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[ARSN 116 870 725]

MESSAGE FROM THE CHAIRMAN



DR DOUG MCTAGGART

Dear Securityholder,

I am pleased to report that Spark Infrastructure enjoyed another strong year in 2016. Spark Infrastructure's Total Shareholder Return in 2016 was 31%, a multiple of the return delivered by the broader market.

The Directors have declared a final distribution of 7.25 cents per security (cps), in line with our guidance of a total distribution of 14.5 cps for 2016, an increase of 20.8% on 2015. The final distribution will be paid to Securityholders on 15 March 2017. These distributions are fully covered by operational cashflows on both a standalone and look-through basis.

We were also pleased to reaffirm the forward distribution guidance of 15.25cps for 2017, which is 5.2% above 2016, and then growing by 4.9% to 16cps in 2018. This forward guidance is based on the distributions that we expect to receive from our investment portfolio and is subject to business conditions.

Our investment portfolio continues to demonstrate strong cashflow generating capacity, delivering growth of 47.4% in standalone operating cashflows¹ in 2016. This includes the first full year of distributions from TransGrid and a significant step-up in distributions from Victoria Power Networks (VPN).

This is a tremendous performance and attests to the hard work of the people in the investment portfolio businesses – VPN, comprising the CitiPower and Powercor networks, SA Power Networks (SAPN) and TransGrid; in combination with the active management approach taken by Spark Infrastructure.

Spark Infrastructure's investment approach is based on active asset management of a concentrated portfolio of significant interests that provide us with the scope to influence outcomes and drive performance in the underlying assets. We add value by applying our industry and regulatory expertise to the investment businesses' strategy and operations. We also have representation on the boards of the investment companies enabling a two-way flow of information and the ability to ensure robust governance.

The Victorian and South Australian businesses are ranked in the top quartile of efficiency amongst their peers by the Australian Energy Regulator (AER) and are industry leaders in terms of safety, reliability and customer service. We are actively managing our interest in TransGrid to move the business to the efficient frontier of performance, much like our investments in VPN and SAPN.

A little more than 12 months have passed since we acquired a 15% stake in TransGrid and the diversification benefits this acquisition is bringing to Spark Infrastructure are now being demonstrated.

The business continues to deliver against the acquisition business plan. TransGrid remains focused on cultural transformation, efficiency improvements and growing non-regulated business revenues. There is enormous potential to grow the infrastructure connections business

in TransGrid. We can now see this being realised and we expect it to continue.

Security of supply for electricity across the National Electricity Market (NEM), particularly in South Australia, is an important issue that has been occupying industry and governments alike given the recent outages.

The potential for increased grid interconnectivity as a potential solution represents a significant opportunity for TransGrid in particular. Greater interconnectivity of the NEM has the ability to improve reliability and security of supply to customers and thereby facilitate the growth of renewable generation in a cost effective manner.

Expanding into niche areas associated with 'behind the meter' customer solutions, battery storage and consulting services to the energy industry are opportunities that Spark Infrastructure is determined to explore through its electricity distribution businesses to enhance Securityholder value.

The existing portfolio continues to offer a variety of opportunities to grow revenues and generate incremental cashflows. Nevertheless, we will also remain alert to opportunities to balance this type of innovative organic growth with opportunities for external growth that create value and grow cashflows over time.

I look forward to keeping you updated on our progress in the future.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'DMcTaggart', with a stylized flourish at the end.

DR DOUG MCTAGGART
Chairman
Spark Infrastructure

1. Includes \$65.0 million of distributions from Victoria Power Networks received by way of repayments of shareholder loans and classified in investing activities for statutory reporting purposes.



RICK FRANCIS

Dear Securityholder,

Spark Infrastructure delivered another solid financial performance in 2016. Our 2016 standalone operating cashflows are up 47.4% on 2015 to \$305.6 million with distributions from the investment portfolio up across the board.

SAPN and VPN have been operating under the revenue allowances provided in their Preliminary Determinations for the first year of their new regulatory periods. This contributed to a lower equity accounted share of profits, with Profit before Loan Note Interest and Tax for the year decreasing by 10.7% to \$225.8 million compared to the previous corresponding year.

Importantly, the Final Determinations subsequently received by both SAPN and VPN allow for an additional \$626 million of revenue for SAPN and \$180 million of revenue for VPN, over their 5-year regulatory periods, which is now being recovered.

