



HY2011 NEWSLETTER

Chairman's message

DEAR SECURITYHOLDER,

THE FIRST HALF OF 2011 HAS BEEN FRUITFUL FOR SPARK INFRASTRUCTURE. AT A TIME WHEN VOLATILITY HAS RETURNED TO FINANCIAL MARKETS AROUND THE WORLD, SPARK INFRASTRUCTURE HAS SUCCESSFULLY COMPLETED A NUMBER OF POSITIVE CHANGES.

During the half, the major change was the internalisation of the management function. This involved the acquisition of all of the shares in the holding company of Spark's former management company and responsible entity for a payment of \$49 million.

This has enabled us to eliminate the ongoing payment of fees to the external Manager that was part of our old structure. These fees comprised base management fees of \$8.3 million in 2010, and the potential payment of performance fees. Even more importantly, it has created an independently managed group with enhanced alignment of interests between stakeholders, continuity of management and greater autonomy over decision making.

The Internalisation follows the successful Restructure completed in late 2010. As a result of these initiatives, Spark Infrastructure has shifted from a business focussed primarily on delivering a high yield to investors, to an investment that now offers a solid yield combined with growth.

Our investment in the Asset Companies (ETSA Utilities, CitiPower and Powercor) continues to provide Spark with very strong cashflows. This has allowed us to once again increase our distribution guidance for the current year to 9.5cps. This is 4.3% higher than the original guidance for 2011 of 9.11cps provided last year. Accordingly, we have declared an interim distribution of 4.75cps. We remain confident of growing distributions over the remainder of the current regulatory periods to 2015.

Given our strong financial position, even after taking into account the recent Internalisation payment, the Directors have decided not to reactivate the Distribution Reinvestment Plan (DRP) for the September 2011 distribution. Previously the Board had planned to utilise the DRP to fund the \$49 million Internalisation payment.

The Asset Companies have around four years remaining of their current five year regulatory periods with clearly determined capital and operating allowances, cost pass-throughs, established price paths, and reliable cashflows.

The Australian Energy Regulator (AER) has approved capital expenditure over the current five year regulatory periods that will drive growth in the Regulated Asset Base (RAB) of the Asset Companies at 8% p.a. compound annual growth rate (CAGR). Funding of this capital expenditure with a combination of debt and equity/retained earnings on a 60:40 basis (which is in line with the AER's assumptions) will lead to de-leveraging at the Asset Company level with the ratio of net debt to RAB expected to reduce to around 75% by end 2015. This will result in growth in Spark Infrastructure's equity investment in the Asset Companies' RABs of around 14% p.a. (CAGR). This is indeed an exciting period of growth for our Asset Companies.

As you may be aware, in April of this year I announced that I will be retiring as Chairman of Spark Infrastructure in the second half of 2011. I have now determined in consultation with the Board, that I will retire on the 30th of September 2011. As previously announced I will be succeeded by Brian Scullin. It has been a privilege to serve all Securityholders over the past 6 years. I am grateful for your support during that time.

We are fortunate to have secured the services of Brian Scullin as my successor. Brian brings deep knowledge and a wealth of experience to Spark Infrastructure following a long and distinguished career in the financial services industry.

I would like to thank you, our Securityholders, for your ongoing support of Spark Infrastructure as we approach an exciting new phase and continue to grow as a leading Australian specialist infrastructure fund.



Stephen Johns
Chairman

CITIPOWER'S NEW \$55 MILLION SOUTHBANK ZONE SUBSTATION WILL CATER FOR THE SIGNIFICANT GROWTH IN DEMAND FOR ELECTRICITY IN MELBOURNE'S BUSY INNER-CITY PRECINCTS.

www.sparkinfrastructure.com



Managing Director's Report

DEAR SECURITYHOLDER,

FOLLOWING THE STRATEGIC REVIEW OF 2010 AND THE RESULTING RESTRUCTURE, AND THE SUBSEQUENT INTERNALISATION OF THE MANAGEMENT COMPANY, A NEW SPARK HAS BEEN CREATED.

