HY2013 NEWSLETTER

Managing Director & Chief Executive Officer's Report

RICK FRANCIS
Managing Director
& Chief Executive Officer
Spark Infrastructure

DEAR SECURITYHOLDER,

THE FIRST HALF OF 2013 HAS BEEN ANOTHER SOLID PERIOD FOR SPARK INFRASTRUCTURE WHICH HAS SEEN US CONTINUE TO DELIVER QUALITY EARNINGS TO OUR SECURITYHOLDERS AND GROW OUR OVERALL ASSET BASE.

Our profit (before loan note interest and tax) was up 3.4% in the first half of the year to $146.7 million thanks to strong operational performance from the businesses in which we hold a 49% interest, SA Power Networks and CitiPower and Powercor (Victoria Power Networks).

For our securityholders we delivered an interim distribution of 5.5 cents per security (up 4.8% on the same period in 2012), in line with prior guidance, which was paid on 13 September. Our Directors have reaffirmed their 2013 guidance of a total distribution of 11 cents per security and of distribution growth within the range of 3% to 5% per annum for the regulatory periods out to 2015.

A growing asset base underpins our ability to continue to generate strong returns for securityholders, and allows us to maintain a growing revenue footprint in the future. In the first half of the year our Regulated Asset Base (RAB) grew by 3.1% to $8.3 billion. On a rolling 12 month basis, the growth in our RAB was 8.7%, following from the 9.7% growth rate achieved in calendar 2012. This is a positive trend line for Spark Infrastructure and augurs well for strong performance in the future.

SA Power Networks and the Victoria Power Networks continue to perform strongly in their respective South Australian and Victorian markets. On an aggregated basis they generated total revenues (excluding customer contributions) of $1,049.2 million in the first half of the year, up 10.3% on the same period in 2012, and earnings before interest, tax and depreciation (EBITDA) (excluding customer contributions) of $702.9 million, up 10.7% on the same period in 2012. These businesses are in the midst of a period of strong growth as they continue to deliver Australian Energy Regulator approved capital expenditure programs through to 2015.

Importantly also, we have continued to slowly and carefully reduce the gearing of the businesses over the current regulatory period. Over the last twelve months the businesses have degeared by 2.3%, which further adds to their financial robustness for the years ahead.

We are fortunate to have great teams of people working in the Victorian and South Australian businesses. In April this year we welcomed Tim Rourke as the new Chief Executive Officer of Victoria Power Networks. Tim was most recently the Asia Pacific Regional Executive for GE Aero Energy based in Singapore and prior to this, was the Chief Executive Officer of GE Energy Infrastructure Australia and New Zealand.

Overall, we are in good shape. The regulatory environment continues to support investment and the Asset Companies continue to deliver solid operating results and growing cashflows. I look forward to keeping you updated on our progress as the second half of 2013 progresses.

FUTURE MT GAMBIER DEVELOPMENT CONSULTATION UNDERWAY

SA Power Networks is committed to investing in an electricity distribution substation for Mount Gambier, providing power to over 11,000 new homes and commercial, community and recreational development.

Public information sessions were held in July and SA Power Networks is now using the community feedback to select the best site in consultation with the State Government and Local Council.

The total cost of the various options range in cost from $60 million to $80 million. A new substation and a 66,000 Volt (66kV) overhead powerline will need to be built in the next six or seven years to support the 11,000 new homes and associated commercial, community and recreational development in the eastern sector of Mt Barker and provide corridors for future line extensions.

PERFORMANCE SUMMARIES

Spark Infrastructure's financial performance	HY 2013 ($m)	HY 2012 ($m)	Variance (%)
Total income[1]	156.6	153.7	1.9
Profit before Loan Note interest and tax	146.7	141.8	3.4
Net Profit after tax (underlying)[2]	76.0	96.2	(21.0)
Net Profit after tax (statutory)	76.0	88.7	(14.3)
Operating cashflows (standalone)	**83.3**	**80.1**	**4.1**
Cash received from Asset Companies (Spark's 49%)			
SA Power Networks	51.0	50.0	2.0
CitiPower and Powercor (Victoria Power Networks)	40.3	40.4	(0.3)
Total	**91.3**	**90.4**	**1.0**