Spark Infrastructure's Profit After Tax incorporates positive variances relative to 2015, including the first full year of contribution from TransGrid which was acquired on 16 December 2015. VPN contributed a \$17.4 million increase

to Profit After Tax and TransGrid contributed \$11.9 million, which offset a fall in contribution from SAPN of \$33.6 million.

Performance summary

VPN enjoyed significant improvements in productivity with a variety of efficiency gains realised through its World CLASS program. This enabled the achievement of total identified savings of approximately \$167 million per annum (versus a 2013 baseline) with \$139 million delivered by the end of the year. This is split approximately evenly across both capital expenditure and operating expenditure.

The efficiency performance of VPN through its World CLASS program is widely regarded as the highest industry ("best practice") standard for electricity network providers, with many seeking to emulate their rigorous and innovative approach.

SAPN also performed strongly in 2016. This was highlighted in September 2016 by the successful renewal of the ElectraNet maintenance contract by the CaMS (Construction and Maintenance) business unit, for a minimum of five years. This is a fresh endorsement of the technical capabilities and geographic reach across South Australia possessed by SAPN. In addition, SAPN continued its efficient delivery of the NBN rollout in South Australia and has now achieved \$200 million of revenue since the inception of this contract.

South Australia is the state at the vanguard of reliance on renewable generation and has also been impacted by a series of severe storm events putting the system at risk

and causing widespread outages for customers. The most significant of these extreme storm events occurred in December 2016 and left 185,000 customers without power. SAPN's workers have performed admirably under dangerous conditions to restore electricity to customers. They should be congratulated for these efforts.

TransGrid continues to deliver against the acquisition business plan and is well positioned for growth. It has continued its cultural transformation that commenced when the new CEO, Paul Italiano, took the helm in April 2016. Paul has appointed a number of fresh faces to his executive team who will bring valuable expertise to key areas such as unregulated business development.

The opportunities for TransGrid to provide increased network interconnection across the NEM are real and meaningful and we believe these would benefit consumers across the Eastern states by delivering a reliable supply of energy from both traditional and renewable sources.

TransGrid submitted its regulatory proposal for the 5-year period from 2018-2023 to the AER in January 2017. The proposal includes additional capital expenditure designed to cater for population growth and improved security of supply to customers in NSW and the Sydney CBD. At the same time, TransGrid's regulatory proposal would deliver a price reduction to consumers of 2.5%, in addition to the reduction of 7% delivered over the current regulatory period.

Asset Portfolio benchmarking well against peers

The sector leading efficiency of our investment portfolio has once again been confirmed by the AER in its 2016 Performance Reports.

The Distribution Performance Report, released in November of last year, re-confirmed the high rankings of CitiPower, Powercor and SAPN amongst their electricity distribution peers. Each of them ranked in the top five networks from a peer set of 13. The Transmission Performance Report, released at the same time, underscores the opportunity we have to improve the TransGrid business and share those benefits with consumers.

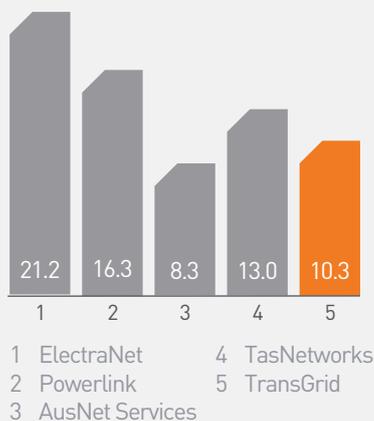
SPARK INFRASTRUCTURE STATUTORY FINANCIAL PERFORMANCE	2016 (\$m)	2015 (\$m)	Variance (%)
Standalone operating cashflows ¹	305.6	207.4	47.4
Total income ²	243.9	270.6	(9.9)
Profit before Loan Note Interest and Tax	225.8	252.8	(10.7)
Net Profit after Tax	81.1	88.0	(7.9)

1. Includes \$65.0 million of distributions from VPN received by way of repayments of shareholder loans and classified in investing activities for statutory reporting purposes.

