Cheryl Bart

Peter St George

In addition, Brian Scullin was a Director until his retirement on 24 August 2007. Andrew Fay was Alternate Director to Shaun Mays till his resignation on 27 November 2007.

*Remuneration*

The Trust bears a proportionate share of remuneration paid to the Directors of Spark Infrastructure. The share of remuneration borne by the Trust is as follows:

| | **2007 $** | 2006 $ |
|---|---|---|
| Directors' fees | 312,531 | 216,198 |
| Post-employment benefits | 10,961 | 25,469 |
| | 323,492 | 241,667 |

## 15. Related Party Disclosures continued

*Individual Directors and Executives Compensation Disclosures*

Information regarding individual Directors' compensation disclosure is provided in the Remuneration Report section of the Directors' Report on pages 51 to 52, as permitted by Corporations Regulations 2.M3.03 and 2M.6.04.

Apart from the details disclosed above, no Director has entered into any material contract with the Trust during or since the end of the previous period, and there were no material contracts involving Directors' interests existing at year end.

*Security Holdings*

The relevant interest of each Director in the Stapled Securities of Spark Infrastructure as at the date of this report is as follows:

| Directors | Opening Balance (No.) | Net Movement Acquired/Disposed (No.) | Closing Balance (No.) |
|---|---|---|---|
| Stephen Johns | 330,000 | 25,000 | 355,000 |
| Hing Lam Kam | – | – | – |
| Andrew Hunter | – | – | – |
| Shaun Mays[a] | 167,000 | (167,000) | – |
| Brian Scullin[b] | – | – | – |
| John Dorrian | 162,150 | – | 162,150 |
| Don Morley | 225,000 | – | 225,000 |
| Cheryl Bart | 125,000 | – | 125,000 |
| Peter St. George | 71,400 | – | 71,400 |
| Andrew Fay | – | – | – |

a Shaun Mays was required to dispose of his holdings because of legal restrictions relating to his residency in the United States of America.

b Retired in the Financial Year

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

| Directors | Opening Balance at Incorporation (No.) | Net Movement Acquired/Disposed (No.) | Closing Balance 31/12/2006 (No.) |
|---|---|---|---|
| Stephen Johns | – | 330,000 | 330,000 |
| Hing Lam Kam | – | – | – |
| Eric Kwan[a] | – | – | – |
| Andrew Hunter | – | – | – |
| Shaun Mays | – | 167,000 | 167,000 |
| Brian Scullin | – | – | – |
| Don Morley | – | 225,000 | 225,000 |
| Cheryl Bart | – | 125,000 | 125,000 |
| Peter St. George | – | 71,400 | 71,400 |
| Edmond Ip[a] | – | – | – |
| John Dorrian | – | 162,150 | 162,150 |
| Andrew Fay | – | – | – |
| Daniel Latham[a] | – | – | – |

a Retired in 2006 Period

### (b) Responsible Entity

The responsible entity of the Trust is Spark RE. During the Financial Year, in addition to reimbursing costs incurred by Spark RE, an amount of $0.100 million (2006 period: $0.100 million) was paid as management fees.

### (c) Key Management Personnel ("KMP")

KMP are those having the authority and responsibility for directing and controlling the activities of the entity. The Directors meet the definition of KMP. However, since the authority and responsibility for directing and controlling activities has not been delegated to the Manager, there are no other KMP in the Trust. The Trust has no employees.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 15. Related Party Disclosures (continued)

### (d) Other related parties

The other related parties of the Trust are primarily entities within Spark Infrastructure and their wholly owned controlled entities.

During the Financial Year, the Trust earned $145.553 million from Spark Infrastructure (Victoria) Pty Limited, comprising of interest income of $137.014 million and $8.539 million in fees associated with provision of debt (2006 period: $149.407 million).

As at 31 December 2007, $195.706 million in non-interest bearing loans, $1,262.804 million in interest bearing loans and $47.007 million in current receivables were due from Spark Infrastructure (Victoria) Pty Limited, comprising of $68.963 million in interest receivable and $21.956 million in current payables.

Spark Infrastructure (Victoria) Pty Limited is a wholly owned subsidiary of SIH No. 1.

## 16. Subsequent Events

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

| | **2007 $'000** | 2006 $'000 |
|---|---|---|

## 17. Notes to the Cash Flow Statement

### (a) Reconciliation of Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents as at the end of the Financial period as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

| | **2007 $'000** | 2006 $'000 |
|---|---|---|
| Cash on hand and at bank | 26 | 456 |
| **Cash and cash equivalents** | 26 | 456 |

### (b) Reconciliation of Profit for the Period to Net Cash Inflow/(Outflow) Related to Operating Activities

| | **01/01/07 – 31/12/07 $'000** | 08/11/05 – 31/12/06 $'000 |
|---|---|---|
| Net profit/(loss) after tax for the period | 7,398 | 7,586 |
| Loan note interest expensed | 137,014 | 141,144 |
| Changes in net assets and liabilities: | | |
| Decrease/(Increase) in assets: | | |
| Current receivables | 66 | (76,575) |
| Increase in liabilities: | | |
| Current payables | (897) | – |
| Net cash inflow related to operating activities | 143,581 | 72,155 |

## 18. Financial Instruments

### (a) Financial Risk Management Objectives

The treasury function manages the financial risks and co-ordinates access to financial markets.

The Trust does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by Spark Infrastructure's policies approved by the Board, which has written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis.

The Trust's activities expose it primarily to the financial risks of changes in interest rates. Where appropriate, Spark Infrastructure enters into a variety of derivative financial instruments to manage its exposure to interest rate movements, including interest rate swaps, forward interest rate contracts and interest rate options.

### (b) Capital Management

The capital structure of the Trust comprises of debt, loan notes attributable to Stapled Security Holders and equity. As the loan notes are a long term instrument and subordinated, they are regarded as part of capital.

The Trust manages its capital to ensure that it will be able to operate as a going concern, while maximising the return to Stapled Security Holders through optimum use of debt and equity.

### (c) Significant Accounting Policies

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

### (d) Market Risk

The Trust does not have any market risk as its loans are issued on a fixed interest rates.

### (e) Interest Rate Risk Management

As the Trust's interest bearing assets and liabilities are predominantly fixed rate, a change in interest rates would not have significantly changed the Trust's profit or loss and equity position.

The following table details the Trust's consolidated entity's exposure to interest rate risk as at 31 December 2007 and 2006 respectively:

| 2007 | Weighted Average Effective Interest Rate % pa | Variable Interest Rate $'000 | Fixed Maturity Dates: Less than 1 Year $'000 | 1 - 5 Years $'000 | 5 Years + $'000 | Non-Interest Bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 6.25 | 26 | – | – | | | 26 |
| Loans to related parties – non-interest bearing | – | – | – | – | – | 195,706 | 195,706 |
| Loans to related parties – interest bearing | 10.85 | – | – | – | 1,262,804 | – | 1,262,804 |
| Other receivables | – | – | – | – | | 47,011 | 47,011 |
| | 10.85 | 26 | – | – | 1,262,804 | 242,717 | 1,505,547 |
| Payables | – | – | – | – | – | 78 | 78 |
| Loan note interest payable | – | – | – | – | – | 68,963 | 68,963 |
| Loan note attributable to Stapled Security Holders | 10.85 | – | – | – | 1,231,515 | – | 1,231,515 |
| | | – | – | – | 1,231,515 | 69,041 | 1,300,556 |

# **NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

## **18. Financial Instruments** (continued)

| 2006 | Weighted Average Effective Interest Rate % pa | Variable Interest Rate $'000 | Fixed Maturity Dates Less than 1 Year $'000 | 1 - 5 Years $'000 | 5 Years + $'000 | Non-Interest Bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 5.99 | 456 | – | – | – | – | 456 |
| Other receivables | – | – | – | – | – | 40,133 | 40,133 |
| Loans to related parties | 9.2 | – | – | – | 1,489,274 | – | 1,489,274 |
| | – | 456 | – | – | 1,489,274 | 40,133 | 1,529,863 |
| Payables | – | – | – | – | – | 966 | 966 |
| Loan note interest payable | – | – | – | – | – | 69,025 | 69,025 |
| Loan notes attributable to Stapled Security Holders | 10.85 | – | – | – | 1,231,515 | – | 1,231,515 |
| | – | – | – | – | 1,231,515 | 69,991 | 1,301,506 |

### **f) Fair Value of Financial Instruments**

The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the Financial Statements approximates their fair values.

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

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

## **19. Additional Information**

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

Level 6, 255 George Street
Sydney NSW 2000
Australia

# **DIRECTORS'** DECLARATION

The Directors declare that:

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

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

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

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

On behalf of the Directors:

**S Johns**
Chairman
Sydney
25 February 2008

**D Morley**
Director

# INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF SPARK INFRASTRUCTURE TRUST

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1217 Australia

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We have audited the accompanying financial report of Spark Infrastructure Trust (the "trust"), which comprises the balance sheet as at 31 December 2007, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration as set out on pages 54 to 67.

We have also audited the compensation disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the compensation of key management personnel ("compensation disclosures") as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("AASB 124"), under the heading "remuneration report" on pages 51 to 52 of the directors' report, and not in the financial report.

### *Directors' Responsibility for the Financial Report and the AASB 124 Compensation Disclosures Contained in the Directors' Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying .appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for the compensation disclosures contained in the directors' report. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report and compensation disclosures contained in the directors' report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and the compensation disclosures comply with AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the compensation disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the compensation disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the compensation disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the compensation disclosures contained in the directors' report.

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

### *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Auditor's Opinion on the Financial Report*

In our opinion:

(a) the financial report of Spark Infrastructure Trust is in accordance with the Corporations Act 2001, including:
  (i) giving a true and fair view of the trust's financial position as at 31 December 2007 and of its performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

### *Auditor's Opinion on the AASB 124 Compensation Disclosures Contained in the Directors' Report*

In our opinion, the compensation disclosures that are contained on pages 51 to 52 under the heading "remuneration report" of the directors' report, comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

S C Gustafson
Partner
Chartered Accountants
Sydney, 25 February 2008

# **SPARK** INFRASTRUCTURE HOLDINGS NO. 2 LIMITED

**(ABN 16 116 940 795)**

## FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

Spark Infrastructure comprises of Spark Infrastructure Holdings No. 1 Limited, Spark Infrastructure Holdings No. 2 Limited, Spark Infrastructure Trust and Spark Infrastructure Holdings International Limited.

Each share in Spark Infrastructure Holdings No. 2 Limited is stapled to one share in Spark Infrastructure Holdings No. 1 Limited, one unit in Spark Infrastructure Trust, one CHESS Depositary Interest representing one share in Spark Infrastructure Holdings International Limited and one Loan Note issued by Spark Infrastructure Trust. The stapled securities trade on the Australian Securities Exchange.

**This financial report relates to the performance of Spark Infrastructure Holdings No. 2 Limited only. As the securities are held by investors in a stapled structure, the financial result of Spark Infrastructure (as lodged with the Australian Securities exchange on 25 February 2008 and contained on pages 1 to 44) represents the most concise information regarding performance of investors' funds.**

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# **DIRECTORS'** REPORT

The Directors of Spark Infrastructure Holdings No. 2 Limited (the "Company") provide this financial report for the year ended 31 December 2007 (the "Financial Year"), in respect of the Company and its controlled entities (together the "Consolidated Entity").

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

## Directors

The persons listed below were Directors of the Company at any time during the Financial Year and as at the date of this report:

Stephen Johns (Chairman)

Hing Lam Kam

Andrew Hunter

Shaun Mays

John Dorrian (Director from 24 August 2007, until that date Alternate Director to Brian Scullin)

Don Morley

Cheryl Bart

Peter St George

In addition, Brian Scullin was a Director until his retirement on 24 August 2007, and Andrew Fay was an Alternate Director for Shaun Mays until his resignation on 29 November 2007.

