Compliance Policies and Procedures

Risk management framework

Contents

Job Functions

Abbr.	Role in Spark Infrastructure
CEO	Chief Executive Officer
CFO	Chief Financial Officer
GC	General Counsel and Company Secretary
GMIR	General Manager Investor Relations and Corporate Affairs
FC	Financial Controller
Managers	Employees of Spark who have a supervisory or management role. Includes all of the above functions.

1.   Introduction

1.1   Risk and the Risk Management Framework

As per the AS/NZS 31000-2009 Standard, risk is defined as:

> *'the effect of uncertainty on objectives'.*

Under the Standard, organisations should have a framework that integrates the process for managing risk into the organisation's overall governance, strategy and planning, management, reporting processes, policies, values and culture.

At Spark Infrastructure Group ('Spark Infrastructure' or 'Group') the risk management framework includes:

1.   The Risk Management Policy and Procedures (i.e. to support what is done).

2.   The Risk Management Methods and Practices (which defines what is done). This includes:

    a.   Leadership

    b.   Risk Appetite and Tolerance

    c.   People – Roles, Responsibilities and Capabilities

    d.   Methodology

    e.   Communication

    f.   Identifying, Assessing and Documenting Risks.

    g.   Monitoring and Review of the Risk Management Framework

    h.   Embedding Risk Management

This document provides guidance on how to conduct risk management at Spark Infrastructure. This includes the Risk Management Policy and Procedures (as separate appendices) and Risk Management Methods and Practices i.e. the Risk Management Framework.

1.2   Objectives for Risk Management at Spark Infrastructure

The objectives for risk management at Spark Infrastructure are to:

► Identify, analyse, evaluate, treat, monitor and communicate risks that, if they were to occur, may prevent Spark Infrastructure from:
    ► achieving its business objectives; and
    ► protecting and enhancing shareholder value.
► Embed risk management into Spark Infrastructure's management system and culture.
► Minimise losses and assist with capturing emerging investment opportunities.
► Enhance organisational efficiencies.
► Protect key assets (tangible and intangible).
► Deliver an integrated management approach to risk across the group using consistent processes and methodologies.
► Deliver a consistent message on risks and risk management activities to key stakeholders.

►   Comply with regulations and leading practice for risk management.

1.2.1   Risks to Achieving Risk Management Objectives

The following risks may prevent the successful achievement of the risk management objectives.

►   Lack of support from senior management.

►   Lack of communication of, and training on, the risk management framework.

►   Lack of accountability and authority.

►   Inadequate resources.

►   Failure to review and update the risk management framework in light of the changing risk profile and internal and external conditions.

►   Failure to ensure effective reporting of risks and risk management activities to the appropriate level of management.

►   Risk and risk management information is not shared.

►   The Audit, Risk and Compliance Committee ('ARC') does not have visibility into Spark Infrastructure's material risks and how these are being managed and monitored.

1.3   Application of the Risk Management Framework

Spark Infrastructure's risk management framework is applicable to Spark Infrastructure, comprising Spark Infrastructure Trust and its subsidiaries (**Group** or **Spark Infrastructure**).

1.4   Alignment with Industry Guidelines and Principles

Risk management at Spark Infrastructure aligns with the following relevant guidelines and principles:

►   Australian Stock Exchange (ASX) Corporate Governance Principles and Recommendations, 2nd Edition

►   Australian / New Zealand Standard of Risk Management (AS/NSZ 31000-2009)

►   The Committee of Sponsoring Organisations of the Treadway Commission (COSO ERM Guidelines: 2004)

►   Institute of Internal Auditors (IIA) Performance Standard 2110 – Risk Management

►   Anti-Money Laundering and Counter-Terrorism Financing Act 2006

2. Risk Management Methods and Practices

The following section provides guidance on Spark Infrastructure's Risk Management Methods and Practices. The Risk Management Policy can be found in Appendix A.   The Risk Management Procedure can be found in Appendix B.

2.1 Leadership

Risk management should have support from Spark Managers, the ARC and the Board. Support can be demonstrated by:

► Clearly articulating and communicating the risk management objectives for Spark Infrastructure to key stakeholders. For example: the content of any risk communication should include consistent messaging about risk management, including the following key points:

   ► Risk management is everyone's business.

   ► Risk management is not merely a compliance exercise but is about protecting and enhancing shareholder wealth.

   ► Communicating and reporting risks and issues before and when they arise is encouraged at every level of the business – from employees to the Board.

► Leading risk management activities (e.g., risk management training, risk assessments).

► Encouraging risk to be integrated and embedded with other processes and activities at Spark Infrastructure, including planning and budgeting, due diligence activities and Internal Audit.

2.2 Risk Tolerance

Risk Appetite is the level of risk Spark Infrastructure is willing to accept overall. The Risk Tolerance is the acceptable level of risk established by Spark Infrastructure for its risks. Risk Appetite and Risk Tolerance both set boundaries of how much risk Spark Infrastructure is prepared to accept throughout the course of ongoing operations. Operating within Risk Tolerances provides greater assurance that group remains within its Risk Appetite.

Risk Tolerance arises when deciding whether risk reduction measures are warranted or required for a given risk. Approval of the risk profile and continued tolerance of risks should consider:

► Spark Infrastructure's corporate objective, strategy, plans and mandate.

► Spark Infrastructure's risk profile and risk assessment results.

► Ensure "leading industry practice" is at least met or exceeded.

► Key stakeholder perception of risk and their buy-in and commitment to continued tolerance.

A given level of residual risk is tolerable if the Managers, the ARC and the Board are satisfied the costs of attempting to further reduce the degree of uncertainty would exceed the benefits.

2.3 Risk Tolerance

Implementation of risk management within the Group should be driven by the following principles:

1. Create and protects value

Good risk management contributes to the achievement of the Group's objectives through the continuous review of its processes and systems.

2. Be an integral part of organisational processes

Risk management needs to be integrated with the Group's governance framework and become a part of its planning processes, at both the operational and strategic level.

3. Be part of decision making

The process of risk management assists decision makers to make informed choices, identify priorities and select the most appropriate action.

4. Explicitly address uncertainty

By identifying potential risks, the Group can implement controls and treatments to maximise the chance of gain while minimising the chance of loss.

5. Be systematic, structured and timely

The process of risk management should be consistent across an agency to ensure efficiency, consistency and the reliability of results.

6. Based on the best available information

To effectively manage risk it is important to understand and consider all available information relevant to an activity and to be aware that there may be limitations on that information. It is then important to understand how all this information informs the risk management process.

7. Be tailored

The risk management framework needs to include its risk profile, as well as take into consideration its internal and external operating environment.

8. Take into account human and cultural factors

Risk management needs to recognise the contribution that people and culture have on achieving the Group's objectives.

9. Be transparent and inclusive

Engaging stakeholders, both internal and external, throughout the risk management process recognises that communication and consultation is key to identifying, analysing and monitoring risk.

