NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Accounting Policies

Basis of Preparation and Statement of Compliance

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

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

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

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

The financial statement was authorised for issue by the Directors on 24 February 2009.

Standards Not Yet Effective

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

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

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

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

The standard will not have any financial impact other than disclosure changes on the results of the Company and Consolidated Entity.

- AASB 123 "*Borrowing Costs*" (effective for annual reporting periods beginning on or after 1 January 2009).

  The principle change from the above standard is the requirement to capitalise borrowing costs attributable to acquisition, construction or production of a qualifying asset. The current standard permits such costs to be either expensed or capitalised.

  Spark Infrastructure's policy is to capitalise borrowing costs and therefore adoption of the above standard will not impact on reported results.

Working Capital Deficiency

The net current liabilities for the period is $256.306 million (2007: $232.335 million). The Directors consider the application of the going concern principle to be appropriate to the Consolidated Entity as payables are due to related parties within Spark Infrastructure, who share the same Directors as the Consolidated Entity, and therefore it is expected that continual financial support would be provided when required.

Significant Accounting Policies

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

a) Principles of Consolidation

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

b) Acquisition of Assets

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

c) Borrowings

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

d) Cash and Cash Equivalents

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

e) Creditors and Accruals

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

1. Summary of Accounting Policies (continued)

f) Financial Instruments

Debt and Equity Instruments

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

Transaction Costs on the Issue of Equity Instruments

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

Interest, Dividends and Distributions

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

g) Goods and Services Tax

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

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

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

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

h) Impairment of Other Tangible and Intangible Assets

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

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

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

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

i) Income Tax

Current Tax

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

Tax Consolidation Legislation

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

j) Investments in Associates

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. Summary of Accounting Policies (continued)

k) Loans and Receivables

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

l) Revenue Recognition

Dividend and Interest Revenue

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

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

m) Investments in Subsidiaries

The investments in subsidiaries are recorded for at cost.

n) Critical Accounting Estimates and Judgements

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

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

- *Accounting for Acquisition*
  On 15 December 2005, the Consolidated Entity acquired a 49% interest in the distribution Business of ETSA Utilities in South Australia. The Consolidated Entity is required to reflect its equity accounted investment in the businesses by reference to its share of fair value of net assets of the businesses. This assessment of fair value by the Consolidated Entity resulted in a notional increase in the carrying value of certain depreciable assets and amortisable intangible assets (i.e. licences), which are depreciated/amortised over the estimated useful life of such assets, extending up to 200 years. As a result of this, the share of the Consolidated Entity's equity accounted profits have been adjusted by additional depreciation and amortisation arising from the increase in the carrying value.

- *Impairment of Assets*
  At each reporting date, the Consolidated Entity tests whether there are any indicators of impairment in accordance with Note 1(h). ETSA is regarded as a cash generating unit for the purposes of such testing indicators of impairment. If any indicators are established, a discounted cashflow analysis will be undertaken.

  The recent economic events involving substantial changes to external market conditions has the potential to impact asset values and the Consolidated Entity regards this as an indicator of impairment. Accordingly impairment testing was undertaken to confirm that the carrying value of assets do not exceed their respective recoverable values (defined as fair value). The following key parameters were used in testing impairment:

  — Cashflow projections based on financial forecasts approved by management containing assumptions about business conditions and future regulatory returns, over a period of 10 years with an appropriate terminal value based on recent trading multiples for similar assets;

  — Growth rates for volume of electricity delivered are based on observed historical values and studies undertaken by independent experts; and

  — Appropriate discount rates specific to the individual assets.

  Cashflow projections for a 10 year period are deemed appropriate as electricity distribution assets are long life assets.

  The impact of the 'Statement of Regulatory Intent on Revised WACC Parameters' issued on 11 December 2008 by the Australian Energy Regulation ("AER") has not been considered in the impairment calculation as it is a draft determination. The final determination, which will consider further submissions by the industry, is expected to be issued in March 2009 when the underlying forecasts may need to be adjusted.