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

### Stephen Johns BEc, FCA

**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. He is also a Director of Sydney Symphony Limited.

### Hing Lam Kam BSc, MBA

**CKI Board Appointee and Non-Executive Director**

Mr Kam has been Managing Director of Cheung Kong Infrastructure ("CKI") since its incorporation in May 1996 and the Deputy Managing Director of Cheung Kong (Holdings) Limited since February 1993. He has played a leading role in developing the Cheung Kong Group's corporate and strategic direction.

Mr Kam is also the President and Chief Executive Officer of CK Life Sciences International (Holdings) Inc. and an executive director of Hutchison Whampoa Limited and Hong Kong Electric Holdings Limited.

In Australia, he is a Director of CitiPower, Powercor Australia ("Powercor"), ETSA Utilities ("ETSA"), AquaTower and Lane Cove Tunnel Holding Company.

### Andrew Hunter MA, MBA, MICAS, MHKICPA

**CKI Board Appointee and Non-executive Director**

Mr Hunter is currently an executive Director and Chief Operating Officer of CKI. In addition, he serves as Chief Financial Officer of Cheung Kong (Holdings) Limited and is an executive Director of Hong Kong Electric (Holdings) Limited.

Mr Hunter is a member of The Institute of Chartered Accountants of Scotland and of the Hong Kong Institute of Certified Public Accountants. Mr Hunter has more than 24 years experience in accounting and financial management and holds a range of directorships in CKI related companies. He is a Director of CitiPower, Powercor and ETSA.

Mr Hunter is a member of the Audit and Risk Management Committee ("ARMC").

### Shaun Mays BSc (Hons), MSc, MBA

**RREEF Board Appointee and Non-executive Director**

Mr Mays is a Managing Director of Deutsche Bank AG and the Global Head of RREEF Infrastructure, based in New York. He is responsible for managing the global RREEF business which is the fiduciary infrastructure investment operation within Deutsche Asset Management.

Prior to taking up this position, he was Chief Executive Officer of Deutsche Asset Management (Australia) Limited ("DeAM"). He has 20 years experience in the funds management industry in both executive management and investment positions in Australia, the USA and the UK. Prior to joining Deutsche Asset Management, Mr Mays was also the Managing Director of Westpac Financial Services Group. He was Chief Investment Officer of Commonwealth Financial Services after holding the position of Managing Director and Chief Investment Officer at Mercury Asset Management, where he also served on the board of Mercury Asset Management UK plc.

Mr Mays has made significant contributions to industry associations and Australian Government advisory boards throughout his career, including authoring the Australian Government report "Corporate Sustainability: an Investor Perspective (the Mays' Report)" in 2003.

He has held a wide range of directorships on the boards of listed and unlisted companies in Australia, the USA, the UK and Japan. Mr Mays is a non-executive Director of Spark Infrastructure Management Limited and non-executive Chairman of the board of Maher Terminals LLC.

Mr Mays was a member of the ARMC.

# **DIRECTORS' REPORT** CONTINUED

## John Dorrian BA, FCA

**RREEF Board Appointee and Non-executive director**
John Dorrian is a Managing Director of Deutsche Bank AG, Head of RREEF Australia and Co-Head of Infrastructure Investments for RREEF Asia Pacific, the alternative investment management division of Deutsche Asset Management. Prior to this, he advised RREEF on the establishment of Spark Infrastructure and the acquisition of its interests in CitiPower, Powercor and ETSA. He was Spark Infrastructure's Chief Financial Officer until October 2006 and was previously Head of Portfolio Management and Head of Infrastructure and Private Debt for the Global Private Capital division of AMP Henderson Global Investors.

Mr Dorrian has more than 25 years of senior experience in financial and investment markets, and has specialised in infrastructure, private equity and direct investment and funds management for over 15 years. He has been actively involved as a director of a number of significant companies operating in a wide range of industries including airports, electricity generation, electricity and gas distribution and retailing, minerals processing and agribusiness.

He is a Director of CitiPower, Powercor and ETSA Utilities, DeAM, Spark Infrastructure Management Limited, Australia Pacific Airports Corporation Limited, the Port of Geelong, Northern Gas Networks Holdings Limited (UK) and St George Community Housing Limited. A Fellow of The Institute of Chartered Accountants in Australia and a member of the Australian Institute of Company Directors, he holds a Bachelor of Arts.A. in financial management from Macquarie University.

Mr Dorrian is a member of the ARMC.

## Don Morley BSc, MBA, FAustIMM

**Independent Director**
Mr Morley is the Chairman of Alumina Limited (since 2002) and an independent Director of Iluka Resources Limited (since 2002). He was previously a Director of Finance at WMC Limited with over 30 years of service.

Mr Morley is the Chairman of the ARMC.

## Cheryl Bart BCom, LLB

**Independent Director**
Ms Bart is a lawyer and has been a non-executive Director on the board of ETSA since 1995.

She has significant utilities industry experience and is Chairman of the Audit Committee of ETSA and a member of its Compliance Committee.

Her other current directorships include ANZ Trustees Ltd, Economic Development Board (SA), Global Properties Limited, Shaw of Australia, and the Alcohol Education and Rehabilitation Foundation. She is Chairman of the South Australian Film Corporation, the Adelaide Film Festival and the Adelaide Film Festival Investment Fund.

Her previous directorships include Sydney Ports Corporation, the Australian Sports Foundation and the Information Economy Advisory Board.

Ms Bart is a member of the ARMC.

## Peter St George CA (SA), MBA

**Independent Director**
Mr St George is a Director of CHEDHA Holdings Pty Limited, CitiPower and Powercor. He is also a Director of First Quantum Minerals Limited, a mining group listed in Toronto and London, and Boart Longyear Limited, an international mining services group, and is Chairman of Walter Turnbull, an Australian accounting and financial services group. He was also a Director of SFE Corporation Limited from 2000 until it merged with ASX Limited in July 2006.

He was Chief Executive Officer of NatWest Markets Australia from 1995 until its acquisition by Salomon Smith Barney Australia Limited in 1998 and then Co-Chief Executive Officer of Salomon Smith Barney Australia Limited from 1998 to 2001.

Prior to that, Mr St George had more than 20 years experience in senior corporate advisory roles with NatWest Markets and Hill Samuel & Co Limited in London. He qualified as a Chartered Accountant in South Africa and received an Master of Business Administration from the University of Cape Town.

Mr St George is a member of the ARMC.

# Other Directors

## Brian Scullin BEc

**RREEF Board Appointee and Non-executive Director**
Following a career in government and politics in Canberra, Mr Scullin was appointed the inaugural executive Director of the Association of Superannuation Funds of Australia in 1987.

Mr Scullin joined Bankers Trust in Australia in 1993 and held a number of senior positions, with responsibilities including marketing, technology, legal, tax and compliance, security services, investor services and margin lending. He was posted to Tokyo and became the President of Japan Bankers Trust in 1997. In 1999, he was appointed Chief Executive Officer – Asia/Pacific for DeAM.

Mr Scullin retired from full-time employment in 2002 but remains actively involved in the Australian funds management industry through his role as a non-executive Director of DeAM and associated companies. He was previously a Vice Chairman of the Investment and Financial Services Association and remains on its Nominations Committee. He is a part-time member of the Australian Government's Financial Reporting Council and he is a Director of State Super Financial Services and DB RREEF.

Mr Scullin was the Chairman of the Compliance Committee and a member of the ARMC. Mr Scullin retired as a Director on 24 August 2007.

## Andrew Fay BAg Ec (Hons), ASIA

**Alternate Director to Shaun Mays**
Andrew Fay is Chairman of the Board at Deutsche Asset Management (Australia) Limited. He recently stepped down as Head of Deutsche Asset Management Australia following a 20 year career in the financial services sector. Mr Fay joined Deutsche Asset Management in 1994 as a senior portfolio manager in the Australian equities team and became head of the Australian equities team in 1997. In 2000, Fay was appointed Chief Investment Officer for Australia and in April 2005 he was promoted to the position of Head of Australia. He also held the position of Regional Chief Investment Officer, Asia Pacific, from 2002 to July 2006. He is credited with broadening Deutsche Asset Management's product range from its initial domestic manufacturing base to becoming a leading global and alternative investment house in Australia.

Prior to joining Deutsche, Mr Fay spent six years with the investment division of AMP Global Investors working in the fixed interest, economics and Australian equities areas. He graduated from Sydney University with a Bachelor of Agricultural Economics (Honours) degree and has completed a graduate diploma with the Securities Institute of Australia.

Andrew Fay resigned as Alternate Director on 29 November 2007.

## Company Secretary

### Mary Anne Brophy BA, LLM

Mary Anne Brophy has 25 years of legal and commercial experience gained in private practice and as an in-house general counsel.

For the last 15 years, she has been involved in international energy projects in Australia, the UK and Asia. In the 1990s, Ms Brophy was extensively involved in the privatisation of the electricity industry in the UK.

Subsequently, she was General Counsel for Ogden Corporation's Asia Pacific energy business based in Hong Kong. Prior to joining Spark Infrastructure, Mary Anne was General Counsel and Company Secretary of Envestra Limited.

## Principal Activity

The principal activity of the consolidated entity during the Financial Year was investment in an electricity distribution business in South Australia. There has been no significant change in the activities during the Financial Year.

## Stapled Securities

Spark Infrastructure is a stapled structure, wherein:

- one share in Spark Infrastructure Holdings (No. 1) Limited ("SIH No. 1");
- one share in the Company;
- one unit in Spark Infrastructure Trust ("the Trust");
- one loan note issued by the responsible entity of the Trust; and
- one CHESS Depositary Interest ("CDI") representing one share in Spark Infrastructure Holdings International Limited

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

## Review of Operations

The Consolidated Entity made a profit of $37.251million (2006 period: $7.756million). No dividends have been declared during or in respect of the Financial Year (2006 period: nil).

## Changes in State of Affairs

There has been no change in the activities of the Consolidated Entity during the Financial Year.

## Future Developments

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

## Events Occurring after Reporting Date

The Directors of the Company are not aware of any other matter or circumstance not otherwise dealt with in this report that has significantly affected or may significantly affect the operations or the state of affairs in the period since 31 December 2007.

## Non-Audit Services

Details of amounts paid or payable to the external auditor for non-audit services provided during the Financial Year are outlined in Note 12 to the Financial Statements.

The Directors are satisfied that the non-audit services provided by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are also of the opinion that the services as disclosed in Note 12 to the Financial Statements do not compromise the external auditor's independence, based on advice received from the ARMC, for the following reasons:

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

## Indemnification of Officers and Auditors

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

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

## Options over Securities

No options have been granted over the shares of the Company or the stapled securities of Spark Infrastructure.

## Environmental Regulations

The Consolidated Entity is not subject to any environmental regulations. However, ETSA is subject to various environmental regulations. The Directors are not aware of any material breaches of those regulations by ETSA.

## Directors' Meetings

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

# DIRECTORS' REPORT CONTINUED

During the Financial Year, ten Board meetings, seven ARMC meetings and four Compliance Committee meetings were held:

| | Board of Directors | | Audit and Risk Management Committee | | Compliance Committee | |
|---|---|---|---|---|---|---|
| Directors | Eligible to Attend | Attended | Eligible to Attend | Attended | Eligible to Attend | Attended |
| Stephen Johns | 10 | 10 | – | – | – | – |
| Hing Lam Kam | 9 | 2 | – | – | – | – |
| Andrew Hunter (as Director) | 9 | 9 | 7 | 2 | – | – |
| Shaun Mays | 10 | 8 | 3 | – | – | – |
| Brian Scullin[a] | 6 | 5 | 3 | 2 | 4 | 4 |
| John Dorrian (as Director)[b] | 4 | 4 | 1 | 1 | – | – |
| Don Morley | 10 | 10 | 7 | 7 | – | – |
| Cheryl Bart | 10 | 8 | 7 | 5 | – | – |
| Peter St George | 10 | 10 | 7 | 7 | – | – |
| John Dorrian (as Alternate Director)[b] | 3 | 3 | – | – | – | – |
| Andrew Fay[c] | 2 | 2 | – | – | – | – |
| Andrew Hunter (as Alternate Director)[d] | 7 | 7 | – | – | – | – |

[a] Brian Scullin retired on 24 August 2007.