10. Be dynamic, iterative and responsive to change

The process of managing risk needs to be flexible. The challenging environment we operate in requires agencies to consider the context for managing risk as well as continuing to identify new risks that emerge, and make allowances for those risks that no longer exist.

11. Facilitate the continual improvement of organisations

A mature risk management culture involves an investment of resources over time an ability to demonstrate the continual achievement of objectives.

2.4 People – Roles, Responsibilities and Capabilities

Spark Infrastructure ensures accountability and authority for risk management and specific risks facing the business via the specific role and responsibility descriptions provided below.

2.4.1 Board of Directors

The Board is responsible for overseeing the operation of the Spark Infrastructure system of internal controls and risk management and compliance with key policies, laws and regulations. It is responsible for reviewing the company's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

As outlined in the *Spark Infrastructure Group Board Charter,* Board Directors are responsible for:

► Overseeing the operation of Spark Infrastructure system of internal controls and risk management and compliance with key policies, laws and regulations.

► Approving any significant changes to the risk framework or risk policies.

The Board has delegated oversight of risk management to the ARC.

2.4.2 ARC

As outlined in the *Spark Infrastructure Group Audit and Risk Management Committee Charter,* ARC's accountabilities for internal control and risk management are:

► Reviewing and assessing the Group's internal control and risk management systems and processes;

► Assessing the internal process for determining and managing key operational risk areas particularly:

  ► non-compliance with laws, regulations, standards and best practice guidelines;

  ► litigation and claims; and

  ► fraud, theft and irregularities.

► Reviewing the effectiveness of the risk management system and ensuring that major financial and non-financial risks are monitored and updated regularly and reported at least annually to the Board;

► Overseeing and assessing the effective operation of the risk management framework, including a risk management policy; and

► Overseeing the framework for the management of the Group's transactional risks including concentration of exposures.

In fulfilling its responsibilities in relation to risk management, the ARC will receive reports from the CEO.

2.4.3 Chief Executive Officer

The CEO is responsible for leading, communicating, and implementing risk management at Spark Infrastructure. The CEO will champion the establishment of the risk management framework; and will have a responsibility for understanding potential risk areas, promoting risk discussion, and receiving regular risk reports. This includes:

► Facilitating identification, analysis, evaluation, treatment and communication of risks.

► Making sure that each activity in the risk management process is documented, including assumptions, method, data sources, results and reasons for decisions.

► Coaching management in responding to risk.

► Co-ordinating risk management activities.

► Maintaining and developing the risk management framework.

► Ensuring risk management within Spark Infrastructure complies with relevant leading practice standards.

► Ensuring staff are trained on the risk management framework.

In performing his or her duties the CEO will report to the ARC, and when necessary, the Board, on the status of implementation of the risk management framework; and material risks, controls and treatment plans.

The CEO will liaise with Risk Owners and Treatment Plan Owners to fulfil her/his duties.

The CEO is the custodian of the risk management framework, and is responsible for implementing any recommendations that arise from an independent assessment of the effectiveness of the risk management framework.

The CEO may delegate to other internal or external parties these administrative activities required to implement, operationalise and integrate the risk management framework.

2.4.4   Risk Owners

Risk Owners are responsible and accountable for managing material risks to Spark Infrastructure. They are a key stakeholder in the risk identification, analysis, evaluation, treatment and communication of risks for which they are responsible.

They are also responsible for assessing the effectiveness of the controls in place to manage the risk, and the status of implementation of any treatment plans put in place to improve the effectiveness of controls.

Risk Owners should be knowledgeable about the risk, related controls in place to manage and monitor the risk, and treatment plans implemented to improve controls (where required).

In performing their duties they report to the CEO on a regular basis, including when a risk is considered to have exceeded the risk appetite set for that risk. The Risk Owner also liaises with Treatment Plan Owners.

Reporting on risks, controls and treatment plans should be embedded within the regular Spark Infrastructure Management meetings.

Please note: a Risk Owner can also be a Treatment Plan Owner.

2.4.5   Treatment Plan Owners

Treatment Plan Owners are responsible for implementing the determined treatment plans initiated to improve a control's effectiveness.

They are a key stakeholder in the risk identification, analysis, evaluation, treatment, monitoring and communication of risks.

Treatment Plan Owners should be knowledgeable about the treatment plans put in place to improve controls (where required).

In performing their duties they report to the Risk Owner on a regular basis. They are responsible for reporting to the Risk Owner when a treatment plan is considered to have increased in its complexity, associated cost, or fails to meet an agreed-upon-timeframe for completion.

Please note:

► A Treatment Plan Owner can also be a Risk Owner. Multiple Treatment Plan Owners may exist for one risk.

► Treatment Plan Owners may be members of Asset Companies or other external stakeholders. When Risk Owners and Treatment Plan Owners are members of external parties, Spark Infrastructure should attempt to influence them through stakeholder relations. The Risk Owners should continue to monitor the residual risk levels and associated treatment options.

2.4.6   Internal Audit

Internal Audit's core role is to provide objective assurance to ARC on the effectiveness of its risk management framework to help ensure key business risk are being managed appropriately and that the system of internal control is operating effectively.

Internal Audit may also:

► Facilitate identification and evaluation of risks.

► Coach management in appropriate treatment plans for risks.

► Consolidate reporting on risks.

It is important to note that Internal Audit is *not* responsible for:

► Setting the risk appetite.

► Imposing the risk management framework.

► Providing management assurance on risk.

► Making decisions on risk treatment plans (although it may coach management in their treatment plans for risk).

► Implementing risk treatment plans on management's behalf.

► Accountability for risk management.

Internal Audit must maintain its objectivity with respect to providing assurance on the risk management framework.

2.4.7   Managers Who Sit on Asset Company Boards

Managers or Directors who are members of the Board and/or Board sub-committees of Asset Companies will have responsibility for reporting to the CEO and the ARC on the material risks (risk profiles) of the Asset Companies and the assessment of the effectiveness of their risk management systems.

The material risks of the Asset Companies, to the extent to which they are also a material risk to Spark Infrastructure, should be included in Spark Infrastructure's RiskUniverse, and considered as part of Spark Infrastructure's risk assessment process. (Refer to *Section 6.2.2 - Update the RiskUniverse*).