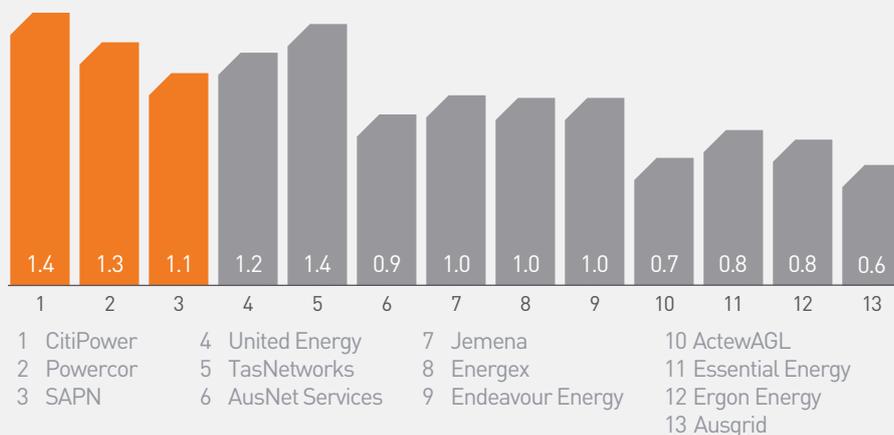
2. Includes interest income from associates, Spark Infrastructure's share of equity accounted profits, gains from derivative contracts and other income.

**THE AER'S NOVEMBER 2016 BENCHMARKING REPORT CONFIRMS
FAVOURABLE RANKINGS FOR PORTFOLIO BUSINESSES**

**2015 Total user cost per MWh
of energy transported (\$/MWh)**



2015 Opex partial factor productivity



**Innovation and unregulated
business growth**

Innovation also remains top of mind for Spark Infrastructure and for the businesses in our portfolio. Technology is moving rapidly and each of the businesses is responding intelligently and energetically to the new services being demanded by customers. Both VPN and SAPN are developing a range of innovative services that will benefit both the regulated and unregulated parts of their businesses.

VPN is classed as a tier 1 contractor for the delivery of capital expenditure programs and continues to provide maintenance services to Victorian electricity transmission business AusNet Services. Late last year, VPN rebranded and relaunched its Energy Solutions business unit as a standalone business called BEON Energy Solutions. With the rebranding VPN is able to satisfy the AER's Ring-fencing Guideline released in November of last year. We see a bright future filled with opportunity for BEON Energy Solutions.

In SAPN, technology is also being used to reduce costs as well as to grow revenues. This includes the increased use of drones for inspection of infrastructure and the use of virtual planning assessments of new projects. The latter involves using 3-dimensional models to conduct virtual planning assessments by superimposing

proposed construction plans on existing sites. This allows review teams to assess placement, clearances and neighbourhood impact prior to physical installation.

The infrastructure connections opportunities for TransGrid are significantly larger than we had originally envisaged and they are progressing more quickly than originally expected. This presents the business with a rich source of value accretive growth. Due to the capital investment required, we are currently considering the best methods of funding this growth. The construction phase for these projects varies between 12-24 months with revenue from recently signed contracts expected to start flowing from late 2017.

Distributions and outlook

As noted by the Chairman, in 2016 Spark Infrastructure delivered total distributions of 14.5 cents per security, up 20.8% on the distributions paid in 2015. These distributions to Securityholders are fully covered by both stand-alone and look-through cashflows.

We expect distributions to continue to grow at around 5% per annum in 2017 and 2018 based on expected distributions from the investment portfolio and subject to business conditions. This continues Spark

Infrastructure's long record of delivering reliable growth in distributions.

Looking ahead, the team at Spark Infrastructure remains firmly focused on generating growth from the investment portfolio, which underpins the growth in our distributions to Securityholders. While we are more than satisfied with the organic growth opportunities available in our existing businesses, we will always remain alert to other opportunities that may arise from time to time to grow and diversify our investment portfolio.

Our investment horizon is long term – it can be measured in decades – and our management style is similar. Our objectives and management decisions are all about delivering sustainable and growing cashflows and long-term value accretion over time.

I look forward to keeping you updated on our progress in 2017 and beyond.

RICK FRANCIS
Managing Director and
Chief Executive Officer

Security of the National Electricity Market in the spotlight – submission to the Finkel Review

The Independent Review into the Future Security of the National Electricity Market, chaired by the Chief Scientist, Dr Alan Finkel AO, has launched a wide-ranging public consultation process on its Preliminary Report to inform the development of recommendations for the final blueprint. Dr Finkel presented the Preliminary Report of the Review to the Council of Australian Governments (COAG) Leaders’ Meeting on 9 December 2016 and invited submissions from interested parties.