[b] John Dorrian was an Alternate Director for Brian Scullin until 24 August 2007. He was appointed Director from that date.

[c] Alternate Director for Shaun Mays until his resignation on 29 November 2007.

[d] Alternate Director for HL Kam.

Meetings of Board Committees were held on 25 February 2007 and 27 August 2007 and attended by Stephen Johns, Don Morley and Shaun Mays.

## Directors' Stapled Security Holdings

The relevant interest of each Director in the Stapled Securities of Spark Infrastructure as at the date of this report is as follows:

| Directors | Opening Balance 1/1/2007 (No.) | Net Movement Acquired/Disposed (No.) | Closing Balance 31/12/2007 (No.) |
|---|---|---|---|
| Stephen Johns | 330,000 | 25,000 | 355,000 |
| Hing Lam Kam | – | – | – |
| Andrew Hunter | – | – | – |
| Shaun Mays[a] | 167,000 | (167,000) | – |
| John Dorrian | 162,150 | – | 162,150 |
| Don Morley | 225,000 | – | 225,000 |
| Cheryl Bart | 125,000 | – | 125,000 |
| Peter St George | 71,400 | – | 71,400 |
| Andrew Fay | – | – | – |

[a] Shaun Mays was required to dispose of his holdings because of legal restrictions relating to his residency in the United States of America.

# Remuneration Report

## Remuneration of Directors

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

The Directors' fees are reviewed annually by the Board and are subject to an aggregate fees pool limit of $2,000,000 per annum (inclusive of superannuation). Any increase to this limit will be submitted to the Stapled Security Holders at an Annual General Meeting for approval.

The Directors do not receive securities, options or any performance related incentives. The Alternative Directors are not paid any fees.

Details of remuneration (including superannuation) of each Director paid or accrued in respect of the Financial Year are set out below. The remuneration paid to Directors is shared equally by the three operating entities in Spark Infrastructure. The Company's share of the remuneration was $323,492 for the Financial Year.

The Company's share of remuneration (including superannuation) of each Director paid or accrued in respect of the Financial Year is set out below:

| Directors | | Director's Fees $ | Post-Employment Benefits – Superannuation $ | Total $ |
|---|---|---|---|---|
| Stephen Johns | **2007** | **70,624** | **4,376** | **75,000** |
| | 2006 | 62,528 | 4,138 | 66,666 |
| Hing Lam Kam[e] | **2007** | **33,333** | **–** | **33,333** |
| | 2006 | 25,000 | – | 25,000 |
| Andrew Hunter[a e] | **2007** | **35,500** | **–** | **35,500** |
| | 2006 | – | – | – |
| Shaun Mays[e] | **2007** | **35,500** | **–** | **35,500** |
| | 2006 | 25,000 | – | 25,000 |
| Brian Scullin[b] | **2007** | **23,754** | **–** | **23,754** |
| | 2006 | 25,000 | – | 25,000 |
| John Dorrian[c e] | **2007** | **11,738** | **–** | **11,738** |
| | 2006 | – | – | – |
| Don Morley | **2007** | **34,277** | **3,390** | **37,667** |
| | 2006 | 5,734 | 19,266 | 25,000 |
| Cheryl Bart | **2007** | **32,305** | **3,195** | **35,500** |
| | 2006 | 22,936 | 2,064 | 25,000 |
| Peter St George | **2007** | **35,500** | **–** | **35,500** |
| | 2006 | 25,000 | – | 25,000 |
| Eric Kwan[d e] | **2007** | **–** | **–** | **–** |
| | 2006 | 25,000 | – | 25,000 |
| **Total** | **2007** | **312,531** | **10,961** | **323,492** |
| | 2006 | 216,198 | 25,468 | 241,666 |

[a] Andrew Hunter was an alternate director in 2006 and was therefore not entitled to any remuneration.

[b] Brian Scullin retired on 24 August 2007.

[c] John Dorrian was appointed as a Director on 24 August 2007; the remuneration relates to period from that date.

[d] Eric Kwan retired as a Director on 1 December 2006.

[e] The Director's fee for Mr Kam, Mr Hunter and Mr Kwan was paid to CKI, while the fee for Mr Mays and Mr Dorrian was paid to RREEF Infrastructure

Spark Infrastructure appointed a leading external consulting firm to benchmark the remuneration of the Directors with that of comparable enterprises. The firm utilised market remuneration information from various sources and compared the remuneration paid to Spark Infrastructure Director's with comparable enterprises based on:

- market capitalisation;
- revenue;
- total assets; and
- a combination of all the above parameters.

# **DIRECTORS' REPORT** CONTINUED

Based on the report from the firm, the Board of Directors approved annual remuneration, including post employment benefits payable to Directors, as follows with effect from 1 January 2007:

| Role | $ |
|---|---|
| Chairman | 225,000 |
| Non-executive Director | 100,000 |
| Additional fee for enhanced responsibility: | |
| – Chairman of ARMC | 13,000 |
| – ARMC member | 6,500 |
| – Chairman of Compliance Committee | 10,000 |
| – Compliance Committee member | 5,000 |

The remuneration paid to Directors is shared equally by the three operating entities in Spark Infrastructure. The Company's incurred a fee of $323,492 in 2007 (2006 period: $241,666).

In addition to the remuneration received from Spark Infrastructure, Ms Cheryl Bart was also entitled to a fee of $30,000 (2006: $30,000) to act as a representative Director of Spark Infrastructure on the ETSA board.

### Remuneration of Executives

The Consolidated Entity does not have any employees. Spark Infrastructure Management Limited ("Manager"), as the manager of Spark Infrastructure, makes employees (including senior executives) available under the Management Agreement. The Company is not liable for expenses referable to the executives. Accordingly, executive remuneration details are not provided in this report.

## Management Fees

The Consolidated Entity paid a management fee of $6.009 million in 2007 (2006 period: $5.451million), being its share of management fee.

## Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 77.

## Rounding of Amounts

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

Signed in accordance with a resolution of the Directors of the Company:

**S Johns**
Chairman
Sydney
25 February 2008

**D Morley**
Director

# **AUDITOR'S** INDEPENDENCE DECLARATION

**Deloitte.**

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
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Sydney NSW 2000
PO Box N250 Grosvenor Place
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The Board of Directors
Spark Infrastructure Holdings No.2 Limited
255 George Street
Sydney, NSW 2000

25 February 2008

Dear Directors

**Spark Infrastructure Holdings No.2 Limited**

In accordance with section 307C of the Corporations Act 2001, I provide the following declaration of independence to the directors of Spark Infrastructure Holdings No.2 Limited.

As lead audit partner for the audit of the financial statements of Spark Infrastructure Holdings No.2 Limited for the financial year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

S C Gustafson
Partner
Chartered Accountants

Member of
Deloitte Touche Tohmatsu

# **INCOME** STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

| | | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | **Notes** | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 |
| Income from associates: | | | | | |
| – Share of equity profits | 2 (a) | 109,603 | 97,524 | – | – |
| Other income – interest | | – | 5 | – | 5 |
| | | 109,603 | 97,529 | – | 5 |
| Management fees | | (6,009) | (5,451) | – | – |
| Interest expense – other | 2 (b) | (81,340) | (83,791) | – | – |
| General and administrative expenses | 2 (c) | (939) | (531) | (860) | (531) |
| **Profit/(Loss) Before Income Tax** | | 21,315 | 7,756 | (860) | (526) |
| Income Tax Benefit | 3 | 15,936 | – | – | – |
| **Net Profit/(loss) for the Period After Tax** | | 37,251 | 7,756 | (860) | (526) |
| **Basic and Diluted Earnings per Share (Cents)** | 13 | 3.69 | 0.77 | – | – |

Notes to the financial statements are included on pages 82 to 98.

# **BALANCE** SHEET

AS AT 31 DECEMBER 2007

| | | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | Notes | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| **Current Assets** | | | | | |
| Cash and cash equivalents | | 70 | 5 | 70 | 5 |
| Loans to related party | 4 | 23,769 | 42,318 | – | – |
| **Total Current Assets** | | 23,839 | 42,323 | 70 | 5 |
| **Non-Current Assets** | | | | | |
| Investments in associates: | | | | | |
| – Investments accounted for using the equity method | 5 | 1,197,371 | 1,129,665 | – | – |
| Other financial assets | 6 | – | – | 136,556 | 136,556 |
| **Total Non-Current Assets** | | 1,197,371 | 1,129,665 | 136,556 | 136,556 |
| **Total Assets** | | 1,221,210 | 1,171,988 | 136,626 | 136,561 |
| **Current Liabilities** | | | | | |
| Payables | 7 | 48,984 | 30,351 | 4,840 | 3,915 |
| Loan from related party | 8 | 207,190 | 225,740 | – | – |
| **Total Current Liabilities** | | 256,174 | 256,091 | 4,840 | 3,915 |
| **Non-Current Liabilities** | | | | | |
| Loans from related party | 8 | 749,673 | 749,673 | – | – |
| **Total Non-Current Liabilities** | | 749,673 | 749,673 | – | – |
| **Total Liabilities** | | 1,005,847 | 1,005,764 | 4,840 | 3,915 |
| **Net Assets** | | 215,363 | 166,224 | 131,786 | 132,646 |
| **Equity** | | | | | |
| – Issued Capital | 9 | 133,172 | 133,172 | 133,172 | 133,172 |
| Reserves | 10 | 16,143 | 5,157 | – | – |
| Retained earnings | 11 | 66,048 | 27,895 | (1,386) | (526) |
| **Total Equity** | | 215,363 | 166,224 | 131,786 | 132,646 |

Notes to the financial statements are included on pages 82 to 98.

# STATEMENT OF **CHANGES IN EQUITY**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

| | | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | **Notes** | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 |
| Total equity at beginning of the period | | 166,224 | – | 132,646 | – |
| Share of associates income recognised directly in equity | | 27,824 | 25,296 | – | – |
| Related Tax | | (15,936) | – | – | – |
| Net Income directly recognised in equity | | 11,888 | 25,296 | – | – |
| Net profit/(loss) for the period | 11 | 37,251 | 7,756 | (860) | (526) |
| **Total Recognised Income and Expense** | | 49,139 | 33,052 | (860) | (526) |
| Transactions with Stapled Security Holders: | | | | | |
| – Shares issued | 9 | – | 136,556 | – | 136,556 |
| – Share issue costs | 9 | – | (3,384) | – | (3,384) |
| **Total Equity at end of the Period** | | 215,363 | 166,224 | 131,786 | 132,646 |

Notes to the financial statements are included on pages 82 to 98.

# **CASH FLOW** STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

| | | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | **Notes** | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 |
| **Cash Flows Related to Operating Activities** | | | | | |
| Income from associate – preferred partnership capital | | 69,635 | 59,905 | – | – |
| Interest received – other | | – | 5 | – | 5 |
| Interest paid – other | | (69,635) | (70,198) | – | – |
| Management fees | | (6,009) | – | – | – |
| Other | | (939) | – | (860) | – |
| **Net Cash (Outflow)/Inflow Related to Operating Activities** | 20(b) | (6,948) | (10,288) | (860) | 5 |
| **Cash Flows Related to Investing Activities** | | | | | |
| Loans (repaid) to/received from related parties | | – | 983,730 | – | – |
| Loans received/(advanced) – other | | 18,549 | (42,318) | – | – |
| Amounts (paid to)/advanced by related parties | | (11,536) | – | 925 | – |
| Payments for investments | | – | (1,066,751) | – | (136,556) |
| **Net Cash Inflow/(Outflow) Related to Investing Activities** | | 7,013 | (125,339) | 925 | (136,556) |
| **Cash Flows Related to Financing Activities** | | | | | |
| Proceeds from issue of share and units | | – | 136,556 | – | 136,556 |
| Proceeds from issue of loan notes | | – | (3,384) | – | (3,384) |
| Amounts received from related parties | | – | 2,460 | – | 3 ,384 |
| **Net Cash Inflow Related to Financing Activities** | | – | 135,632 | – | 136,556 |
| **Net Increase in Cash and Cash Equivalents for the Period** | | 65 | 5 | 65 | 5 |
| Cash at the Beginning of the Period and Cash Equivalents | | 5 | – | 5 | – |
| **Cash and Cash Equivalents at end of the Period** | 20(a) | 70 | 5 | 70 | 5 |

Notes to the financial statements are included on pages 82 to 98.