2.4.8   Reporting Structure

The lines of reporting and accountability in relation to risk management activities at Spark Infrastructure are provided diagrammatically below.
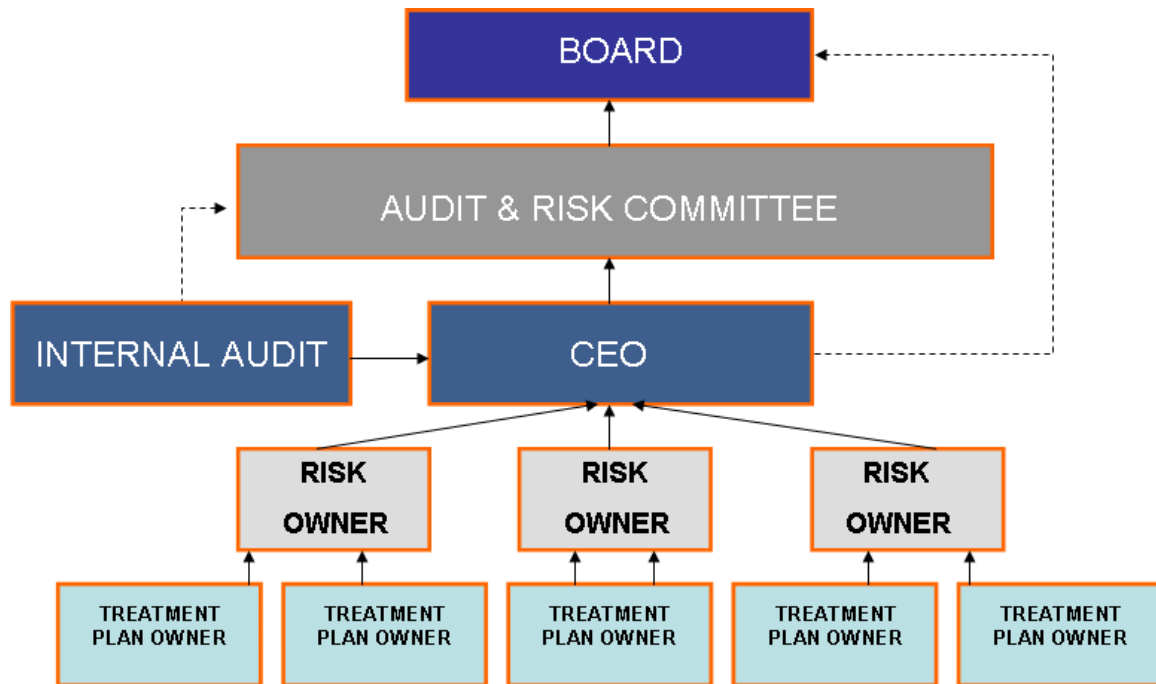
2.4.9 Capabilities

Individuals who are designated with risk management roles and responsibilities should accept accountability and be appropriately skilled. They should also have adequate resources to identify, assess and monitor risks, improve controls and communicate effectively about risks and their management to external and internal stakeholders.

2.5 Risk Management Methodology

The risk management process employed by Spark Infrastructure reflects the AS/NZS 31000-2009Standard (Standard). The Standard provides a framework of risk management that has been adapted and contextualised to reflect risk management within Spark Infrastructure.

The process is built on seven key components outlined in the diagram below. The process is supported by the Risk Management Procedures presented in Appendix B.

Risk Management Process Diagram
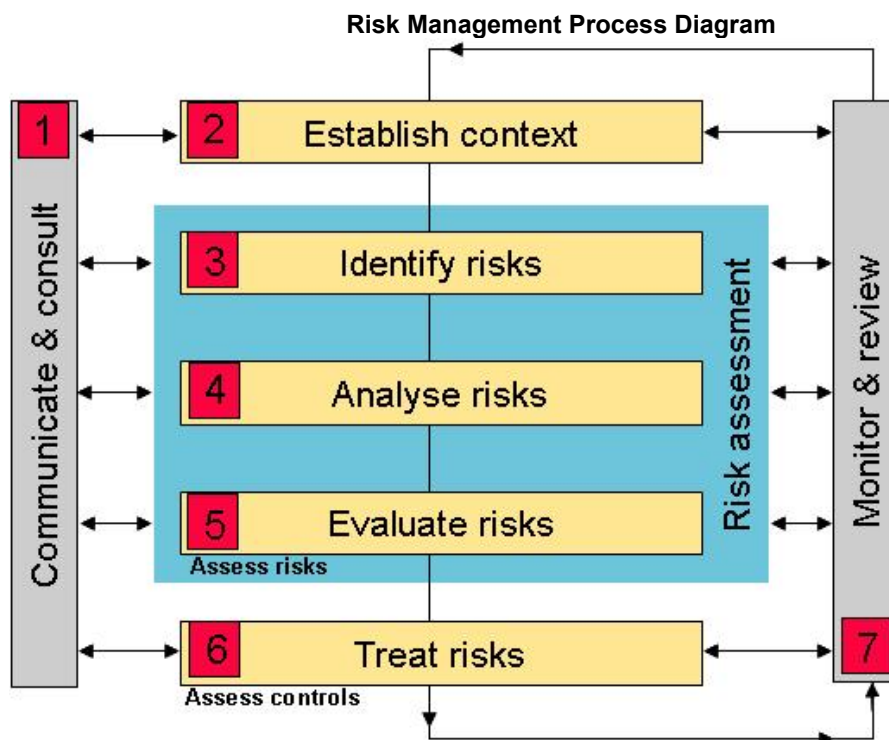
2.5.1 Communicate and Consult

Communication is paramount to the success of risk management at Spark Infrastructure. Organisational stakeholders should be informed through a two way flow of communication at the inception stage of the risk management process. The basis for risk management decisions and actions should be clearly understood, and a consultative team approach should work collaboratively to define the context for risk analysis, controls and treatment initiatives within the organisation.

2.5.2 Establish Context

Spark Infrastructure contextualises the parameters in which risks are managed by being actively aware of the implications and demands of the internal and external environments. The organisation should be awareness of the purpose, benefits, and advantages of risk management. All internal and external stakeholders should be aware of the reasoning and requirements behind risk management activity.

At Spark Infrastructure establishing the context is also referred to as setting the 'First Principles' for risk management.

2.5.3   Identify Risks

Spark Infrastructure seeks to identify risks to be managed. The objective for risk identification is to identify those risks and related events and circumstances that would impact the achievement of Spark Infrastructure's business objectives, if they were to occur. Identification should include risks whether or not they are under control of the organisation. This would include risks to, or arising from, the Asset Companies.

A common risk language (i.e. the RiskUniverse) assists with the identification of risks to Spark Infrastructure. Risks may be strategic, operational, compliance or financial in nature. Risks may also be categorised as being related to, or arising from, Asset Companies.

2.5.4   Analyse Risks

Spark Infrastructure should develop a common understanding of the respective risks facing the organisation through the risk analysis process. Risks are specified and evaluated according to the magnitude of the consequences of the event occurring, and the likelihood that the event will transpire. In combination, the consequence and likelihood ratings produce a level of overall residual risk rating confronting the organisation as a whole. Respective residual risk ratings combine to form a residual risk profile that provides a mechanism to clearly evaluate and analyse key risks.

Two risk profiles exist at Spark Infrastructure: the Spark Board Risk Profile and the Spark Management Risk Profile. The Spark Board Risk Profile contains risks which are relevant to the Spark Board due to their influence on Spark's achievement of its objectives. The Spark Management Risk Profile contains risks that are the exclusive purview of Spark Managers due to their operational nature.

The creation of these two risk profiles supports the Board focusing its attention on Spark's key or material risks.