This Review is seen nationally as a critical examination of recent events designed to crystallise the changes required to provide a reliable energy source to consumers, in an affordable manner, while transitioning to a low emissions economy. Spark Infrastructure is participating in the Review and has lodged a submission.

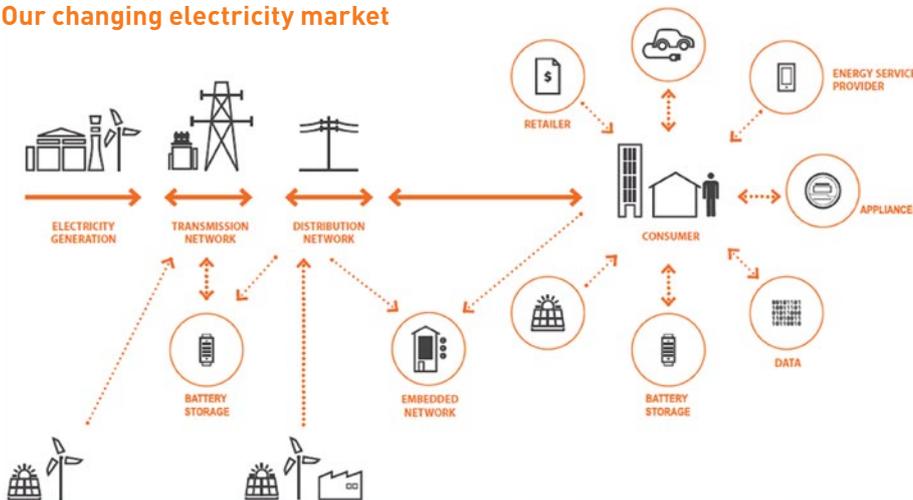
Our starting position is that future reliance on renewable energy generation is both desirable and inevitable. However, the electricity system and the regulation that supports it has not been designed for this scenario. This places the NEM in a state of transition that poses some difficult but not insurmountable challenges.

Networks have a key role in facilitating the process of transition to a low emissions economy, by providing expanded interconnection and access and greater reliability and stability to the grid. Moreover, we believe we are best placed to provide these services most affordably.

Whilst network providers are working towards the establishment of a ‘green grid’, it is essential that the government adopts commercial, national, non-politicised policy settings and regulatory frameworks that recognise the renewable energy world of tomorrow.

We believe that extensive network interconnection is a key part of the solution for Australian energy security just as it has been found to be elsewhere in the world, in countries such as the United Kingdom, Denmark and Germany. Not only will greater and more strategically placed interconnection provide increased reliability, security of supply of renewable energy and integration of other energy solutions such as large-scale storage, it can also be expected to reduce the wholesale price of electricity for the benefit of all consumers.

Our changing electricity market



GREG MARTIN

Greg Martin joins Board of Directors

Following the announcement of Dr Keith Turner’s intention to retire from the Board as part of the board renewal process, Spark Infrastructure has appointed Greg Martin to the Board as of 1 January 2017. Dr Turner will remain on the Board until the end of the Annual General Meeting on 23 May 2017, and Mr. Martin will stand for election as a new Independent Non-Executive Director. Dr Turner will continue to serve as a Director on the Boards of the portfolio businesses.

Mr Martin’s experience includes 35 years in the energy, utility and infrastructure sectors, having spent 25 years with The Australian Gas Light Company (AGL), including five years as CEO and Managing Director. After leaving AGL, Mr. Martin was CEO of the infrastructure division of Challenger Financial Services Group and, subsequently, CEO and Managing Director of Murchison Metals Limited.

He currently serves as Chairman of Iluka Resources Limited, Deputy Board Chair of Western Power and a non-executive Director of Santos Limited. Mr Martin also serves as a member of the COAG Energy Council Energy Appointments Selection Panel. He is a Fellow of the Australian Institute of Management, a Member of the Australian Institute of Company Directors and holds a Bachelor of Laws from the University of Technology Sydney and a Bachelor of Economics from the University of Sydney.

NEWS FROM THE INVESTMENT PORTFOLIO

TRANSGRID

TransGrid submits regulatory proposal for 2018-2023

On 25 January 2017, TransGrid submitted its first regulatory proposal under private ownership, which covers the 5-year period from July 2018 to June 2023.