# **NOTES** TO THE FINANCIAL STATEMENTS

## 1. Summary of Accounting Policies

### Basis of Preparation and Statement of Compliance

This financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001, accounting standards and interpretations, and complies with other requirements of the law.

The financial report includes the separate financial statements of the Company and the consolidated financial statements of the Consolidated Entity.

This financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of consideration given in exchange for assets.

The financial report complies with Australian equivalents to International Financial Reporting Standards ("A-IFRS"). Compliance with A-IFRS ensures that the financial statements and notes comply with the International Financial Reporting Standards ("IFRS").

The financial statement was authorised for issue by the Directors on 25 February 2008.

### Standards Not Yet Effective

During the Financial Year, the Company adopted all the new and revised standards and interpretations issued by the Australian Accounting Standards Board (the "AASB") that are relevant to its operations and effective for the current accounting period. However, certain standards, amendments and interpretations that are on issue but not effective have not been applied in the preparation of this report. The following standards have not been applied in preparation of this report:

- AASB 101 "Presentation of Financial Statements" – revised standard (effective for annual reporting periods beginning on or after 1 January 2009).

The standard will result in a number of changes to the presentation of the financial statements, including:

- presenting all non-owner changes in equity ('comprehensive income') either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income may not be presented in the statement of changes in equity;
- presenting an additional statement of financial position (balance sheet) as at the beginning of the earliest comparative period when the entity applies an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in its financial statements (this would generally mean that three balance sheets are presented in these circumstances);
- disclosing income tax relating to each component of other comprehensive income; and
- disclose reclassification adjustments relating to components of other comprehensive income.

The standard will not have any financial impact on the disclosed results of the Company and the Consolidated Entity.

- AASB 2007-4 "Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments" (effective for annual reporting periods beginning on or after 1 July 2007).

The above amendments arise as a result of the AASB's decision that, in principle, all options that currently exist under IFRS should be included in the A-IFRS and additionally Australian disclosures should be eliminated, other than those considered particularly relevant to the Australian reporting environment.

While the standard increases the accounting policy options available to organisations, these changes are not expected to significantly impact the Consolidated Entity. The principal impact on the Consolidated Entity, would relate to disclosures (eg the standard allows cash flow statement to be presented using the indirect method). This option will be attractive to the Consolidated Entity as it would provide better disclosure given the nature of income that is derived.

### Going Concern

The net current liabilities for the period is $232.335 million. The Directors consider the application of the going concern principle to be appropriate to the Consolidated Entity as payables are due to related parties within Spark Infrastructure, who share the same Directors as the Consolidated Entity, and therefore it is expected that continual financial support would be provided when required to the Consolidated Entity.

### Significant Accounting Policies

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

#### (a) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all entities that comprise the Consolidated Entity, being the Company and its subsidiaries as defined in AASB 127 "Consolidated and Separate Financial Statements".

#### (b) Acquisition of Assets

The purchase method of accounting is used for all acquisitions of assets. Cost is determined as the fair value of the assets given up, equity issued or liabilities assumed at the date of acquisition plus incidental costs directly attributable to the acquisition.

#### (c) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

#### (d) Cash and Cash Equivalents

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

### (e) Creditors and Accruals

Trade creditors and accruals are recognised when there is an obligation to make future payments resulting from the purchase of goods and services.

### (f) Financial Instruments

*Debt and Equity Instruments*

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

*Transaction Costs on the Issue of Equity Instruments*

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

*Interest, Dividends and Distributions*

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

### (g) Goods and Services Tax

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

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

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

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

### (h) Impairment of Other Tangible and Intangible Assets

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

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

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

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

### (i) Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

*Tax Consolidation Legislation*

Tax consolidation group has been formed within the Consolidated Entity, whereby wholly owned Australian resident entities have combined together to form a tax consolidated group that will be taxed under Australian taxation law as if it was a single entity. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of members of a tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the head entity in the relevant tax consolidated group. Further details are provided in Note 3.

# **NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

## 1. Summary of Accounting Policies (continued)

### (j) Incorporation
The date of incorporation of the Company was 1 November 2005.

### (k) Investments in Associates
Investments in Associates is accounted for using the equity method of accounting. The associates are entities over which the Consolidated Entity has significant influence and that are neither subsidiaries nor joint ventures.

Under the equity method, investments in the associates are carried in the balance sheet at cost plus post-acquisition changes in share of net assets of the associates. After application of the equity method, the Consolidated Entity determines whether it is necessary to recognise any impairment loss with respect to its net investment in associates.

The Consolidated Entity's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in equity is recognised in reserves/retained earnings, as appropriate. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the individual entity's income statement.

### (l) Loans and Receivables
Loans to associates and other receivables are recorded at amortised cost less any impairment.

### (m) Revenue Recognition
Dividend revenue from investments is recognised when the right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### (n) Investments in Subsidiaries
The investments in subsidiaries are accounted for at cost.

### (o) Accounting Estimates and Judgements
- On 15 December 2005, the Consolidated Entity acquired 49% interest in ETSA Utilities in South Australia. The Consolidated Entity is required to reflect its equity accounted investment in the business by reference to its share of fair value of net assets of the business. This assessment of fair value by the Consolidated Entity resulted in a notional increase in the carrying value of certain depreciable assets and amortisable intangible assets (i.e. licences), which are depreciated/amortised over the estimated useful life of such assets, extending up to 200 years. As a result of this, the share of the Consolidated Entity's equity accounted profits has been adjusted by additional depreciation and amortisation arising from the increase in the carrying value.
- At each reporting date, the Consolidated Entity tests whether there are any indicators of impairment in accordance with Note 1(h). ETSA is regarded as a cash generating unit for the purposes of such testing indicators of impairment. If such indicators are established, a discounted cashflow analysis will be undertaken.
- Deferred Tax Assets are recognised to the extent that it is probable that there is sufficient taxable amounts available against which deductable temporary differences or unused tax losses and tax offsets can be utilised. As at 31 December 2007, an amount of $86.697 million has not been recognised on the basis that the above recognition criteria was not met.

### (p) Rounding of Amounts
The Consolidated Entity is an entity of the kind referred to in ASIC Class Order 98/0100, relevant amounts in the financial report and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise indicated.

### (q) Comparatives
The comparatives are for the period from the date of incorporation of the Company (as set out in Note 1(j)) to 31 December 2006.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 |
| **2. Profit for the Period** | | | | |
| **(a) Income** | | | | |
| Income from associates: | | | | |
| – Share of equity accounted profits | 109,603 | 97,524 | – | – |
| **(b) Expenses** | | | | |
| Interest expense – other: | | | | |
| – Interest on related party debt | 81,340 | 83,791 | – | – |
| **(c) General and Administrative Expenses** | | | | |
| Directors' fees | 323 | 242 | 323 | 242 |
| Other expenses | 616 | 289 | 537 | 289 |
| | 939 | 531 | 860 | 531 |
| **3. Income Taxes** | | | | |
| **(a) Income Tax Recognised in Profit or Loss** | | | | |
| The prima facie income tax expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense in the financial statements as follows: | | | | |
| Profit/(loss) from continuing operations | 21,315 | 7,756 | (860) | (526) |
| Income tax expense calculated at 30% | 6,394 | 2,327 | (258) | (158) |
| Offsets from unused tax losses | (6,394) | (2,327) | 258 | 158 |
| Tax benefit in respect of losses on items directly recognised in equity | (15,936) | – | – | – |
| Income tax expense/(benefit) | (15,936) | – | – | – |
| The tax rate of 30% used above is the current Australian corporate tax rate. There has been no change in the corporate tax rate during the Financial Year. | | | | |
| **(b) Unrecognised Deferred Tax Balances** | | | | |
| The following deferred tax assets have not been brought to account as assets: | | | | |
| Tax losses – revenue | 86,697 | 77,821 | – | – |

An amount of $49.358 million has been recognised in deferred tax liabilities and offset against available tax losses, resulting in net unrecognised deferred tax asset of $86.697 million.

# **NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

## 3. Income Taxes (continued)

### Tax Consolidation

The Company and its wholly owned Australian resident entities have formed a tax consolidated group and are taxed as a single entity. The Company is head entity of the tax consolidated group. The members of the tax consolidated group are identified in Note 19.

**Nature of Tax Funding Arrangements and Tax Sharing Agreements**

Entities within the tax consolidated group have entered into a tax funding arrangement and a tax sharing agreement. Under the terms of the funding agreement, the Company and each of the entities in the tax consolidated group have agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group.

The tax sharing agreement between members of the tax consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote at this time.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| **4. Loans to Related Party** | | | | |
| Loans – interest free[a] | 23,769 | 42,318 | – | – |

[a] The loan is repayable on written demand of the lender.

## 5. Investments Accounted for Using the Equity Method

### (a) Investments in Associates

| **Name of Entity** | **Principal Activity** | **Ownership Interest (%) 2007** | **Ownership Interest (%) 2006** | **Country of Incorporation/ Formation** |
|---|---|---|---|---|
| ETSA Utilities Partnership | Ownership of an electricity distribution network in South Australia | 49 | 49 | Australia |

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| **(b) Share of assets and liabilities of Associates** | | | | |
| Current assets | 138,593 | 126,123 | – | – |
| Non-current assets | 2,045,471 | 2,006,221 | – | – |
| Total assets | 2,184,064 | 2,132,344 | – | – |
| Current liabilities | 170,149 | 189,300 | – | – |
| Non-current liabilities | 1,398,389 | 1,396,313 | – | – |
| Total liabilities | 1,568,538 | 1,585,613 | – | – |
| **Net assets** | 615,526 | 546,731 | – | – |
| Preferred partnership capital – ETSA | 622,300 | 622,300 | – | – |
| Net assets applicable to Consolidated Entity | 1,237,826 | 1,169,031 | – | – |

| | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 |
|---|---|---|---|---|
| **(c) Share of Associate's revenue and expenses** | | | | |
| Revenue – Distribution | 240,314 | 234,572 | – | – |
| Revenue – Unregulated/other | 127,194 | 97,897 | – | – |
| Operating revenue | 367,508 | 332,469 | – | – |
| Revenue – Transmission | 78,725 | 74,213 | | |
| | 446,233 | 406,682 | – | – |
| Expenses | (371,139) | (344,905) | – | – |
| Profit before income tax | 75,094 | 61,777 | – | – |
| Income tax | – | – | – | – |
| Net profit accounted for using the equity accounting method | 75,094 | 61,777 | – | – |
| Additional share of profit from preferred partnership capital[a] | 35,323 | 36,583 | – | – |
| | 110,417 | 98,360 | | |
| Additional depreciation/amortisation charge[b] | (814) | (836) | – | – |
| | 109,603 | 97,524 | – | – |

[a] Under the Partnership agreement, Spark Infrastructure Holdings No 2 Limited is entitled to an additional share of profits in the ETSA partnership.

[b] Relates to fair value on uplift of assets on acquisition.