2.5.5   Evaluate Risks

The outcome of the risk analysis process provides Spark Infrastructure with the information to deliberate on risk treatment plans and priorities. Through a process of comparing the level of risk emerging from the analysis process and the risk criteria established when contextualising the risk management process, risks can be evaluated according to potential gains, costs and losses for the organisation.

2.5.6   Treat Risks

Risk treatment at Spark Infrastructure involves identifying relevant options for treating risks that have the potential to create both positive and negative organisational outcomes. Options need to be assessed and treatment plans need to be prepared and implemented. Circumstances such as the opportunity to commence an activity, the resources required, changing circumstances, and the organisational appetite for risk avoidance and changing likelihood ratings need to be considered.

Fundamental to risk treatment options is the cost of implementing options against the benefits derived from the initiative. The direct and indirect costs, and the tangibility or intangibility of the benefit needs to be measured through a practical and clear manner. Risk treatment at Spark Infrastructure should also consider the values and perceptions of stakeholders.

2.5.7   Monitor and Review

Effective risk management at Spark Infrastructure requires a process of continuous monitoring, reporting, and review to ensure risk management objectives remain current. Risk management objectives need to remain aligned to strategic and organisational objectives as they adjust, and should be updated annually as part of the business planning process. As the pre-specified factors attributing to the respective risks in the risk register have the possibility of changing, the flow on affects could alter the likelihood and consequences surrounding the risk, and the risk treatment options.

2.5.8   Record the Risk Management Process

It is the responsibility of the CEO and the Risk Owners to make sure that each activity in the risk management process is documented, including assumptions, method, data sources, results and reasons for decisions.

Keeping records of the risk management process will contribute toward strengthening corporate governance at Spark Infrastructure.

2.6 Communication

Risk management includes continual communications with external and internal stakeholders, including comprehensive and frequent reporting of risks and risk management performance.

Communication is a two-way process, so that properly informed decisions can be made about the level of risks and the need for risk treatment against properly established and comprehensive risk criteria.

In terms of communicating with external stakeholders, as per the ASX Corporate Governance Principles and Recommendations, 2nd Edition, Spark Infrastructure is required to report the following on risk management activities in its corporate governance statement in its annual report:

► The establishment of policies for the oversight and management of material business risks and disclosure of a summary of those policies.

► The Managers have designed and implemented the risk management and internal control system to manage the company's material business risks and reported to the Board on whether those risks are being managed effectively.

► The Board has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

► Explanation of any departures from the above.

Additionally, a summary of the company's policies on risk oversight and management should be made publicly available, ideally by posting it to the Spark Infrastructure's website in a clearly marked corporate governance section.

2.7 Monitor and Review the Risk Management Framework

At least annually Spark Infrastructure should review and assess the effectiveness of the risk management framework, including:

► The maturity, characteristics and effectiveness of existing businesses and risk management culture and systems. This would include:

  ► The processes in place to identify, assesses, monitor and manage material risks – financial and non-financial – to the organisation; and that treatment plans are put in place to effectively manage these risks.

  ► Processes to ensure the ARC and the Board regularly reviews and approves the risk management framework and oversight strategy and policies.

  ► Adequate and accurate risk information is communicated and reported to the right people at the right time.

► The degree of integration and consistency of risk management across the organisation and across different types of risks.

► The processes and systems that should be modified or extended.

► Constraints or risks to successful operation of the risk management framework, including resource constraints.

► Legislative or compliance requirements.

Due to the non-diversified nature of Spark's asset portfolio, Spark should also continue to monitor the effectiveness of the risk management frameworks within the Asset Companies.

2.8　Embedding Risk Management

Risk management should be embedded and integrated with existing processes at Spark Infrastructure. This includes the following:

▶ Long Term Planning: Risks (and opportunities) identified in the risk management process should be considered in terms of the long term planning process and setting strategy. Risk management, applied in strategy setting, helps management select a strategy consistent with its Risk Appetite. If the risk associated with a strategy is inconsistent with the entity's Risk Appetite, the strategy should be revised.

▶ Budgeting: Treatment plans should be an input to the budgeting processes i.e. resources required to implement treatment plans should be considered in the budgeting process.

▶ Internal Audit: Risks identified and analysed in the risk management process should provide an input to the internal audit planning process. Specifically, risks assessed as having a high Consequence and High Likelihood, but Effective Control Effectiveness, may inform the scope of internal audit activity i.e. to verify that the control(s) in place are actually designed efficiently and working effectively.

▶ Due Diligence: The risk management process should be employed when analysing potential investment opportunities and related due diligence. Specifically, risks to a successful investment should be identified and analysed.

▶ Risk Management Process of Asset Companies: Members of Spark Infrastructure Board and Management who are members of the Board and/or Board sub-committees of Asset Companies will have responsibility for reporting to the CEO and the ARC on the material risks (risk profiles) of the Asset Companies and the assessment of the effectiveness of their risk management systems. The material risks of the Asset Companies, to the extent to which they are also a material risk to Spark Infrastructure, should be included in the Asset Companies RiskUniverse, and considered as part of Spark Infrastructure's risk assessment process.

▶ Management Team Meetings: emerging risks, and the status of known risks and their related control activities can be discussed during the regular management team meetings. For example, an agenda item to discuss risks and risk management activities can be added to management team meetings on a quarterly basis.

Appendix A   Risk Management Policy

2.9   Oversight

The Board is responsible for overseeing the operation of the Spark Infrastructure Group system of internal controls and risk management and compliance with key policies, laws and regulations. Any significant changes to the risk framework or risk policies must be approved by the Board. The Board has delegated oversight of risk management to the ARC. The ARC is responsible for assessing the internal process for determining and managing key operational risk areas.

The ARC and the Board will annually review the effectiveness of the risk management framework, risk profile and details of any proposed changes to the key policies or reporting procedures.

Material changes to the risks faced by the Spark Infrastructure Group will be reported to the ARC and the Board at the next opportunity.

2.10   Identification, Analysis and Evaluation of Risk

Spark Infrastructure Group maintains a Risk Profile which documents the following:

► Description of risks impacting the business.

► Assessment of the likelihood that the risk will arise.

► Assessment of the impact on or consequence to the business if the risk arises.

► Assessment of controls in place to manage the identified risk.

► Overall evaluation of the assessed risks.

► Identification of potential "unacceptable" risks and agreed treatment.

The risk profile is reviewed annually and must be kept up to date. New risks identified during the course of business must be incorporated into it.

2.11   Treatment of Risks

For newly identified risks that are both material and likely to occur, a plan to control the risk must be developed and the ARC and the Board must be updated on the progress against the plan at the next available opportunity.

Appendix B   Risk Management Procedures

1.   Step 1 - Communicate and Consult

Communication and consultation on risks will cover areas such as the results of risk assessments, the implementation of risk treatment plans, changes in residual risk rating levels, and emerging risks.

The roles and activities for communicating and consulting on risks is covered in Steps 2 – 7 of this Risk Management Procedure (refer below).