The proposal recognises that the industry is undergoing profound change and seeks to ensure TransGrid is positioned accordingly, and is seeking to address the “energy trilemma” of delivering reliable energy in an affordable manner that helps move towards a low emissions economy.

A centrepiece of the proposal is investment in Powering Sydney’s Future, which is about strengthening the reliability of the network into the Sydney CBD. This is an important project for Sydney, a city that is currently undergoing a massive inflow of infrastructure investment.

The proposal also supports real average price reductions to consumers of 2.5% compared to the current period.

The displayed table shows the key parameters proposed by TransGrid.

TransGrid’s debt management applauded by finance industry

Kanganews is a news and information service dedicated to the Australasian fixed-income markets. Each year the organisation presents awards to businesses, which are selected by market participants, giving the awards a level of integrity and credibility unrivalled among industry accolades.

In December 2016, TransGrid received two prestigious awards for its involvement in the Australian debt market: The Australasian-Origin US, Private Placement, (USPP) Deal of the Year was awarded for TransGrid’s agreement with US investors to place US\$700 million and A\$75 million of bonds into the USPP market. This inaugural transaction represents an important milestone for TransGrid in terms of building funding diversity and lengthening of the debt maturity profile. TransGrid was also awarded the Australian Syndicated Loan Deal of the Year for four debt tranches equalling over \$5.9 billion created as part of the original acquisition financing of TransGrid.



TRANSGRID PROVIDING A CHEQUE FOR PEOPLE IN LOCAL COMMUNITY TRANSGRID SUPPORTED

Supporting Local Communities

TransGrid’s Community Partnerships Program provides grants to organisations that directly support local communities through health, education, safety or environmental initiatives. Now in its sixth year, the program has donated more than \$400,000 to non-profits and community groups, and builds positive and lasting relationships where TransGrid’s assets are located, built or being upgraded.

The latest grants supported the Yass and Snowy Valley and Dapto and Bathurst regions, where TransGrid donated approximately \$100,000 to local Councils, schools, youth and family services, Scouts, football clubs, and emergency services.

TransGrid’s regulatory proposal reflects the current state of infrastructure, the more complex operating environment and the challenges of evolving services to increase renewables in the national energy mix and adapt to technological innovation

		2018-2023 REGULATORY PERIOD	TRANSGRID PROPOSAL
JULY 2016	FRAMEWORK AND APPROACH PAPER		
JANUARY 2017	INITIAL PROPOSAL	Capex over 5 years (\$2018)	\$1,612m
SEPTEMBER 2017	PRELIMINARY AER DETERMINATION	Opex over 5 years (\$2018)	\$908m
DECEMBER 2017	REVISED PROPOSAL	Revenue over 5 years (\$2018)	\$3,973m
APRIL 2018	FINAL AER DETERMINATION		

LAST YEAR SAPN AND ITS EMPLOYEES WERE RECOGNISED THROUGHOUT THE LOCAL COMMUNITY AND NATIONALLY THROUGH SEVERAL PRESTIGIOUS AWARDS FOR THEIR INNOVATIVE DESIGNS, AND IT SKILLS AND MANAGEMENT. THE COMPANY CONTINUES TO STRIVE FOR EXCELLENCE IN ALL AREAS OF THE ORGANISATION, AND HAS RECEIVED VARIOUS BUSINESS AND GOVERNMENT AWARDS THROUGH THE YEARS.

Engineering Excellence Awarded for Innovative Substation Designs

In September 2016, SAPN received the Innovation, Research and Development award for its Smart Substation Design project as part of the prestigious Australian Engineering Excellence Awards (AEEA) South Australia 2016. In addition, the SubMate Application Tool – enabling staff to manage operation and safety activities at substations – was awarded a High Commendation under the Occupational Health and Safety category.



AUSTRALIAN ENGINEERING EXCELLENCE AWARD AND PLAQUE FOR SMART SUBSTATION DESIGN



CUSTOMER STEVE HENDY IS THE 100TH PERSON TO HAVE A TESLA BATTERY INSTALLED FOR THE TRIAL

100th battery installed in Salisbury battery storage trial

SAPN has installed the final battery required for its unique three-year battery storage trial involving residential customers in Adelaide's northern suburbs. The trial will test the benefits of combining solar and battery storage to avoid approximately \$3 million in costs to build additional network infrastructure to meet growth in local electricity demand in an existing residential suburb.