# **NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 |
| **5. Investments Accounted for Using the Equity Method (continued)** | | | | |
| **(d) Movement in Carrying Amounts** | | | | |
| Carrying amount at beginning of the period | 1,129,665 | – | – | – |
| Equity investments acquired | – | 1,066,750 | – | – |
| Share of profits after income tax | 109,603 | 97,524 | – | – |
| Preferred Partnership Distribution received | (69,635) | (59,905) | – | – |
| Share of associates income recognised directly in equity | 27,824 | 25,296 | – | – |
| Other movements | (86) | – | – | – |
| Carrying amount at the end of the period | 1,197,371 | 1,129,665 | – | – |

### (e) Contingent Liabilities and Capital Commitments

The share of Consolidated Entity's Capital and other commitments are provided in Note 14 and 15 respectively.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| **6. Other Financial Assets** | | | | |
| Shares in controlled entities – at cost | – | – | 136,556 | 136,556 |
| **7. Payables** | | | | |
| Payables to related parties | 48,984 | 30,351 | 4,840 | 3,915 |
| **8. Loans from Related Parties** | | | | |
| Loans (current) – non-interest bearing[a] | 207,190 | 225,740 | – | – |
| Loans (non-current) – interest bearing[b] | 749,673 | 749,673 | – | – |
| | 956,863 | 975,413 | – | – |

[a] The lender, a related party within Spark Infrastructure, may recall the loan at its discretion or cancel the loan upon such payment.

[b] 100 year loan from a related party within Spark Infrastructure at an interest rate of 10.85% per annum unless agreed otherwise.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| **9. Issued Capital** | | | | |
| Balance at beginning of the period | | | | |
| Shares issued: | 133,172 | – | 133,172 | – |
| – Attributable to the Stapled Security Holders | – | 136,556 | – | 136,556 |
| | – | 136,556 | – | 136,556 |
| Share issue cost | – | (3,384) | – | (3,384) |
| Balance at end of the period | 133,172 | 133,172 | 133,172 | 133,172 |
| Fully paid shares | **No.'000** | No.'000 | **No.'000** | No.'000 |
| Balance at beginning of the period | 1,008,651 | – | 1,008,651 | – |
| Issued during the period | – | 1,008,651 | – | 1,008,651 |
| Balance at end of the period | 1,008,651 | 1,008,651 | 1,008,651 | 1,008,651 |

The ordinary shares and units carry one vote per share and the right to distributions.

Each share in SIH (No. 2) is "stapled" to one share in SIH (No. 1), one unit in the Trust, one loan note issued by the responsible entity of the Trust and one CDI representing one share in Spark International. The stapled securities are quoted on the ASX and trade as if they are a single security.

| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
|---|---|---|---|---|
| **10. Reserves** | | | | |
| Hedging Reserve | | | | |
| Balance at beginning of period | 5,157 | – | – | – |
| Share of associates gains on hedges[a] | 17,905 | 5,157 | – | – |
| Related tax | (6,919) | – | – | – |
| Balance at end of period | 16,143 | 5,157 | – | – |

[a] The hedging reserve represents hedging gains recognised on the effective portion of cash flow hedges of ETSA. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss.

| | | | | |
|---|---|---|---|---|
| **11. Retained Earnings** | | | | |
| Balance at beginning of period | 27,895 | – | (526) | – |
| Net profit for the period | 37,251 | 7,756 | (860) | (526) |
| Share of associate's actuarial gain recognised directly in Retained Earnings | 9,919 | 20,139 | – | – |
| Related tax | (9,017) | – | – | – |
| Balance at end of period | 66,048 | 27,895 | (1,386) | (526) |

| | **01/01/07 – 31/12/07 $** | 01/11/05 – 31/12/06 $ | **01/01/07 – 31/12/07 $** | 01/11/05 – 31/12/06 $ |
|---|---|---|---|---|
| **12. Remuneration of Auditor** | | | | |
| Audit or review of financial report | 60,367 | 48,938 | 60,367 | 48,938 |

The auditor of the Consolidated Entity and the Company is Deloitte Touche Tohmatsu.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| **13. Earnings per Share ("EPS")[a]** | | | | |
| Net Profit after tax used to calculate EPS | 37,251 | 7,756 | – | – |
| Weighted average number of shares ('000) | 1,008,651 | 1,008,651 | – | – |
| Earnings per share (cents) | 3.69 | 0.77 | – | – |

a Basic EPS is the same as diluted EPS.

## 14. Commitments for Expenditure

| | CONSOLIDATED 2007 $'000 | CONSOLIDATED 2006 $'000 | COMPANY 2007 $'000 | COMPANY 2006 $'000 |
|---|---|---|---|---|
| **(a) Capital Expenditure commitments** | | | | |
| Share of associate's capital expenditure commitments | | | | |
| – Not longer than 1 year | 954 | 1,184 | – | – |
| **(b) Other Expenditure Commitments** | | | | |
| Share of associate's other expenditure commitments | | | | |
| – Not longer than 1 year | 126 | 179 | – | – |
| – Longer than 1 year and not longer than 5 years | 66 | 66 | – | – |
| – Longer than 5 years | 1 | 29 | – | – |
| | 193 | 274 | – | – |

## 15. Contingent Liabilities

| | CONSOLIDATED 2007 $'000 | CONSOLIDATED 2006 $'000 | COMPANY 2007 $'000 | COMPANY 2006 $'000 |
|---|---|---|---|---|
| Share of associate's contingent liabilities | 5,642 | 6,818 | – | – |
| | 5,642 | 6,818 | – | – |

The contingent liabilities relate to guarantees provided to various parties. There are no contingent liabilities or contingent assets in the Consolidated Entity.

## 16. Segment Information

The Consolidated Entity operates in one business segment, being ownership of investment in electricity distribution business, and one geographical area, being South Australia.

## 17. Related Party Disclosures

### (a) Directors

The persons listed below were Directors of the Company during the Financial Year and as at the date of this report:

Stephen Johns (Chairman)

Hing Lam Kam

Andrew Hunter

Shaun Mays

John Dorrian (Director since 24 August 2007, until then Alternate Director to Brian Scullin)

Don Morley

Cheryl Bart

Peter St George

In addition, Brian Scullin was a Director until his retirement on 24 August 2007. Further, Andrew Fay was Alternate Director to Shaun Mays till his resignation on 27 November 2007.

## 17. Related Party Disclosures (continued)

*Remuneration*

The Company bears a proportionate share of remuneration paid to the directors of Spark Infrastructure. The share of remuneration borne by the Company is as follows:

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **01/01/07 – 31/12/07 $** | 01/11/05 – 31/12/06 $ | **01/01/07 – 31/12/07 $** | 01/11/05 – 31/12/06 $ |
| Directors' fees | 312,531 | 216,198 | 312,531 | 216,198 |
| Post-employment benefits | 10,961 | 25,468 | 10,961 | 25,468 |
| | 323,492 | 241,666 | 323,492 | 241,666 |

### Individual Directors Compensation Disclosures

Information regarding individual directors compensation disclosure is provided in the Remuneration Report section of the Directors' Report on pages 75 to 76, as permitted by Corporations Regulations 2.M3.03 and 2M.6.04.

Apart from the details disclosed in this Note, no director has entered into any material contract with the Company or the Consolidatd Entity during or since the end of the previous year, and there were no material contracts involving directors' interests existing at the end of the Financial Year.

### Security Holdings

The relevant interest of each Director in the Stapled Securities of Spark Infrastructure as at the date of this report is as follows:

| Directors | Opening Balance (No.) | Net Movement Acquired/Disposed (No.) | Closing Balance (No.) |
|---|---|---|---|
| Stephen Johns | 330,000 | 25,000 | 355,000 |
| Hing Lam Kam | – | – | – |
| Andrew Hunter | – | – | – |
| Shaun Mays[a] | 167,000 | (167,000) | – |
| Brian Scullin[b] | – | – | – |
| John Dorrian | 162,150 | – | 162,150 |
| Don Morley | 225,000 | – | 225,000 |
| Cheryl Bart | 125,000 | – | 125,000 |
| Peter St. George | 71,400 | – | 71,400 |
| Andrew Fay | – | – | – |

[a] Shaun Mays was required to dispose of his holdings because of legal restrictions relating to his residency in the United States of America.

[b] Retired in the Financial Year

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 17. Related Party Disclosures (continued)

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

| Directors | Opening Balance at Incorporation (No.) | Net Movement Acquired/Disposed (No.) | Closing Balance 31/12/2006 (No.) |
|---|---|---|---|
| Stephen Johns | – | 330,000 | 330,000 |
| Hing Lam Kam | – | – | – |
| Eric Kwan[a] | – | – | – |
| Andrew Hunter | – | – | – |
| Shaun Mays | – | 167,000 | 167,000 |
| Brian Scullin | – | – | – |
| Don Morley | – | 225,000 | 225,000 |
| Cheryl Bart | – | 125,000 | 125,000 |
| Peter St. George | – | 71,400 | 71,400 |
| Edmond Ip[a] | – | – | – |
| John Dorrian | – | 162,150 | 162,150 |
| Andrew Fay | – | – | – |
| Daniel Latham[a] | – | – | – |

[a] Retired in 2006 period

### (b) Manager

Spark Infrastructure has entered into a Management Agreement with Spark Infrastructure Management Limited ("Manager") to provide management services, as set out in the agreement. The services provided include development of financial and investment strategy, preparation of investment proposals for approval by the Board, development of proposals for debt and equity raising, and management of day to day operations.

The term of the Management Agreement is 25 years and terminable by Spark Infrastructure or the Manager under certain circumstances.

The Manager is entitled to a base fee and a performance fee. The base fee is calculated at 0.5% of enterprise value of Spark Infrastructure up to $2.443 billion plus 1.0% of any amount over $2.443 billion. The performance fee is equal to 20% of the amount (if any) by which the accumulated return from Spark Infrastructure exceeds the benchmark return calculated by reference to the Standard and Poors/ASX 200 Industrials Accumulation Index and is calculated each half-year. Any deficit arising from the calculation of the performance fee during a period will be carried forward and deducted from the performance fee calculated in the next period.

During the period, an amount of $12.019 million (2006 period: $11.225 million) was payable to the Manager in base fees. No performance fee was payable. The Manager is jointly owned by CKI and DB RREEF.

The Consolidated Entity's share of base fee was $6.009 million (2006 period:$5.451 million).

### (c) Key Management Personnel ("KMP")

KMP are those having the authority and responsibility for directing and controlling the activities of an entity. The Directors meet the definition of KMP. However, since the authority and responsibility for directing and controlling activities has not been delegated to the Manager, there are no other KMP within the Consolidated Entity.

### (d) Other Related Parties

The other related parties include:

– Associates;
– Subsidiaries; and
– Entities within Spark Infrastructure.

*Associates*

The details of ownership interests in the Associate entity is provided in Note 5(a). An amount of $11.705 million was outstanding in respect of accumulated distributions on preferred partnership capital (2006 period: 23.886 million).

*Subsidiaries*

The details of ownership interest in subsidiaries are provided in Note 19. The terms of the tax sharing and funding agreements entered into between by SIH (No. 2) with its controlled entities are provided in Note 3. There were no amounts outstanding at the end of the financial year from the controlled entities of the Company.

*Entities within Spark Infrastructure*

As at the end of the Financial Year, an amount of $1,005.847 million was outstanding to Spark Infrastructure (Victoria) Limited, a wholly owned subsidiary of SIH(No. 1). This comprised of $956.864 million in loans and $48.984 million in other payables.

During the Financial Year, an amount of $81.340 million was payable in interest on the loans and $6.948 million for other payables ($6.009 million in management fees and $0.939 million in other expenditure).

The term of the loans have been disclosed in Note 8.

## 18. Subsequent Events

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

## 19. Controlled Entities

| Entity | Country of Incorporation | Equity Holdings (%) |
|---|---|---|
| Controlled Entities – SIH (No. 2)[a] | | |
| – Spark Infrastructure (SA) Pty Limited[b] | Australia | 100 |
| – Spark Infrastructure SA (No1) Pty Limited[b] (formerly CKI Utilities Holdings Pty Limited) | Australia | 100 |
| – Spark Infrastructure SA (No2) Pty Limited[b] (formerly CKI/HEI Utilities Holdings Pty Limited) | Australia | 100 |
| – Spark Infrastructure SA (No3) Pty Limited[b] (formerly HEI Utilities Holdings Pty Limited) | Australia | 100 |

[a] Head entity of the tax consolidated group.