2.   Step 2 - Establish the Context

The second step is to establish the risk management context by defining the 'First Principles' for risk management and the context within which risks are identified and assessed.

Definition of the context of the risk management and coordination of activities is essential to avoid redundancy and duplication of efforts.

2.1   Setting the 'First Principles'

Setting the 'First Principles' for risk management includes consideration of Spark Infrastructure's external and internal environment.

The external environment includes:

► Business, social, regulatory, cultural, competitive, financial and political environment.

► The organisations strengths, weaknesses, opportunities and threats. This should have been determined as part of the organisations long-term planning process.

► Expectations, perceptions and values of external stakeholders.

► Key business drivers.

The internal environment includes:

► Organisational culture and structure.

► Expectations, perceptions and values of internal stakeholders.

► Capabilities, in terms of people, processes, systems and capital.

► Organisational missions and underlying strategy and objectives to achieve the strategy. This is crucial as a risk is defined as 'the chance of something that will have an impact on objectives'.

2.2   Setting the Scope

Setting the scope for the risk assessment includes defining the depth and breadth of the risk assessment activities, including:

► Inclusions and exclusions.

► Key stakeholders to include in the risk assessment.

► Timing for the risk assessment activities including reporting requirements to ARC and the Board.

► The approach for conducting the risk assessment i.e. one-on-one interviews, and/or group facilitated workshops.

Participants

In terms of key stakeholders to include in the risk management process, participants should be selected who represent:

► The risk categories and risk areas from the RiskUniverse. Participants should be able to talk knowledgeably about the key business risks and their controls. This will ensure coverage of all the risk areas facing Spark Infrastructure.

► Representatives from internal and external stakeholder groups. Internal Stakeholders would include the management of Spark Infrastructure (CEO, CFO, GMIR, GC etc) and representatives from the Board and the ARC. External stakeholders could include a representative from external audit, and the Asset Companies.

Timing

The risk assessment process should commence in September of each year, so the outcomes of the risk assessment can be used as inputs to the internal audit planning process, and the budgeting and long-term planning process which is reported to the Board in December.

2.2.1   Update the RiskUniverse

Spark Infrastructure employs a RiskUniverse which is a common risk language to promote the understanding of risk within the organisation, and to facilitate the identification of risks (Step 3). It also provides a uniformed approach for consolidating and analysing risks (Step 4) through common risk definitions.

The RiskUniverse is presented in a hierarchy: Risk Category, Risk Area and Key Business Risk. The four Risk Categories are related to Spark's organisational objectives:

► Strategic - risks relating to high-level goals, aligned with and supporting Spark Infrastructure's mission, strategy and objectives.

► Operations - risks relating to effective and efficient use of the entity's resources.

► Compliance - risks relating to the Spark Infrastructure's compliance with applicable laws and regulations.

► Financial - risks relating to the allocation of financial resources and the reliability of the financial reporting.

The RiskUniverse should be reviewed and updated regularly to reflect emerging risks and any changes in the external and internal context. The RiskUniverse is presented overleaf.

Spark Infrastructure RiskUniverse

Strategic

Planning and Resource Allocation:
- Organisational Structure
- Strategic Planning
- Budgeting
- Forecasting

Mergers, Acquisition & Divesture:
- Identification of opportunity
- Valuation and Pricing
- Due Diligence
- Execution and Integration
- Alliances and Partnerships

Market Dynamics:
- Competition
- Pricing Pressures
- Macro-Economic Factors
- Socio-Political
- Technology Changes

Communication & Investor Relations:
- Media Relations
- Investor Relations
- Crisis Communications
- Internal Communication

Operations

People:
- Culture
- Recruiting & Retention
- Development & Performance
- Succession Planning
- Compensation & Benefits

Information Technology:
- IT Management
- IT Security/Access
- IT Availability/Continuity
- IT Integrity
- IT Infrastructure

Hazards and Physical Assets:
- Real Estate
- Inventory
- Terrors & Malicious Acts
- Business Continuity Planning

Outsourcing:
- Outsourced providers

Compliance

Governance:
- Board Performance
- Tone at The Top
- Non-Financial Reporting
- Internal Control Environment

Code of Conduct:
- Ethics
- Fraud

Legal:
- Contract
- Liability
- Intellectual Property

Regulatory:
- Labour Relations
- Securities
- Data Protection & Privacy
- Environment, Health & Safety
- Competitive Practice / Anti-Trust
- Anti-Corruption
- Regulatory relations (eg. Australian Energy Regulator)
- Regulatory change (eg. Compliance with ASIC requirements for listed trusts)
- Compliance with relevant international laws
- Disclosure

Financial

Market:
- Interest Rate
- Foreign Currency
- Derivatives
- Treasury policy and maintaining the rating agency rating (ie. AAA)

Capital Management and Treasury:
- Cash Management
- Funding
- Hedging
- Credit & Collections
- Insurance
- Credit and Liquidity Risk

Accounting and Reporting:
- Accounting and Reporting
- Financial Control

Tax:
- Tax Strategy & Planning
- Tax Optimisation

Capital Structure:
- Debt
- Equity
- Dividend Reinvestment Planning

2.2.2 Update the Risk Criteria

The Risk Assessment Criteria (RAC) is used to drive consistency and efficiency in analysing the risks (i.e. Step 4 in the risk management process). It does not remove subjectivity in analysing risks.

The RAC is the measurement or "scoring" criteria upon which risks will be analysed. This includes setting parameters and ranges, on a scale, to measure risk on three separate criteria:

► Consequence – what would the impact of the risk be if it were it to occur?

► Likelihood – how likely is it that a risk of this consequence would occur?

► Control Effectiveness – how effective are the controls or other activities in managing or mitigating the risk, or how well controlled are the risks?

Spark Infrastructure's RAC is presented overleaf.