Aggregated Asset Company performance (100%)	HY 2013 ($m)	HY 2012 ($m)	Variance (%)
Prescribed revenue, including			
– Distribution revenue	802.5	743.2	8.0
– Prescribed metering revenue (AMI)	69.3	62.6	10.7
Non-prescribed revenue[3] (excluding customer contributions)	177.3	145.4	21.9
Total revenue (excluding customer contributions)	**1,049.2**	**951.2**	**10.3**
Customer contributions	77.3	91.1	(15.2)
Total revenue[4]	**1,126.4**	**1,042.3**	**8.1**
EBITDA (excluding customer contributions)	702.9	635.2	10.7
Net capital expenditure	422.3	368.9	14.5
Net Debt to RAB (Asset Company level)	79.5%	81.8%	-2.3%

1 Consists of interest income from associates, Spark Infrastructure's share of equity accounted profits and other income.
2 Underlying figures exclude certain non-cash and non-operating items which do not relate to the underlying performance for the period. Underlying adjustments are prior year only. There are no underlying adjustments for 2013.
3 Non-prescribed business activities includes semi-regulated activities such as meter reading (SA Power Networks), and public lighting; and unregulated activities such as the provision of construction, maintenance and back office services to third parties.
4 Aggregated revenue excludes transmission revenue, which is collected on behalf of others and does not contribute to profit.

NEWS FROM OUR BUSINESSES

New CEO for CitiPower and Powercor

TIM ROURKE
Chief Executive Officer
CitiPower and Powercor

CitiPower owns and operates the distribution network that supplies electricity to around 320,000 customers in Melbourne's CBD and inner suburbs. These customers include some of Australia's largest companies, public transport systems and sporting venues.

Powercor Australia is the largest distributor of electricity in Victoria, owning and operating a network that serves around 836,000 customers in central and western Victoria and the Western suburbs of Melbourne.

In April of this year, the Board of Victoria Power Networks, the holding company for CitiPower and Powercor Australia Limited, appointed Tim Rourke as the new Chief Executive Officer, following the retirement of Shane Breheny. Shane led the company with distinction for 10 years and contributed significantly to the success of the businesses during his tenure.

Tim Rourke is a native of Melbourne and was most recently the Asia Pacific Regional Executive for GE Aero Energy based in Singapore. Prior to this, he was the Chief Executive Officer of GE Energy Infrastructure Australia and New Zealand. His previous experience includes senior executive roles with AGL, Southern Hydro Pty Ltd and Alliant Energy Australia. He brings a wide variety of leadership and business experience to his new role.

"I AM A HUGE BELIEVER IN OUR ENERGY INDUSTRY AND SEE THE DISTRIBUTION SECTOR AS THE MOST EXCITING PLACE TO BE IN THE ENERGY VALUE CHAIN FOR THE FORESEEABLE FUTURE."

"Over the past months, I have had the pleasure of meeting with stakeholders, employees and customers across Melbourne and central and western Victoria, and have a clear understanding of the issues that matter most to them. I look forward to the opportunities that lie ahead for CitiPower and Powercor."

Spark Infrastructure welcomes Tim to his new role and looks forward to seeing him grow the business to its next level of development.

Victorian Customers Save with CitiPower and Powercor

New research shows Victorian residential electricity consumers pay significantly less for their network charges than customers in other states, particularly NSW and Queensland.

The research concluded that in Victoria, network-related costs (excluding policy-related smart meter charges and feed in tariffs) make up less than 30% of the average household electricity bill, compared to a range of 45–50% in other states and territories.

The study by energy sector experts Oakley Greenwood, the *Causes of Residential Electricity Bill Increases in Victoria, 2001-2012*, found that, while household electricity bills have increased by 28.4%, (after accounting for inflation) from 2001 to 2012, standard 'poles and wires' distribution costs in Victoria have decreased in real terms during this period, softening the scale of bill increases.

The report was commissioned by Victoria's five electricity distribution businesses, CitiPower, Jemena, Powercor Australia, SP AusNet and United Energy. It analysed residential electricity bills across Australia between 2001 and 2012 and calculated the contribution of each component of the supply chain to customer bills and price.

SA Power Networks signs contract with the National Broadband Network Company

SA Power Networks recorded a significant win this year when it signed an initial three year contract with the National Broadband Network Company (NBN Co) as a Tier 1 supplier for design and construction services for the continuing roll-out of the NBN in South Australia.

The work will be carried out by the Construction & Maintenance Services (CaMS) division of SA Power Networks and includes the design and construction of overhead and underground cabling portions of the local and distribution network for the NBN.

The construction of these local distribution services will allow about 300,000 South Australians to connect to the NBN.

The two companies have worked together previously as SA Power Networks managed construction of NBN Co's first release site in Willunga, back in 2010. This successful build already sees over 63 per cent of eligible Willunga residents active on the NBN. SA Power Networks subsequently removed itself from further NBN tender processes due to its concerns around risk allocation provisions proposed at the time. Since then, an acceptable arrangement has been agreed.