[b] An entity within the tax consolidated group.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2007 $'000** | 2006 $'000 | **2007 $'000** | 2006 $'000 |
| **20. Notes to the Cash Flow Statement** | | | | |
| **(a) Reconciliation of Cash and Cash Equivalents** | | | | |
| For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents as at the end of the period as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows: | | | | |
| Cash on hand and at bank | 70 | 5 | 70 | 5 |
| **Cash and cash equivalents** | 70 | 5 | 70 | 5 |

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 | **01/01/07 – 31/12/07 $'000** | 01/11/05 – 31/12/06 $'000 |
| **(b) Reconciliation of profit/(loss) for the period to Net Cashflow related to operating activities** | | | | |
| Net profit/(loss) after tax for the period | 37,251 | 7,756 | (860) | (526) |
| Share of profits of Associates (less dividends) | (39,968) | (37,619) | – | – |
| Income tax benefit | (15,936) | – | – | – |
| Changes in net assets and liabilities | | | | |
| Decrease/(increase) in assets: | | | | |
| Current receivables | – | – | – | – |
| Increase/(decrease) in liabilities: | | | | |
| Current payables | 11,705 | 19,575 | – | 531 |
| Net cash (outflow)/inflow related to operating activities | (6,948) | (10,288) | (860) | 5 |

## 21. Financial Instruments

### (a) Financial Risk Management Objectives

Spark Infrastructure's treasury function manages the financial risks and co–ordinates access to financial markets.

The Consolidated Entity does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by Spark Infrastructure's policies, approved by the Board, which has written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis.

The Consolidated Entity's activities expose it primarily to the financial risks of changes in interest rates. It enters into a variety of derivative financial instruments to manage its exposure to interest rate movements, including interest rate swaps, forward interest rate contracts and interest rate options. The Consolidated Entity has no exposure to foreign currency.

### (b) Capital Management Objectives

The capital structure of the Consolidated Entity comprises of debt and equity. The Consolidated Entity manages its capital to ensure that it will be able to operate effectively while maximizing the return to shareholders through optimum use of debt and equity. There has been no change in the capital management strategy during the Financial Year.

### (c) Significant Accounting Policies

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

### (d) Market Risk

The Consolidated Entity and the Company do not have any market risk as interest rates are fixed.

### (e) Interest Rate Risk Management

As the Consolidated Entity has only fixed rate interest bearing liabilities, any change in interest rates would have no impact on its profit or loss and equity position. The following table details the Consolidated Entity's exposure to interest rate risk as at 31 December 2007 and 2006 respectively:

| Consolidated Entity 2007 | Weighted Average Effective Interest Rate % pa | Variable Interest Rate $'000 | Fixed Maturity Dates Less than 1 Year $'000 | 1 - 5 Years $'000 | 5 Years + $'000 | Non–Interest Bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 5.25% | 70 | – | – | – | – | 70 |
| Loans – other | – | – | – | – | – | 23,769 | 23,769 |
| | – | 70 | – | – | – | 23,769 | 23,839 |
| Payables | – | – | – | – | – | 48,984 | 48,984 |
| Loans from related parties – non-interest bearing | | | | | | 207,190 | 207,190 |
| Loans from related parties – interest bearing | 10.85% | – | – | – | 749,673 | | 749,673 |
| | – | – | – | – | 749,673 | 256,174 | 1,005,847 |

# **NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

## **21. Financial Instruments** (continued)

| Consolidated Entity 2006 | Weighted Average Effective Interest Rate % pa | Variable Interest Rate $'000 | Fixed Maturity Dates Less than 1 Year $'000 | 1 - 5 Years $'000 | 5 Years + $'000 | Non-Interest Bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 4.75% | 5 | – | – | – | – | 5 |
| Loans – other | – | – | – | – | – | 42,318 | 42,318 |
| | – | 5 | – | – | – | 42,318 | 42,323 |
| Payables | – | – | – | – | – | 22,034 | 22,034 |
| Loans from related parties – non-interest bearing | – | | | | | 225,740 | 225,740 |
| Loans from related parties – interest bearing | 10.85% | – | – | – | 749,673 | | 749,673 |
| | – | – | – | – | 749,673 | 247,774 | 997,447 |

| **Company 2007** | **Weighted Average Effective Interest Rate % pa** | **Variable Interest Rate $'000** | **Fixed Maturity Dates Less than 1 Year $'000** | **1 - 5 Years $'000** | **5 Years + $'000** | **Non-Interest Bearing $'000** | **Total $'000** |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 5.25% | 70 | – | – | – | – | 70 |
| | – | 70 | – | – | – | – | 70 |
| Payables | – | – | – | – | – | 4,840 | 4,840 |
| | – | – | – | – | – | 4,840 | 4,840 |

## 21. Financial Instruments (continued)

| Company<br>2006 | Weighted Average Effective Interest Rate % pa | Variable Interest Rate $'000 | Fixed Maturity Dates<br>Less than 1 Year $'000 | 1 - 5 Years $'000 | 5 Years + $'000 | Non-Interest Bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 4.75% | 5 | – | – | – | – | 5 |
| | – | 5 | – | – | – | – | 5 |
| Payables | – | – | – | – | – | 3,915 | 3,915 |
| | – | – | – | – | – | 3,915 | 3,915 |

### (f) Credit risk exposures
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Consolidated Entity. The Consolidated Entity's credit risk arises primarily from cash held on deposit. The Consolidated Entity has a policy of dealing with creditworthy counterparties only as a means of mitigating the risk of financial loss from defaults. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international ratings agencies.

### (g) Liquidity risk
The Consolidated Entity manages liquidity by maintaining adequate cash reserves, banking facilities and monitoring continuously the forecast and actual cashflows. No significant risks have been identified.

### (h) Fair Value of Financial Instruments
The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

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

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

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 22. Additional Company Information

SIH (No. 2) is registered in Australia.
The registered office of business SIH (No. 2) is :

Level 6, 255 George Street
Sydney NSW 2000
Australia.

# **DIRECTORS'** DECLARATION

The Directors declare that:

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

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

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

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

On behalf of the Directors:

**S Johns**
Chairman
Sydney
25 February 2008

**D Morley**
Director

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SPARK INFRASTRUCTURE HOLDINGS NO.2 LIMITED

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
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We have audited the accompanying financial report of Spark Infrastructure Holdings No.2 Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising Spark Infrastructure Holdings No.2 Limited (the parent entity) and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 78 to 99.

We have also audited the compensation disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the compensation of key management personnel ("compensation disclosures") as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("AASB 124"), under the heading "remuneration report" on pages 75 to 76 of the directors' report, and not in the financial report.

### *Directors' Responsibility for the Financial Report and the AASB 124 Compensation Disclosures Contained in the Directors' Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for the compensation disclosures contained in the directors' report. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report and compensation disclosures contained in the directors' report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and the compensation disclosures comply with AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the compensation disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the compensation disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the compensation disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the compensation disclosures contained in the directors' report.

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

### *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Auditor's Opinion on the Financial Report*

In our opinion:

(a) the financial report of Spark Infrastructure Holdings No.2 Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2007 and of their performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

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

### *Auditor's Opinion on the AASB 124 Compensation Disclosures Contained in the Directors' Report*

In our opinion, the compensation disclosures that are contained on pages 75 to 76 under the heading "remuneration report" of the directors' report, comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures*.

DELOITTE TOUCHE TOHMATSU

S C Gustafson
Partner
Chartered Accountants
Sydney, 25 February 2008

# **SPARK** INFRASTRUCTURE HOLDINGS INTERNATIONAL LIMITED

**(ARBN 117 034 492)**

## FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

Spark Infrastructure comprises of Spark Infrastructure Trust, Spark Infrastructure Holdings No.1 Limited, Spark Infrastructure Holdings No.2 Limited and Spark Infrastructure Holdings International Limited.

One CHESS Depositary Interest representing one share in Spark Infrastructure Holdings International Limited is stapled to one unit in Spark Infrastructure Trust, one share in Spark Infrastructure Holdings No.1 Limited, one share in Spark Infrastructure Holdings No.2 Limited and one loan note issued by Spark Infrastructure Trust. The stapled securities trade on the Australian Securities Exchange.

**This financial report relates to the performance of Spark Infrastructure Holdings International Limited only. As the securities are held by investors in a stapled structure, the financial result of Spark Infrastructure (as lodged with the Australian Securities Exchange on 25 February 2008 and contained in pages 1 to 44) represents the most concise information regarding the performance of investors' funds.**

# TABLE OF **CONTENTS**

# **DIRECTORS'** REPORT

The Directors of Spark Infrastructure Holdings International Limited (the "Company") provide this financial report for the year ended 31 December 2007 (the "Financial Year").

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

## Directors

The persons listed below were Directors of the Company at any time during the Financial Year and as at the date of this report:

Stephen Johns (Chairman)

Andrew Hunter

Shaun Mays

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

### Stephen Johns BEc, FCA

**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. He is also a Director of Sydney Symphony Limited.

### Andrew Hunter MA, MBA, MICAS, MHKICPA

**CKI Board Appointee and Non-executive Director**

Mr Hunter is currently an executive Director and Chief Operating Officer of Cheung Kong Infrastructure Holdings Limited ("CKI"). In addition, he serves as Chief Financial Officer of Cheung Kong (Holdings) Limited and is an executive Director of Hong Kong Electric (Holdings) Limited.

Mr Hunter is a member of The Institute of Chartered Accountants of Scotland and of the Hong Kong Institute of Certified Public Accountants. Mr Hunter has more than 24 years experience in accounting and financial management and holds a range of directorships in CKI related companies. He is a Director of CitiPower, Powercor and ETSA.

Mr Hunter is a member of the Audit and Risk Management Committee ("ARMC").

### Shaun Mays BSc (Hons), MSc, MBA

**RREEF Board Appointee and Non-executive Director**

Mr Mays is a Managing Director of Deutsche Bank AG and the Global Head of RREEF Infrastructure, based in New York. He is responsible for managing the global RREEF business which is the fiduciary infrastructure investment operation within Deutsche Asset Management.

Prior to taking up this position, he was Chief Executive Officer of Deutsche Asset Management (Australia) Limited ("DeAM"). He has 20 years experience in the funds management industry in both executive management and investment positions in Australia, the USA and the UK. Prior to joining Deutsche Asset Management, Mr Mays was also the Managing Director of Westpac Financial Services Group. He was Chief Investment Officer of Commonwealth Financial Services after holding the position of Managing Director and Chief Investment Officer at Mercury Asset Management, where he also served on the board of Mercury Asset Management UK plc.

Mr Mays has made significant contributions to industry associations and Australian Government advisory boards throughout his career, including authoring the Australian Government report "Corporate Sustainability: an Investor Perspective (the Mays' Report)" in 2003.

He has held a wide range of directorships on the boards of listed and unlisted companies in Australia, the USA, the UK and Japan. Mr Mays is a non-executive Director of Spark Infrastructure Management Limited and non-executive Chairman of the board of Maher Terminals LLC.

Mr Mays was a member of the ARMC.

## Company Secretary

### Mary Anne Brophy BA, LLM

Mary Anne Brophy has 25 years of legal and commercial experience gained in private practice and as an in-house general counsel.

For the last 15 years, she has been involved in international energy projects in Australia, the UK and Asia. In the 1990s, Ms Brophy was extensively involved in the privatisation of the electricity industry in the UK.

Subsequently, she was General Counsel for Ogden Corporation's Asia Pacific energy business based in Hong Kong. Prior to joining Spark Infrastructure, Mary Anne was General Counsel and Company Secretary of Envestra Limited.

## Principal Activity

The principal activity of the Company is to invest in infrastructure assets outside Australia. There has been no change in the principal activity during the period.

## Stapled Securities

The Spark Infrastructure Group is a stapled structure, wherein:

- one share in Spark Infrastructure Holdings (No. 1) Limited;
- one share in Spark Infrastructure Holdings (No. 2) Limited;
- one unit in Spark Infrastructure Trust ("Spark Trust");
- one loan note issued by the responsible entity of Spark Trust; and
- one CHESS Depositary Interest ("CDI") representing one share in the Company

are "stapled" and are quoted on the Australian Securities Exchange ("ASX") as if they were a single security. The stapled entities are referred to in this report as Spark Infrastructure.