Consequence Rating Criteria

Description Rating	Operating Cash Flow / Distributions	Legal	Share Price	Strategic	Reputation	Credit Rating	People
Catastrophic 5	► Reduced cash flow over $100M (such that it leads to a change in distribution guidance)	► Breach of transmission / distribution licence by asset companies ► Breach of AFSL resulting in trading halt ► Breach of ASX requirements resulting in a trading halt ► Breach of legislation resulting in imprisonment of senior people	► 20%+ decrease in share price within a trading day or 40%+ decrease within one month (relative to peers/market movement)	► Complete lack of ability in achieving strategic objectives (eg, Board spill, removal of Management, separation of investment companies, etc)	► Prolonged adverse international or national media coverage ► Irreparable damage to the Spark name	► Spark: Sub investment grade -	► Workplace fatality or long term unavailability of SMT
Major 4	► Reduced cash flow of between $40M - $100M (such that it leads to a change in distribution guidance)	► Breach of AFSL resulting in an onsite investigation ► Breach of ASX requirements resulting in an onsite investigation resulting in suspension of trading ► Breach of legislation resulting in charges laid against senior people	► 10 - 20% decrease in share price within a trading day or 20 - 40% decrease in share price within one month (relative to peers/market movement)	► Significant impediment to achieving strategic objectives indefinitely (eg, 'second strike')	► Prolonged adverse State media coverage ► Major damage to the Spark name	► Spark: BBB- / Two notch fall ► Investment Co: Sub investment grade -	► Significant irreversible workplace disability or sudden short term unavailability of SMT
Moderate 3	► Reduced cash flow of between $20M - $40M (such that it leads to a change in distribution guidance)	► Significant breach of AFSL ► Breach of ASX requirements resulting in further inquiry (i.e. beyond a query) ► Breach of legislation resulting in external investigations into operations and conduct	► 5 - 10% decrease in share price within a trading day or 10 - 20% decrease in share price within one month (relative to peers/market movement)	► Significant impediment to achieving strategic objectives within 12 months (eg, 'first strike')	► Adverse State or local media coverage ► Moderate damage to the Spark name	► Spark: One notch fall ► Investment Co: BBB- / Two notch fall	► Sudden unavailability of other Management or the Chair
Minor 2	► Reduced cash flow of between $5M-$20M	► Breach of AFST (reportable) ► Minor breach of ASX requirements ► Breach of legislation resulting in minor fines or penalties	► 5 - 10% decrease in share price within one month (relative to peers/market movement)	► N/A	► Temporary adverse media coverage	► Spark: Negative outlook ► Investment Co: One notch fall	► Sudden unavailability of other staff and Directors ► Minor medical attention required
Insignificant 1	► Reduced cash flow of under $5M	► Breach of AFSL (non-reportable) ► Breach of legislation resulting in warning	► N/A	► N/A	► N/A	► N/A	► N/A

Likelihood Rating Criteria

Rating	Descriptor	Description	Probability	Indicative Frequency
5	Almost Certain	Is expected to occur	96% – 100%	More than one event each year
4	Probable	It will probably occur	51% – 95%	One event every year
3	Possible	May occur	21% – 50%	One event every 2 – 5 years
2	Unlikely	Not likely to occur	6% – 20%	One event every 5 – 20 years
1	Rare	Most unlikely to occur	0% – 5%	One event every 20 years or more

The RAC should be reviewed and updated annually, to develop and refine the criteria used, particularly in relation to specific risks. Specifically, the criteria for rating Consequence based on:

► Cash Flow/Distributions and Share Price, should be reviewed and updated with input from the CFO.

► Legal, should be reviewed and updated with input from the GC.

The RAC should consider Spark Infrastructure's Risk Appetite and Risk Tolerance.

The Risk Assessment Matrix assists with plotting the risks in terms of their overall residual risk rating and its comparison to Spark's Risk Tolerance.

Risk Assessment Matrix

Likelihood	Consequence				
	Insignificant (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
Almost certain (5)	Low 11	High 16	High 20	Extreme 23	Extreme 25
Probable (4)	Low 07	Medium 12	High 17	High 21	Extreme 24
Possible (3)	Low 04	Low 08	Medium 13	High 18	High 22
Unlikely (2)	Negligible 02	Low 05	Low 09	Medium 14	High 19
Rare (1)	Negligible 01	Negligible 03	Low 06	Low 10	Medium 15

Control Effectiveness Criteria

Rating	Description
Strong	► The control environment is fully implemented and effectively manages the identified risk (ie, a relatively low residual risk remains).
Good	► The control environment is largely implemented, but a medium-to-high residual risk remains. There is no compelling cost /benefit justification to alter the control environment.
Acceptable	► The control environment is only partially implemented and can be further improved. Nevertheless, a low-to-medium residual risk remains. Management is working to cost-effectively enhance the control environment.
Unsatisfactory	► The control environment is poorly implemented, or otherwise inappropriate or inadequate to manage the risk, resulting in a high-to-extreme residual risk. There is urgent need for corrective action and /or improvement actions to be taken. There is clear or significant cost /benefit advantage to implementing improvement opportunities.

3.   Step 3 - Identify Risks

Please note: this step should be read in conjunction with Step 4 – Analyse Risks.

During this activity, participants in the risk assessment process are asked to identify what they consider to be the most critical, or material, risks to Spark Infrastructure. The objective for risk identification is to identify those risks and related events and circumstances that would impact the achievement of Spark Infrastructure's business objectives, if they were to occur.

3.1.1   Approach for Risk Assessment

Participants are asked to identify and analyse (collectively referred to as "assess") risks via one-on-one interviews, surveys, risk questionnaires and/or workshops. The approach will depend on the location, role of the risk assessment participant and timing for completing the risk assessment.

► One-on-one interviews are effective when needing to obtain detailed information from one participant.

► Group or facilitated workshops are effective when all participants are knowledgeable about a single area of risks, or when participants are required to validate or verify the risk profile.

3.1.2   Preparing Participants for Risk Assessment

It is important that participants are educated about the risk assessment process prior to participating in the risk assessment. This would include an understanding of:

► The 'First Principles''.

► The definition of a risk and the importance of risk management at Spark Infrastructure.

► Spark Infrastructures mission, strategy and supporting business objectives, and mandate.

► The RiskUniverse and Risk Assessment Criteria used to identify and analyse risks.

To that end, it may be necessary to send risk assessment participants a pre-read document to assist them with preparing for the risk assessment.

3.1.3   Focusing Participants on Risk Identification

During the risk assessment, participants should be asked to identify:

1. Risks most relevant to their area of responsibility.

2. Risks that fall out of there area of responsibility but which they perceive to be a material risk to Spark Infrastructure. This would include risks to, or arising from, Asset Companies.

Risks may also be identified from the participants past experience and knowledge; and via external sources, including annual reports and risk registers of Asset Companies, and external environment/events.

The RiskUniverse is used as a tool to assist participants with identifying risks.

Refer to Step 4 'Risk Analysis' below, for the items of information risk assessment participants should be asked to provide during the risk assessment process.

Step 4 - Risk Analysis

3.1.4   Performing the Risk Assessment

During the risk assessment process, participants should be asked to:

1. Identify the risks they consider to be material to Spark Infrastructure, using the RiskUniverse as a prompt. Identification would include:

   ► Risks most relevant to their area of responsibility.

   ► Risks that fall out of there area of responsibility but which they perceive to be a material risk to Spark Infrastructure. This would include risks to, or arising from, Asset Companies.

2. Describe each risk in as much detail as possible. This may include an explanation of possible risk scenarios.

3. Identify contributing factors which may cause the risk to occur.

4. Consequences, if the risk was to occur.

5. A Risk Owner, where possible.

6. Risk Analysis, based on the following criteria:

    ► Consequence using the Risk Assessment Criteria for Consequence. Participants should be encouraged to consider the worst-case scenario when rating the risk for Consequence. They should also consider the effectiveness of current controls when assigning the risk Consequence rating.

    ► Likelihood using the Risk Assessment Criteria for Likelihood. Participants should be asked to assess the Likelihood of the risk occurrence, at the Consequence level they have just assigned to the risk (i.e., worst-case scenario).