The first of these batteries was installed in July 2016, and SAPN is already receiving valuable insights into how solar-battery combinations can influence customer use of the network. As increasing numbers of customers install these new technologies and the proportion of distributed energy sources grow across the state, SAPN believes this information will be crucial in planning and adapting the network so it supports customer choice.

SA Power Networks scoops award for SAP Foundations Project

SAPN received the Australian Institute of Project Management (AIPM) Award (ICT/Telecommunication) in September 2016 for its SAP Foundations Project. This project represented a significant investment to transition current SAP platforms onto the new and improved SAP HANA platform; migrate the SAP portal and business services to a Microsoft Windows platform, and move new hardware to an enhanced disaster recovery environment.

As one of the first organisations in Australia to undertake a migration of this magnitude, the move to SAP HANA provides SAPN with a database and reporting system that helps the business meet regulatory reporting requirements and enables end users to perform real-time analysis on live data.



MEMBERS OF THE IT DEPARTMENT WORKING ON THE SAP FOUNDATIONS PROJECT

NEWS FROM THE INVESTMENT PORTFOLIO

VICTORIA POWER NETWORKS (CITIPOWER AND POWERCOR)

World CLASS efficiency program continues to deliver

Over the past three years, VPN has been implementing a comprehensive efficiency and cost management program known as World CLASS. This program has quickly become the industry benchmark and is now regarded as the template to which other networks aspire.

At Half Year results time in August 2016 we noted that VPN's aggregate savings were \$163 million p.a. across both capital expenditure and operating expenditure. Since that time, the total savings has increased to \$167 million. This figure is compared to the 2013 total expenditure baseline and shows that in effect, VPN has reduced its total expenditure over that period by around 20%. This is an outstanding result.

As at December 2016 VPN had delivered \$139m of the savings, with the remainder of the initiatives well progressed in terms of implementation and so the rest of the savings will flow through during 2017.



FAMILIES FINISH THE TOUR DE DEPOT

Over \$225,000 raised for local children's charities

Now in its second year, the Powercor Tour de Depot has achieved amazing results, raising more than \$225,000 for four local children's charities in Mildura, Shepparton and Warrnambool. The annual bike rides in these cities are family cycling events that are up to 20km in length and promote a healthy, active lifestyle. In addition to sponsoring the worthy initiative for the communities, eight employees braved the weather and rode 200km from Melbourne to Shepparton to raise more than \$6,000 for Very Special Kids, a children's hospice that provides respite and end of life care services.



NEW DASHBOARD PROVIDES REAL-TIME, ENERGY USE TO CUSTOMERS

New Energy Monitoring Display aids Customers

CitiPower and Powercor have created a new, easy-to-understand energy monitoring dashboard for customers, which shows energy usage in real time. The myEnergy dashboard provides customers access to their interval data through charts and graphs, so they can identify their energy usage and in turn become more energy efficient and save money.

Open to both residential and business customers, CitiPower and Powercor partnered with the Victorian Government to connect the myEnergy dashboard to the Victorian Energy Compare tool, so that customers can compare retailers. The dashboard also provides up to two years of historical data, and allows customers to compare their energy consumption to the average in their area in order to understand if further energy consumption can be reduced.

Power to the country

One of Powercor's core values is to be community minded, and the company feels strongly about giving back to the community in which it operates.

Last year, Powercor announced a four-year partnership with the Essendon and Geelong Football Clubs, launching the Powercor Country Festival, to celebrate the contribution farming and regional communities make to the nation.

Throughout the year, Powercor, together with players from the Essendon and Geelong Football Clubs, visited schools, hospitals and businesses to meet with fans and conduct footy clinics. Powercor also hosted a 'Country Fair' at the Geelong v Essendon game, where more than 40,000 people enjoyed classic fairground games, sheep shearing and a farmer's market. At the game, Powercor also held a Powerkick competition and two children were selected to run with their clubs as Junior Mascots.

The program demonstrates Powercor's grass-roots commitment to country Victoria and the more than 750,000 regional customers to whom it provides services.



ESSENDON PLAYER, JOE DANIHER, TIM ROURKE, POWERCOR EMPLOYEES PAUL RUSSELL AND LEIGH HUNTER, GEELONG PLAYER TOM HAWKINS, AND KEVIN SHEEDY CELEBRATING THE COUNTRY FESTIVAL.