# **DIRECTORS' REPORT** CONTINUED

## Review of Operations
The Company was dormant during the Financial Year.

## Changes in State of Affairs
There has been no change in the activities of Spark Infrastructure during the Financial Year.

## Future Developments
Disclosure of information regarding likely developments in the operations of the Company is likely to result in unreasonable prejudice. Accordingly, such information has not been disclosed in this report.

## Dividends
No dividends were declared or paid during the Financial Year (2006: Nil).

## Events Occurring after Reporting Date
The Directors of the Company are not aware of any other matter or circumstance not otherwise dealt with in this report that has significantly affected or may significantly affect the operations or the state of affairs in the period since 31 December 2007.

## Options over Securities
No options have been granted over the unissued shares of the Company.

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

## Directors' Meetings
During the Financial Year, 2 Board meetings were held:

**Board of Directors**

| Directors | Eligible to Attend | Attended |
|---|---|---|
| Stephen Johns | 2 | 2 |
| Andrew Hunter | 2 | 2 |
| Shaun Mays | 2 | 2 |

## Directors' Stapled Security Holdings
The relevant interest of each Director in the Stapled Securities of Spark Infrastructure as at the date of this report is as follows:

| Directors | Opening Balance 1/1/2007 (No.) | Net Movement Acquired/ Disposed (No.) | Closing Balance 31/12/2007 (No.) |
|---|---|---|---|
| Stephen Johns | 330,000 | 25,000 | 355,000 |
| Andrew Hunter | – | – | – |
| Shaun Mays [a] | 167,000 | (167,000) | – |

a Shaun Mays was required to dispose of his holdings because of legal restrictions relating to his residency in the United States of America.

The relevant interest of each Director in the Stapled Securities of Spark Infrastructure as at the end of the previous year was as follows:

| Directors | Opening Balance at Incorporation (No.) | Net Movement Acquired/ Disposed (No.) | Closing Balance 31/12/2006 (No.) |
|---|---|---|---|
| Stephen Johns | – | 330,000 | 330,000 |
| Andrew Hunter | – | – | – |
| Shaun Mays | – | 167,000 | 167,000 |

## Remuneration Report

### Directors' Remuneration

No remuneration was paid to the Directors of the Company during the Financial Year as the Company was dormant (2006: Nil).

### Remuneration of Executives

The Company does not have any employees. Spark Infrastructure Management Limited ("Manager"), as the manager of Spark Infrastructure, makes employees (including senior executives) available under the Management Agreement. The Company is not liable for expenses referable to the executives. Accordingly, executive remuneration details are not provided in this report.

## Non-Audit Services

The auditors, Deloitte Touche Tohmatsu, did not perform any non-audit services during the Financial Year.

## Indemnification of Officers and Auditors

During the Financial Year, the Company had a contract of insurance indemnifying the Directors against a liability incurred as such a Director to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

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

## Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 106.

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

On behalf of the Directors:

**S Johns**
Chairman
Sydney
25 February 2008

**S Mays**
Director
New York, USA
25 February 2008

# **AUDITOR'S** INDEPENDENCE DECLARATION

**Deloitte.**

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1217 Australia

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Tel: +61 (0) 2 9322 7000
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www.deloitte.com.au

The Board of Directors
Spark Infrastructure Holdings International Limited
255 George Street
Sydney, NSW 2000

25 February 2008

Dear Directors

**Spark Infrastructure Holdings International Limited**

In accordance with section 307C of the Corporations Act 2001, I provide the following declaration of independence to the directors of Spark Infrastructure Holdings International Limited.

As lead audit partner for the audit of the financial statements of Spark Infrastructure Holdings International Limited for the financial year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

S C Gustafson
Partner
Chartered Accountants

Member of
**Deloitte Touche Tohmatsu**

Liability limited by a scheme approved under Professional Standards Legislation.

# **INCOME** STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

| | Notes | **01/01/07 – 31/12/07 $** | 08/11/05 – 31/12/06 $ |
|---|---|---|---|
| Income from associates: | | – | – |
| – Share of equity profits | | – | – |
| – Interest Income | | – | – |
| Interest income from related parties | | – | – |
| Other income from related parties | | – | – |
| Other income – interest | | – | – |
| | | – | – |
| Management fees | | – | – |
| Interest expense – other | | – | – |
| General and administrative expenses | | – | – |
| **Profit/(loss) before Income Tax and Loan Notes Interest** | | – | – |
| Interest expense – loan notes | | – | – |
| **Profit/(loss) before Income Tax Attributable to Stapled Security Holders** | | – | – |
| Income tax (expense)/benefit | | – | – |
| **Net profit/(loss) for the Period Attributable to Stapled Security Holders** | | – | – |
| **Earnings per Share** | | | |
| Weighted average number of shares (no. '000) | | 1,008,651 | 1,008,651 |
| Profit after tax | | – | – |
| Basic earnings per share | | – | – |

(Diluted earnings per share is the same as basic earnings per share)

Notes to the financial statements are included on pages 111 to 114.

# **BALANCE** SHEET

AS AT 31 DECEMBER 2007

| | Notes | **2007 $** | 2006 $ |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | | – | – |
| Receivables from associates | | – | – |
| Loans – others | | – | – |
| Other receivables | | – | – |
| **Total Current Assets** | | – | – |
| **Non-Current Assets** | | | |
| Investments in associates: | | | |
| – Investments accounted for using the equity method | | – | – |
| – Loans to associates | | – | – |
| Other financial assets | | – | – |
| **Total Non-Current Assets** | | – | – |
| **Total Assets** | | – | – |
| **Current Liabilities** | | | |
| Payables | | – | – |
| Loan notes interest payable to Stapled Security Holders | | – | – |
| Other interest bearing liabilities | | – | – |
| **Total Current Liabilities** | | – | – |
| **Non-Current Liabilities** | | | |
| Loan notes attributable to Stapled Security Holders | | – | – |
| Other interest bearing liabilities | | – | – |
| Deferred tax liabilities | | – | – |
| **Total Non-Current Liabilities** | | – | – |
| **Total Liabilities** | | – | – |
| **Net Assets** | | – | – |
| Equity | | | |
| Issued capital attributable to Stapled Security Holders | 2 | – | – |
| Reserves | | – | – |
| Retained earnings | | – | – |
| **Total Equity** | | – | – |

Notes to the financial statements are included on pages 111 to 114.

# STATEMENT OF **CHANGES IN EQUITY**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

| | Notes | **01/01/07 – 31/12/07 $** | 08/11/05 – 31/12/06 $ |
|---|---|---|---|
| Total equity at beginning of the period | | – | – |
| Cash flow hedges – gains on interest rate swaps | | – | – |
| Share of associates income recognised directly in equity | | – | – |
| Related tax | | – | – |
| Net profit/(loss) | | – | – |
| **Total Recognised Income and Expense** | | – | – |
| Transactions with Stapled Security Holders | | | |
| Equity contributed | | – | – |
| Equity issue cost | | – | – |
| Related tax | | – | – |
| Capital distributions | | – | – |
| **Total Equity at end of the Period** | | – | – |
| Total equity at end of the period attributable to: | | | |
| Equity holders of the parent entity | | – | – |
| Minority Interests | | – | – |
| | | – | – |

Notes to the financial statements are included on pages 111 to 114.

# **CASH FLOW** STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

| | Notes | **01/01/07 – 31/12/07 $** | 08/11/05 – 31/12/06 $ |
|---|---|---|---|
| **Cash Flows Related to Operating Activities** | | | |
| Income from associate – preferred partnership capital | | – | – |
| Interest received – associates | | – | – |
| Interest received – other | | – | – |
| Interest paid – other | | – | – |
| Management fees | | – | – |
| Other | | – | – |
| **Net Cash Inflow/(Outflow) Related to Operating Activities** | | – | – |
| **Cash Flows Related to Investing Activities** | | | |
| Amounts advanced to associates | | – | – |
| Amounts advanced – others net of repayments | | – | – |
| Repayment of borrowings – associates | | – | – |
| Payments for investments | | – | – |
| **Net Cash Outflow Related to Investing Activities** | | – | – |
| **Cash Flows Related to Financing Activities** | | | |
| Payments for share and unit issue costs | | – | – |
| Proceeds from issue of loan notes | | – | – |
| Payment of loan notes issue costs | | – | – |
| Proceeds from external borrowings | | – | – |
| Payment for external borrowing costs | | – | – |
| Amounts received from related parties | | – | – |
| Distributions to Stapled Security Holders: | | | |
| – Loan notes interest | | – | – |
| – Capital return | | – | – |
| **Net Cash Inflow Related to Financing Activities** | | – | – |
| **Net Increase in Cash and Cash Equivalents for the Period** | | – | – |
| Cash and Cash equivalents at beginning of the period | | – | – |
| **Cash and Cash Equivalents at End of the Period** | | – | – |

Notes to the financial statements are included on pages 111 to 114.

# **NOTES** TO THE FINANCIAL STATEMENTS

## 1. Summary of Accounting Policies

### Basis of Preparation and Statement of Compliance

This financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001, accounting standards and interpretations, and complies with other requirements of the law.

As the Company was dormant during the Financial year, the following accounting policies relate to that of Spark Infrastructure which will be applied in the future when the Company becomes operational.

This financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of consideration given in exchange for assets.

The financial statements comply with Australian equivalents to International Financial Reporting Standards ("A-IFRS"). Compliance with A-IFRS ensures that the financial statements and notes comply with the International Financial Reporting Standards ("IFRS").

The financial statement was authorised for issue by the Directors on 25 February 2008.

### Standards Not Yet Effective

During the Financial Year, Spark Infrastructure adopted all the new and revised standards and interpretations issued by the Australian Accounting Standards Board ( "AASB") that are relevant to its operations and effective for the current accounting period. However, certain standards, amendments and interpretations that are on issue but not effective have not been applied in the preparation of this report.

- AASB 101 "Presentation of Financial Statements" – revised standard (effective for annual reporting periods beginning on or after 1 January 2009).

  The standard will result in a number of changes to the presentation of the financial statements, including:

  - presenting all non-owner changes in equity ('comprehensive income') either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income may not be presented in the statement of changes in equity;
  - presenting an additional statement of financial position (balance sheet) as at the beginning of the earliest comparative period when the entity applies an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in its financial statements (this would generally mean that three balance sheets are presented in these circumstances);
  - disclosing income tax relating to each component of other comprehensive income; and
  - disclose reclassification adjustments relating to components of other comprehensive income.

The standard will not have any financial impact on the disclosed results of the Company.

- AASB 2007-4 "Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments" (effective for annual reporting periods beginning on or after 1 July 2007).

The above amendments arise as a result of the AASB's decision that, in principle, all options that currently exist under IFRSs should be included in the A-IFRS and additionally Australian disclosures should be eliminated, other than that considered particularly relevant to the Australian reporting environment.

While the Standard increases the accounting policy options available to organisations, these changes are not expected to significantly impact Spark Infrastructure. The principal impact on the consolidated entity, would relate to disclosures (eg the Standard allows cash flow statement to be presented using indirect method. This option will be attractive to Spark Infrastructure as it provides better disclosure, given the nature of income (eg interest income) that is derived.

### Significant Accounting Policies

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

#### (a) Acquisition of Assets

The purchase method of accounting is used for all acquisitions of assets. Cost is determined as the fair value of the assets given up, equity issued or liabilities assumed at the date of acquisition plus incidental costs directly attributable to the acquisition.

#### (b) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

#### (c) Cash and Cash Equivalents

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

#### (d) Creditors and Accruals

Trade creditors and accruals are recognised when there is an obligation to make future payments resulting from the purchase of goods and services.

#### (e) Derivative Financial Instruments

Spark Infrastructure enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps.

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

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

# **NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

## 1. Summary of Accounting Policies (continued)

*Hedge Accounting*
Spark Infrastructure designates certain hedging instruments, which include derivatives, as either fair value hedges or cash flow hedges.