7. Identify and describe controls or risk management activities in placed to manage each risk. This may include policies, procedures and processes.

    ► An analysis of control effectiveness, using the Risk Assessment Criteria for Control Effectiveness. Participants should be asked to consider the current risk management activities or controls in place to manage the risk, if it were to occur.

8. Considering the Control Effectiveness rating, describe any Further Controls that could be implemented to improve risk management activities, and thus reduce the Consequence and/or Likelihood of the risk occurrence.

The Risk Register Template in Appendix C can be leveraged during the risk assessment process, to act as a prompt for the type of information that is to be collected from participants during risk assessment surveys, interviews and /or workshops.

3.1.5   Consolidating Risk Assessment Results

Individual risks identified and analysed during the risk assessment process should be consolidated in the Risk Register Template in Appendix C.

The Risk Register consolidates risks assessed during the process, based on their risk categorisation and risk area (i.e. from the RiskUniverse).

Step 5 - Evaluate Risks

Please note: this step should be read in conjunction with Step 6 – Treat Risks.

The purpose of the risk evaluation is to make decisions, based on outcomes of the risk assessment, about which risks require treatment. The objectives of the organisation, and the risk appetite and tolerance should be considered when evaluating risks.

The objectives for validating the risk assessment results are to:

► Achieve consensus, and agree, on the material risks facing the organisation. This would include a final assessment of the Consequence, Likelihood and Control Effectiveness rating for each risk.

► Enhance ownership of the Residual Risk Profile (material risks) of the organisation.

► Agree on a Risk Owner for each material risk.

In some cases, it may be deemed appropriate to obtain additional information on risks and their controls prior to making a final evaluation of risks.

3.1.6   Prioritising Risk Assessment Results

Validation of the risk assessment results should occur via a facilitated workshop.

Prior to the workshop, risks (i.e. documented in the Risk Register) should be prioritised on the basis of their Residual Risk Rating, which is determined by how it is plotted using the Risk Matrix.

Based on their Consequence and Likelihood ratings, the risks are grouped into five categories:

► Extreme – These are material risks which are perceived to be of the greatest consequence and likelihood and hence, those which require the most attention. These risks should be elevated for consideration in the Risk Dashboard Report to the Board and the ARC (Refer to Appendix E for an example of a risk reporting template), especially with regard to any decisions that need to be made regarding control improvement opportunities or additional controls that may be required so as to reduce the residual risk rating to a more acceptable level.

► High – These risks are perceived to be of high consequence and likelihood. Along with the Extreme risks these High risks should be reported to the Board and ARC, especially with regard to any decisions that need to be made regarding control improvement opportunities or additional controls that may be required so as to reduce the residual risk rating to a more acceptable level. These risks are monitored to identify any potential movements, especially for movements from a High residual risk rating to an Extreme residual risk rating.

► Medium - These are typically those moderate risks which may require focus and some remedial action to be effected by the Risk Owners. These risks are monitored, except where there is risk movement which requires exception reporting (i.e., the risk has moved from a Medium residual risk rating to a High residual risk rating).

► Low –These are the low risks and are expected to have a relatively low risk exposure. Periodic monitoring of these risks should be required to provide assurance that the level of risk remains constant and there is risk movement which requires exception reporting. Low risks typically fall within the tolerable range defining flexibility in risk treatment and budget allocation and spend. However, management may decide to drive further efficiency by taking remedial action on certain of these risks, despite the low categorisation.

► Negligible – These are the lowest risks in terms of their overall exposure. Periodic monitoring of these risks should be required to provide assurance that the level of risk remains constant.

The categorisation of risks as Extreme, High, Medium, Low or Negligible should primarily be a function of the Residual Risk Rating derived from the assessment of residual Consequence and Likelihood and based on contributing factors and other information around the risk obtained during the risk assessment process.

The results of the risk assessment should then be plotted on the Risk Profile, which is a diagrammatic representation of risks in a "heat map" format.

3.1.7   The Residual Risk Profile

Risks are mapped on the Risk Assessment Matrix based on Consequence (x-axis) and Likelihood (y-axis). The material risks to Spark Infrastructure would, generally speaking, be those risks plotted in the top right hand quadrant where the risk is rated as being Extreme or High.
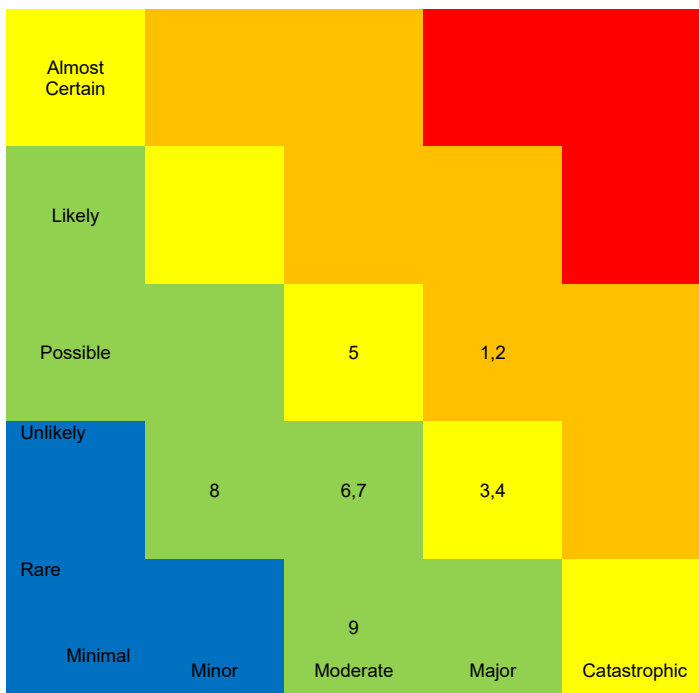
Two risk profiles exist at Spark Infrastructure: the Spark Board Risk Profile and the Spark Management Risk Profile. The Spark Board Risk Profile contains risks which are relevant to the Spark Board due to their influence on Spark's achievement of its objectives. It contains risks that require ongoing oversight by the Spark Board.

These risks could have a significant impact on Spark's ability to achieve its objectives and its broader mandate if they were to eventuate. Spark Managers still have a role in relation to these risks. Since the Managers own the risk profile of the organisation, designated Risk Owners for the risk on the Board Risk Profile should be a member of the Spark Infrastructure Management.

The Spark Management Risk Profile contains risks that are the exclusive purview of Spark Managers due to their operational nature. The latter risk profile contains risks that Spark Managers should review, and treat as it deems necessary; however, due to the nature of these risks and the level of exposure they pose, the Managers are not required to report these risks through to the Board and should be monitored by the Managers.

An example of the Board Risk Profile is presented below.