Our investment case today is built on a platform of yield plus growth. It is based on three core elements:

- the Regulated Asset Bases (RAB) of the Asset Companies are expected to grow at 8% p.a. compound annual growth rate (CAGR), from \$6.8 billion to around \$10 billion, over the current five year regulatory period;
- the Asset Companies plan to deleverage their balance sheets with their ratio of net debt to RAB expected to reduce towards 75% by the end of 2015; and
- as a result, Spark's equity investment in the Asset Companies RAB is projected to grow by 14% p.a. (CAGR) over the same time frame.

Spark's yield is underpinned by reliable earnings and cashflows with regulated revenues determined by the AER. With a growing asset base, a stable operating environment and well run Asset Companies, backed by an experienced, independent Board and management team, our growth prospects are strong. We are confident that the New Spark will appeal to a broader range of investors based on our yield plus growth characteristics.

HY 2011 – Asset Company Performance

The Asset Companies have performed well in 2011. While the businesses were negatively impacted by milder weather across the operating areas and generally subdued economic conditions, total revenue still grew strongly. Regulated revenue was \$676.6 million, up 5.0% on the previous corresponding period.

Further enhancing our growth prospects during the half year was a favourable determination of appeal matters by the Australian Competition Tribunal for ETSA Utilities. This will add \$154.4 million of revenue (Spark's 49% share) in the current regulatory period, which will be recovered from 1 July 2011 to 30 June 2015.

Stronger Asset Company earnings are forecast for the second half of the year as a result of higher revenues from ETSA Utilities resulting from the successful regulatory appeals and from their annual price adjustment to tariffs taking effect from 1 July 2011.

HY 2011 – Spark Infrastructure Performance

Spark Infrastructure's underlying profit before Loan Note interest payable to Securityholders was \$119.2 million, a decrease of 6.9% on the previous corresponding period. The Underlying profit reflects lower Asset Company earnings caused principally by the following events in the current period:

- lower sales volumes due to mild weather and lower consumption in the small commercial sector, which is likely a function of the impacts of subdued economic conditions and the floods in Victoria;

- lower customer contributions (non cash revenue item), largely in ETSA Utilities due to the completion of a large infrastructure project in 2010; and
- higher operating expenditure associated with vegetation clearance, storms in South Australia and floods in Victoria.

If customer contributions, which do not impact the Asset Companies' net cashflows, are excluded, then their EBITDA has risen by 1.8% from the previous corresponding period to \$546.0 million.

Spark remains in a strong cash position, notwithstanding the funding of the Internalisation payment of \$49 million in May 2011. We have cash reserves of \$15.9 million and un-drawn facilities of \$150 million, at 30 June 2011.

Organic growth remains at the core of our growth strategy and the Asset Companies continue to invest in the renewal and expansion of their networks to maintain, and where possible, enhance asset performance and reliability. During the half year, a total of \$352.7 million in net capital expenditure (of which Spark's share was \$172.8 million) was invested by the Asset Companies. This was an increase of 38.5% over the previous corresponding period.

I am confident that Spark Infrastructure will continue to grow value for Securityholders for the rest of 2011 and in the years ahead. I look forward to keeping you updated on our progress.



Laura Reed
Managing Director

Women on Board

According to the Australian Government's Office for Women, women hold just 10.7 per cent of all executive management positions in the private sector and just 9.2 per cent of positions on an ASX 200 Board are held by women.

The Spark Infrastructure Executive Team is led by Managing Director Laura Reed. Along with Anne McDonald (Independent Director) and Cheryl Bart (Independent Director), they make up three of the 7 current Board positions. Chairman Stephen Johns, Chairman-elect Brian Scullin, Andrew Fay (Non-Executive Director) and Keith Turner (Independent Director) hold the other directorships. In addition, Spark Infrastructure's Executive team comprises five executives, two of whom are women.

Following the retirement of Mr. Stephen Johns on 30 September 2011, Spark Infrastructure will have an equal number of male and female representatives making up its Board of Directors, putting it ahead of its peers in this area and leading the way in gender diversity.