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

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

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

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

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

### (f) Financial Instruments

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

*Transaction Costs on the Issue of Equity Instruments*
Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

*Interest, Dividends and Distributions*
Interest, dividends and distributions are classified as expense, distributions of profit or a return of capital consistent with the balance sheet classification of the related debt or equity instruments.

### (g) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax ("GST"), except:

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

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

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

### (h) Impairment of other tangible and intangible assets

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

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

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

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

### (i) Income Tax

*Current Tax*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

*Deferred Tax*

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in Associates except where Spark Infrastructure is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Spark Infrastructure expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and each Stapled Entity intends to settle its current tax assets and liabilities on a net basis.

*Current and Deferred Tax for the Period*

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

### (j) Investments in Associates

Investments in Associates are accounted for using the equity method of accounting. The Associates are entities over which Spark Infrastructure has significant influence and that are neither subsidiaries nor joint ventures.

Under the equity method, investments in the Associates are carried in the balance sheet at cost plus post-acquisition changes in share of net assets of the Associates. After application of the equity method, Spark Infrastructure determines whether it is necessary to recognise any impairment loss with respect to its net investment in Associates.

Spark Infrastructure's share of its Associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in equity is recognised in reserves/retained earnings, as appropriate. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from Associates are recognised in the individual entity's income statement.

### (k) Loans and Receivables

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

### (l) Revenue Recognition

*Dividend and interest revenue*

Dividend revenue from investments is recognised when the right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### (m) Investments in Subsidiaries

The investments in subsidiaries are accounted at cost.

### (n) Comparatives

The comparatives are for the period from the date of incorporation of the Company on 8 November 2005 to 31 December 2006.

## 2. Share Capital

The authorised share capital of the Company is 5,000,000,000 shares of no par value. Of this, 1,008,651,308 shares have been issued to CHESS Depositary Nominees Limited pursuant to an arrangement to issue CHESS Depositary Interests to the stapled security holders, which includes one special voting share of no par value issued to Spark Infrastructure Management Limited (the Manager of the stapled entities). The special voting share entitles its holder to various rights, which inter alia includes the right to appoint persons up to 50% of the maximum number of Directors permitted under the constitution of the Company.

## 3. Dividend

No dividends were declared or paid during the Financial Year (2006: Nil).

# **NOTES TO THE FINANCIAL STATEMENTS** CONTINUED

## 4. Notes to the Cash Flow Statement
No notes have been presented to the Cash Flow Statement on the basis that the Company holds no cash and has not incurred any expenses in the current or the preceding period.

## 5. Financial Instrument
The Company has never traded and does not hold any financial instrument at the end of the period. Therefore, the Company has no risk associated with financial instruments.

## 6. Segment Information
During the current and the previous financial periods the Company was dormant.

## 7. Related Party Disclosures
### (a) Directors
The persons listed below were Directors of the Company during the Financial Year and as at the date of this report:

Stephen Johns

Andrew Hunter

Shaun Mays

No remuneration was paid to the Directors of the Company during the Financial Year as the Company was dormant (2006: Nil).

### (b) Key Management Personnel ("KMP")
KMP are those having the authority and responsibility for directing and controlling the activities of an entity. The Directors meet the definition of KMP. However, since the authority and responsibility for directing and controlling activities has not been delegated to the Manager, there are no other KMP in the Company. The Company has no employees.

### (c) Other Related Parties
The other related parties of the Company are primarily entities within Spark Infrastructure and their wholly owned subsidiaries. There was no transactions with any other entity within Spark Infrastructure (2006: Nil).

## 8. Remuneration of Auditors
No remuneration was paid to the auditors (2006: Nil) by the Company as the fee was borne by other entities within Spark Infrastructure.

The auditor of the Company is Deloitte Touche Tohmatsu.

## 9. Contingent Liabilities and Contingent Assets
There was no material Contingent Liability or Contingent Asset as at 31 December 2007, which has not already been disclosed.

## 10. Subsequent Events
There has not been any matter or circumstance, other than those referred to in the financial statements, or notes there to, that has arisen since the end of the Financial Period that has significantly affected or may significantly affect, the operations of the Company, the results of these operations or the state of affairs of the Company in future financial periods.

## 11. Company Information
The registered office of the Company is:

c/o MB & H Corporate Services<br>
Mareva House<br>
4 George Street<br>
Nassau<br>
Bahamas

The Company is incorporated in the Bahamas.

# **DIRECTORS'** DECLARATION

The Directors declare that:

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

(b) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company; and

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

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

On behalf of the Directors:

**S Johns**
Chairman
Sydney
25 February 2008

**S Mays**
Director
New York, USA
25 February 2008

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SPARK INFRASTRUCTURE HOLDINGS INTERNATIONAL LIMITED

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
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Sydney NSW 1217 Australia

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We have audited the accompanying financial report of Spark Infrastructure Holdings International Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration as set out on pages 107 to 115.

We have also audited the compensation disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the compensation of key management personnel ("compensation disclosures") as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("AASB 124"), under the heading "remuneration report" on page 105 of the directors' report, and not in the financial report.

### *Directors' Responsibility for the Financial Report and the AASB 124 Compensation Disclosures Contained in the Directors' Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for the compensation disclosures contained in the directors' report. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report and compensation disclosures contained in the directors' report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and the compensation disclosures comply with AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the compensation disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the compensation disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the compensation disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the compensation disclosures contained in the directors' report.

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

### *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001.*

### *Auditor's Opinion on the Financial Report*

In our opinion:

(a) the financial report of Spark Infrastructure Holdings International Limited is in accordance with the *Corporations Act 2001*, including:
   - (i) giving a true and fair view of the company's financial position as at 31 December 2007 and of its performance for the year ended on that date; and
   - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

### *Auditor's Opinion on the AASB 124 Compensation Disclosures Contained in the Directors' Report*

In our opinion, the compensation disclosures that are contained on page 105 under the heading "remuneration report" of the directors' report, comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

S C Gustafson
Partner
Chartered Accountants
Sydney, 25 February 2008

# ADDITIONAL ASX DISCLOSURES

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

## Stapling

As a part of the usual conditions of listing a stapled structure ASX reserves the right to remove any or all of the Stapled Entities from the official list if:

- any of the securities cease to be "stapled" to the securities of the other Stapled Entities; or
- any security is issued by any of the Stapled Entities which is not stapled to corresponding securities in the other Stapled Entities (other than the special voting share for Spark Infrastructure Management Limited).

## Securities issued to the Manager

ASX requires the disclosure of any securities issued to Spark Infrastructure Management Limited as management fees. No such securities have been issued.

## Divestment of securities

Certain provisions in the Stapled Entity constitutions permit the divestment of securities in limited circumstances. These are summarised below.

### Designated Foreign Holders

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

The circumstances under which Spark Infrastructure may cause New Attached Securities to be stapled to the existing Stapled Securities are summarised at page 233 of the Prospectus/Product Disclosure Statement dated 18 November 2005.

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

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

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

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

### Excluded US Persons

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

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

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

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

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

# **SECURITYHOLDER** INFORMATION

At the commencement of the financial period covered by this annual report, Spark Infrastructure's Stapled Securities (except for Cheung Kong Infrastructure Holdings Limited who held in its own right and Australian Executor Trustees Limited as trustee for holders of instalment receipts) were held through an instalment receipt structure. Under that structure, the final instalment and instalment interest was payable on 15 March 2007. On 22 March 2007 the underlying Stapled Securities were transferred to holders of instalment receipts as at 6 March 2007, who had paid the final instalment and instalment interest, on the basis of one stapled security for each instalment receipt in respect of which the final instalment and instalment interest had been paid.

**The Securityholder information set out below was applicable as at 22 February 2008:**

**Twenty largest holders**

| Holder | Number of securities | % of total |
|---|---:|---:|
| JP Morgan Nominees Australia Limited | 209,048,726 | 20.73 |
| National Nominees Limited | 113,834,297 | 11.29 |
| HSBC Custody Nominees (Australia) Lmitied | 88,170,210 | 8.74 |
| CKI Spark Holdings No Three Limited | 88,035,479 | 8.73 |
| Citicorp Nominees Pty Limited | 58,858,794 | 5.84 |
| ANZ Nominees Limited | 51,787,845 | 5.13 |
| Cogent Nominees Pty Limited | 34,601,568 | 3.43 |
| Tasman Asset Management Ltd | 20,923,492 | 2.07 |
| Deutsche PM Nominees Pty Limited | 20,173,026 | 2.00 |
| Questor Financial Services Limited | 9,918,832 | 0.98 |
| Bond Street Custodians Limited | 9,640,951 | 0.96 |
| Merrill Lynch (Australia) Nominees Pty Limited | 7,311,735 | 0.72 |
| Rbc Dexia Investor Services Australia Nominees Pty Limited | 5,337,678 | 0.53 |
| Citicorp Nominees Pty Ltd | 5,125,256 | 0.51 |
| Invia Custodian Pty Limited | 4,900,753 | 0.49 |
| Australian Reward Investment Alliance | 4,422,510 | 0.44 |
| UBS Wealth Management Australia Nominees Pty Ltd | 3,964,212 | 0.39 |
| RBC Dexia Investor Services Australia Nominees Pty Limited | 3,626,354 | 0.36 |
| Citicorp Nominees Pty Limited | 3,373,204 | 0.33 |
| Queensland Investment Corporation | 3,337,234 | 0.33 |
| Total | 746,392,156 | 74.00 |
| Remainder | 262,259,152 | 26.00 |
| **Grand Total** | 1,008,651,308 | 100.00 |

# SECURITYHOLDER INFORMATION CONTINUED

**Distribution of holdings**

| Range | 1 – 1,000 | 1,001 – 5,000 | 5,001 – 10,000 | 10,001 – 100,000 | 100,000 or more | Total |
|---|---|---|---|---|---|---|
| **Holders** | 380 | 4,101 | 3,444 | 5,239 | 254 | 13,418 |
| **Securities** | 290,935 | 13,900,577 | 28,100,600 | 131,331,554 | 835,027,642 | 1,008,651,308 |

| Substantial Holders | Number of shares | % Issued Capital |
|---|---|---|
| Capital Research & Management Company | 106,935,632 | 10.60% |
| Lazard (Institutional Group) | 101,551,123 | 10.07% |
| Cheung Kong Infrastructure Holdings Limited * | 88,035,479 | 8.73% |
| Macquarie (Institutional Group) | 74,726,245 | 7.41% |
| Suncorp (Institutional Group) | 68,343,246 | 6.78% |
| Barclays (Institutional Group) | 52,970,681 | 5.25% |

* CKI and Deutsche Bank AG aggregate each other's interest in substational shareholder notices lodged with Spark Infrastructure. This is not reflected in the above table. The above interests also do not include the special voting share issued to Spark Infrastructure Management Limited described below.

## Voting rights

All Stapled Securities carry one vote per security except for the special voting share issued to Spark Infrastructure Management Limited which allows it to appoint up to 50% of the maximum number of directors permitted under the constitution of each Stapled Entity.

# **CORPORATE** DIRECTORY

## Registered Office

**Spark Infrastructure**
Level 6, 255 George Street Sydney NSW 2000
Telephone: +612 9086 3600
Facsimile: +612 9086 3666
Email: info@sparkinfrastructure.com
Website: www.sparkinfrastructure.com

**Chief Executive Officer of the Manager**
Bob Stobbe

**Chief Financial Officer of the Manager**
Laura Reed

**Investor Relations**
Mario Falchoni

**Company Secretary**
Mary Anne Brophy

## Share registry

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street, Sydney NSW 2000
Postal Address: GPO Box 7045, Sydney NSW 2001
Telephone: (within Australia) 1300 855 080;
(outside Australia) 613 9415 4000
Facsimile: +613 8235 8150
Email: webqueries@computershare.com.au
Website: www.computershare.com

## Notice of Meeting:

11.30am Thursday 24 April 2008
Sofitel Wentworth Hotel
61 Phillip Street
Sydney NSW Australia