Spark Board Residual Risk Profile (as at December 2016)

Likelihood \ Consequence	Minimal	Minor	Moderate	Major	Catastrophic
Almost Certain					
Likely					
Possible			5	1,2	
Unlikely		8	6,7	3,4	
Rare			9		

No	Risk Description	Residual Rating
1	Unfavourable regulatory reset by the Australian Energy Regulator	High
2	Different objectives of the shareholders of the Asset Companies – Spark and CKI	High
3	Inability to obtain or re-finance debt (AC and Spark) in absolute terms (i.e. not taking into consideration commercial rates with suitable terms and conditions)	Medium
4	Inappropriate Corporate Model (including capital management plan, distribution strategy, debt-equity strategy)	Medium
5	Management structure – Incurrence of a performance fee and payment of base fees in the absence of clear demonstration of out-performance by manager	Medium
6	Failure to identify and act upon appropriate opportunities	Low
7	Inadequate investor relations	Low
8	Inadequate oversight of asset companies	Low
9	Legal and regulatory non-compliance (incorporating insider trading and continuous disclosure)	Low

The Workshop Process

Prior to the workshop, participants should be given a pre-read document with the preliminary results of the risk assessment. This should include:

► The Risk Profile.

► The objective and approach for the management workshop.

The approach for the workshop should be to validate the risks to Spark Infrastructure (i.e. material risks to Spark Infrastructure) and agree:

► The risk description.

► The causes.

► Consequences.

► Analyse the risks for Consequence and Likelihood.

► The current controls.

► Further controls.

► Preliminarily identify treatment options and plans (refer to Step 6 - Treat Risks).

► Identify Risk Owners and Treatment Plan Owners.

The outcomes from the workshop process should be reported to the ARC, and the Board as necessary.

4.   Step 6 - Treat Risks

A treatment plan is put in place when it is determined that the level or type of control activity requires improvement to more effectively address and mitigate the risk i.e. for risks which have been assessed as having an Extreme or High Residual Risk Rating, and/or a "Marginal" or "Ineffective" Control Effectiveness Rating, and/or which exceed the organisation's tolerance for that risk.

Risk treatment involves identifying the range of options for treating risks, assessing those options given the resources available to the organisation, and the preparation and implementation of those plans.

4.1.1   Identifying Options for Treating Risks

Prior to deciding on the treatment plan, management should decide on the option for treating the risk. The decision on the option for treating the risk can be preliminarily identified by management in the facilitated workshop discussed in *Section 5.1.3* above. Four risk treatment options are available:

► Avoid – Exit the activities giving rise to the risk. Risk avoidance may involve exiting an investment strategy, or declining expansion to a new geographical market.

► Reduce – Action is taken to reduce risk Consequence or Likelihood, or both. This typically involves a myriad of everyday business decisions.

► Share – Reduce risk Consequence or Likelihood by transferring or otherwise sharing a portion of the risk. Common techniques include purchasing insurance products, engaging in hedging transactions, or outsourcing an activity.

► Retain – No action is taken to affect risk Consequence or Likelihood, or avoid or share the risk.

The Treatment Plan Owner identified for each treatment plan is then responsible for working with the relevant Risk Owners to further develop, implement and communicate status of the treatment plan.

4.1.2   Assessing Risk Treatment Options

Selecting the most appropriate option for the treatment of the risk, the Treatment Plan Owner should consider the following:

► Benefits derived, and associated costs resulting, from the treatment plan.

► The amount by which the risk Consequence and/or Likelihood can be reduced by implementation of the treatment plan.

► Relationship between treatment plans and controls and risks i.e., can one treatment plan improve multiple controls and reduce the consequence and/or likelihood of multiple risks.

► Ownership of the treatment plan i.e., can it be owned by Spark Infrastructure, or does it require an external party to be engaged.

► The speed at which a treatment plan needs to be implemented.

► Whether Spark Infrastructure has the necessary resources and capabilities to effectively implement the treatment plan.

► The expectations, values and perceptions of internal and external stakeholders.

► Risks related to the risk treatment plan.

A number of optional treatment plans may be considered and applied either individually or in isolation.

The Managers should also determine monitoring activities to provide assurance as to the effectiveness of treatment plans in improving the effectiveness of a control and in reducing the risk Consequence and/or Likelihood. Prepare and Implement Treatment Plans

Treatment plans should be documented in a consistent manner, and should capture the following:

► Proposed actions.

► Resource requirements.

► Responsibilities i.e. Treatment Plan Owners.

► Timing.

- ► Performance Measures.
- ► Reporting and Monitoring Requirements.

Refer to Appendix D for a template to capture treatment plans for material risks.

Activity 7 - Monitor and Review

The ongoing monitoring of risks and controls is a critical component of effective risk management, as risk monitoring and reporting activities are highly intertwined.

The outcomes of monitoring activities should be appropriately escalated where significant changes in Residual Risk Ratings, Control Effectiveness and status of treatment plans are identified. *Section 4* of this Framework defines management responsibility monitoring risks, controls and treatment plans. Specifically:

- ► Risk Owners should monitor the level of Control Effectiveness, Consequence and Likelihood, and report to the CEO any changes in these levels which would cause Spark Infrastructure to exceed its risk appetite for that risk.
- ► Risk Owners should be responsible for monitoring the level of Control Effectiveness, and reporting any changes in its level, particularly when it is perceived there has been a downgrade in its effectiveness level.
- ► Treatment Plan Owners are responsible for monitoring and reporting to the Risk Owner on the status of implementation of the treatment plan. In particular they should report when:
  - ► The treatment plan is not expected to be implemented within specified timeframe.
  - ► Resources to complete the treatment plan become scarce or unavailable.
  - ► The costs to implement the treatment plan become inflated.
  - ► It is expected that the benefits from implementing the treatment plan will no longer be realised.

- ► Risk Owners and Treatment Plan Owners may be members of Asset Companies or other external stakeholders. When Risk Owners and Treatment Plan Owners and members of external parties, Spark Infrastructure should attempt to influence them through stakeholder relations. The Risk Owners should continue to monitor the residual risk levels and associated treatment options.

Appendix C   Spark Infrastructure Risk Register

SEE SEPARATE SPARK INFRASTRUCTURE RISK PROFILE

Appendix D   Spark Infrastructure Treatment Plan Template

Risk ID 1

Risk Description

► **TBD**

Risk Category

► TBD

Causes

► TBD

Consequences

► **TBD**

Risk Owner

TBD

Treatment Plans

Description	Proposed Timing
TBD	

Resource Requirements

Description	Budget	People
TBD	TBD	TBD

Performance Measures

Description
TBD

Revision History

Owner	CEO			
Authorised by	Board		Date 26 May 2009	
Direct questions on Policy to	CEO			
Document review schedule	Annual			
Next date for review	1 December 2017			
Version control	Date	Version	Nature of Change	Approved by (Name)
	August 2009	2.1	Updated	CEO
	December 2016	3.1.	Updated	CEO

This CPP is intended for internal use only and should not be used outside the Spark Infrastructure Group without first obtaining the consent of the GC. The matters reflected in this CPP are applicable as at the last date referred to in the table above and may be updated from time to time. If you have any queries in relation to this CPP, please see the GC.