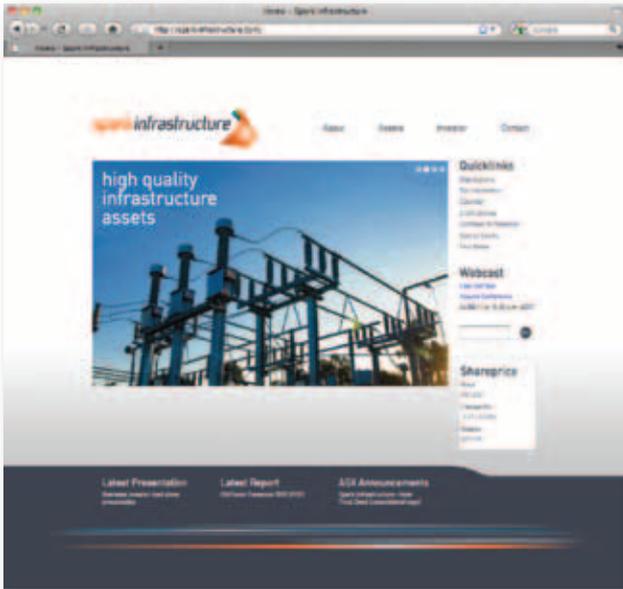
Spark is further proving its commitment to supporting the professional progress of women in the electro-technology industry through ETSA Utilities' Powerful Pathways for Women program. The program aims to provide training and employment opportunities for women in non-traditional and high demand industry areas. You can read more about it in our article titled, Powerful Pathways for Women on page 4.

Introducing the **New Spark**

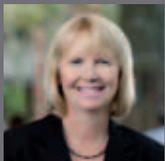
We recently refreshed our branding and unveiled our new logo at the Half Year Results briefing in August, reflecting the first chapter of the New Spark.

The New Spark evolved from the successful Restructure completed at the end of 2010, and our Internalisation completed in May 2011, when Spark became an independent, self-managed group with enhanced alignment of interests, continuity of management and greater autonomy over decision-making.

The refreshed branding design reflects this contemporary structure. Our updated and more user-friendly website further reflects these changes and you can view the new website at www.sparkinfrastructure.com



LAURA REED



Laura has over 20 years' experience working in various financial and commercial roles in the gas industry

and prior to joining Spark Laura spent nine years at ASX-listed gas distribution business Envestra Limited. Laura was appointed as Managing Director in May 2011 having served as CEO of Spark from September 2008 and previously as CFO from February 2007.

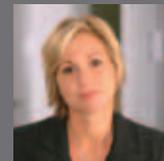
ANNE MCDONALD



As well as being an Independent Director, Anne McDonald is also the Chair of the Audit Risk

and Compliance Committee for Spark Infrastructure. Anne has extensive experience in finance, having served as a partner of Ernst & Young for 15 years until 2005. Anne is also a Non-Executive Director of the GPT Group, Specialty Fashion Group Limited, and Westpac Bank's Life and General Insurance businesses.

CHERYL BART AO



Cheryl Bart is a lawyer and has been a Non-Executive Director on the Board of ETSA since 2005. Cheryl has significant

experience in the utilities industry and she is also Chairman of the Audit Committee of ETSA and a member of its Risk and Compliance Committee.

Cheryl is also a Director on the Board of the Australian Broadcasting Corporation, Chairman of ANZ Trustees Limited, the Environment Protection Authority, South Australian Film Corporation, the Adelaide Film Festival and the Alcohol Education and Rehabilitation Foundation. Cheryl received the Order of Australia in the Australia Day Honours in January 2009.

Brian Scullin, Chairman-elect

Spark Infrastructure recently welcomed Brian Scullin as Chairman-elect to our Board of Directors.

Brian previously served on the Spark Infrastructure Board as a Non-Executive Director from the time of the company's initial public offering (IPO) in 2005 until August 2007. During this time, he was the Chairman of the Compliance Committee and a member of the Audit & Risk Management Committee.

Brian brings to the Spark Board deep knowledge and a wealth of experience after a long and distinguished career in the financial services industry with more than 20 years experience in funds management, both in Australia and Asia.

Brian's previous industry positions include Vice Chairman of the Financial Services Council (then known as IFSA), a part-time member of the Federal Government's Financial Reporting Council and a panel member for the Financial Industry Complaints Service.