This contract reflects the high regard in which SA Power Networks is held, based on its long term track record of reliability and strong customer focus.

Community Consultation moves up a notch in South Australia

Community engagement continues to be a focus for SA Power Networks with the recent launch of 'Talking Power', a comprehensive program for consulting directly with electricity consumers and representative organisations.

Engaging with stakeholders, residential and commercial customers will aid SA Power Networks as it prepares its plans for managing the State's electricity distribution network in the 2015–2020 regulatory control period.

The program kicked off with a series of workshops with invited stakeholders, where discussions and feedback were sought on key topics that influence how it designs and operates the network.

Following the workshops, an online survey was distributed in May to obtain feedback from South Australians on the range of topics that were discussed.

SA POWER NETWORKS – 'TALKING POWER'

As part of its 'Talking Power' Program, SA Power Networks supports investment in new and upgraded substations.

GLYNDE SUBSTATION

A new substation is needed in Glynde to meet the future electricity needs of people and businesses in the area and the wider suburbs.

After much research and due-diligence in the first half of 2013, SA Power Networks is now seeking approval from the Development Assessment Commission to proceed with a $14 million substation on the current Glynde Substation site, saving significant costs in relocating the substation.

This substation is critical to maintaining the reliability and security of power supply, as the local electricity network will soon reach full capacity and be unable to meet peak summer demand for customers by 2015. The new substation will also improve our ability to respond to and manage outages in the eastern suburbs.

Regulatory Update/AER Better Regulation program

The regulatory reviews which have been underway in various forms since late 2011 are now well progressed and reaching a conclusion, with final guidelines on various elements due from the Australian Energy Regulator (AER) by the end of this year.

On the whole, the approach of the AER has been consultative and inclusive. Spark Infrastructure has taken the opportunity, along with the Asset Companies, to provide input at various points and to argue the investment case on behalf of securityholders.

A number of draft guidelines have been issued by the AER, on topics such as Expenditure Efficiency, Shared Assets and Consumer Engagement. None of the proposals contained therein pose a serious threat to those businesses which conduct themselves efficiently and deliver reliable and cost effective services.

A key guideline issued by the AER is the Rate of Return draft guideline released on 30 August 2013. This new guideline for determining the rate of return is an evolution of the current process which should better allow for rates of return that are consistent with market conditions and in the long term interests of consumers.

Whilst the draft guideline will still require some refinement before finalisation, its broader qualitative approach and assessment should prove workable and provide for greater transparency and certainty going forward.

In addition, the structure of the appeal system, known as Limited Merits Review (LMR) has been finalised after an extensive review by the Standing Council for Energy and Resources (SCER). The SCER has confirmed the continued operation of the Australian Competition Tribunal (ACT) as the review body, and has set an acceptable basis for applying for leave to appeal – being the demonstration of error plus "materially preferable" decision. Both of these outcomes are consistent with the position of Spark Infrastructure throughout the consultation process.

Following the extensive review process, the regulatory regime remains fundamentally unchanged. It continues to be incentive based with opportunities for out-performance against regulatory allowances. It retains a range of in-built protections for investors including inflation protection for revenues and the Regulated Asset Base and pass-throughs for operating and debt costs. Ultimately, this is good news for both investors and consumers.

CitiPower and Powercor receive prestigious Innovation Award at The Australian Business Awards

Since establishing its Innovation strategy, CitiPower and Powercor have implemented more than 100 innovations designed to deliver a safe, reliable and affordable electricity supply to their customers.

The Innovation Award recognises the organisation's long term strategy to embed a culture of innovation. A number of people across the organisation have worked tirelessly to ensure that all the right elements are in place to enable employees to bring their ideas forward, have those ideas developed, evaluated and ultimately implemented.

The Australian Business Awards are highly regarded with an established set of business and product categories assessing core values of business excellence, product excellence, sustainability and corporate responsibility.

ADVANCED METERING INFRASTRUCTURE PROJECT NEARS COMPLETION

The installation of "Advanced Metering Infrastructure" – or Smart Meters – by the CitiPower and Powercor businesses is nearing completion.

More than 1 million of a target 1.1 million smart meters have now been installed, with the bulk of these meters now being remotely read. Importantly, the Advanced Metering Infrastructure Project is ahead of schedule and on budget.

The CitiPower and Powercor networks are the industry leaders in the Victorian rollout, and have met all Government smart meter deployment targets so far.

The benefits for consumers include better access to electricity consumption information, better management of energy usage and bills, remote meter reading, and reduced costs of relocating due to faster disconnections and connections.

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