Additionally, Brian currently serves as an Independent Non-Executive Chairman of BT Investment Management and as a Director of Dexus Property Group. He is presently a member of the BT Investment Management's Audit and Risk Management Committee and the Chairman of the Remuneration & Nominations Committee.

ETSA – Powerful Pathways for Women program

A unique pre-employment approach to enhancing opportunities for women in the electro-technology industry has achieved a successful response to its pilot program, launched this year.

The *Powerful Pathways for Women* program saw 15 ETSA Utilities employees finalise their training in Port Augusta at the beginning of June, having gained a range of industry-specific skills and knowledge covering topics such as electro-skills, information technology, OHS requirements, chainsaw operation and women's studies.

The *Powerful Pathways* program was collaboratively developed by ETSA Utilities, Playford Alive and the Department of Further Education, Employment, Science and Technology. The State Minister for Employment Training and Further Education Jack Snelling, who attended the launch in March, said additional support by way of a dedicated mentor was also provided by the TAFE SA Women's Education program.

"The program, a first of its kind, is a great example of what can be achieved with strong partnerships between industry and the State Government, to provide training and employment opportunities for women in non-traditional high demand industry areas," Minister Snelling said.

State Minister for the Status of Women Gail Gago was also present at the launch and further praised the program for its commitment to encouraging women to take advantage of training in non-traditional employment areas.

"I am proud to have the Office of Women work alongside ETSA Utilities, as well as DFEST, in supporting this program" Minister Gago said.

The program is fully-funded by the program partners to ensure it is accessible to women in Northern SA, regardless of their circumstances.

New Substation to Serve Growing Demand

CitiPower's new \$55 million Southbank Zone Substation was officially opened on June 7 by the Victorian Energy Minister, Michael O'Brien alongside the Lord Mayor, Robert Doyle and CEO, Shane Breheny.

The Southbank Zone Substation will cater for the significant growth in demand for electricity in Melbourne's busy inner-city precincts and CEO, Shane Breheny said the Southbank Zone Substation also marked a significant step forward in design, technology and capacity for the CitiPower network, which is already Australia's most reliable electricity distribution network.

"The Southbank Zone Substation provides innovative solutions for our rapidly changing city which will also enhance CitiPower's ability to supply surrounding areas including the CBD and inner suburbs south of the Yarra," Mr Breheny said.

Victorian Energy Minister, Michael O'Brien also said that the Substation was essential for the state to ensure access to a reliable, secure and affordable electricity supply.

"The new substation is great news for Southbank and for Melbourne. It will guarantee reliability of supply and add capacity and resilience to the electricity system," Minister O'Brien said.

The project is one of the largest ever undertaken by CitiPower and the new substation has nearly three times the capacity of its predecessor. In future, the substation will also be used to supply a larger area, including the southern parts of the CBD.

CitiPower and Powercor Celebrate Future Business Leaders with Annual Awards

The CitiPower and Powercor annual Apprentice and Trainee Awards were held on May 26 this year with 12 winners across Victoria being recognised for high performance and dedication to their role.

In addition, 'Mentor of the Year' awards were presented to Neville Hunt of Bendigo and John Stasiewicz of Melbourne. Neville and John received the awards in recognition of their dedication to tuition, guidance and leadership for apprentices and trainees, throughout the year.

CitiPower and Powercor's Apprentice Program Coordinator, Steve McConnell praised the efforts of all of the apprentices and trainees and said he was looking forward to the next intake of highly motivated employees to begin their journey toward a long and successful career in the electricity industry.

"Through our structured training programs, we will provide new recruits with everything they need to earn their qualifications while placing critical emphasis on the best possible health and safety practices," he said.

CitiPower and Powercor Resource Manager Central, Peter Garlick said the awards were a chance to reflect upon the achievements of a critical workforce development program.

"CitiPower and Powercor have maintained a strong commitment to their recruitment program, hiring new recruits every year for almost a decade now. This has occurred even through the years when economic and employment conditions have been severely constrained," he said.

The awards were held at Caroline Springs and included former Melbourne Football Club champion, author and television and radio personality, David Schwarz as a guest speaker.