- *Deferred Tax Assets*
  Deferred Tax Assets are recognised to the extent that it is probable that there is sufficient taxable amounts available against which deductable temporary differences or unused tax losses and tax offsets can be utilised and they are expected to reverse in the foreseeable future. As at 31 December 2008, a net amount of $126.932 million (2007: $86.697 million) has not been recognised on the basis that the above recognition criteria was not met.

o) Rounding of Amounts

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

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
2. Profit for the Year				
(a) Income				
Income from associates:				
— Share of equity accounted profits	**96,887**	109,603	**–**	–
(b) Expenses				
Interest expense:				
— Interest on related party debt	**81,562**	81,340	**–**	–
(c) General and Administrative Expenses				
Directors' fees – short term benefits	**311**	312	**311**	312
Directors' fees – post employment benefits	**10**	11	**10**	11
Other expenses	**704**	616	**625**	537
	1,025	939	**946**	860
3. Income Taxes				
(a) Income Tax Recognised in Profit or Loss				
The prima facie income tax expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense in the financial statements as follows:				
Profit/(loss) from continuing operations	**1,133**	21,315	**(944)**	(860)
Income tax (expense)/benefit calculated at 30%	**(340)**	(6,394)	**283**	258
Offsets from unused tax losses brought to account	**340**	6,394	**(283)**	(258)
Tax benefit in respect of losses on items directly recognised in equity:				
— Write down of Deferred Tax assets	**15,936**	–	**33,180**	–
— Previously unrecognised and unused tax losses recognised as deferred tax assets	**–**	(15,936)	**–**	–
Income tax expense/(benefit)	**15,936**	(15,936)	**33,180**	–

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

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	COMPANY 2008 $'000	COMPANY 2007 $'000
(b) Deferred Tax Balances				
Deferred Tax Assets comprise:				
Temporary differences	**35,143**	68,323	**35,143**	68,323
Deferred Tax Liabilities comprise:				
Temporary differences	**35,143**	68,323	**–**	–
	–	–	**35,143**	68,323
(c) Unrecognised Deferred Tax Balances				
The following deferred tax assets have not been brought to account as assets:				
Tax losses – revenue	**126,932**	86,697	**–**	–

An amount of $35.135 million has been recognised in deferred tax liabilities and offset against available tax losses, resulting in net unrecognised deferred tax asset of $126.932 million.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. Income Taxes (continued)

Tax Consolidation

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

Nature of Tax Funding Arrangements and Tax Sharing Agreements

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

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

	CONSOLIDATED		COMPANY	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
4. Loans to Related Party				
Loans – interest free [a]	**–**	23,769	**–**	–
	–	23,769	**–**	–

[a] The loan was fully repaid during the Financial Year. It was established as a part of ETSA Utilities acquisition and was repayable on demand.

5. Investments Accounted for Using the Equity Method

(a) Investments in Associates

Name of Entity	Principal Activity	Ownership Interest (%)		Country of Incorporation/ Formation
		2008	2007	
ETSA Utilities Partnership	Ownership of an electricity distribution network in South Australia	**49**	49	Australia

	CONSOLIDATED		COMPANY	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
(b) Share of assets and liabilities of Associates				
Current assets	**62,681**	138,593	**–**	–
Non-current assets	**2,102,001**	2,045,471	**–**	–
Total assets	**2,164,682**	2,184,064	**–**	–
Current liabilities	**108,920**	170,149	**–**	–
Non-current liabilities	**1,563,187**	1,398,389	**–**	–
Total liabilities	**1,672,106**	1,568,538	**–**	–
Net assets	**492,576**	615,526	**–**	–
Preferred partnership capital – ETSA	**622,300**	622,300	**–**	–
Net assets applicable to Consolidated Entity	**1,114,876**	1,237,826	**–**	–

5. Investments Accounted for Using the Equity Method (continued)

	CONSOLIDATED		COMPANY	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
(c) Share of Associate's revenue and expenses				
Revenue – Distribution	**250,696**	240,314	**–**	–
Revenue – Unregulated/other	**137,314**	127,194	**–**	–
Operating revenue	**388,010**	367,508	**–**	–
Revenue – Transmission	**86,842**	78,725	**–**	–
	474,852	446,233	**–**	–
Expenses	**(412,760)**	(371,139)	**–**	–
Profit before income tax	**62,092**	75,094	**–**	–
Income tax	**–**	–	**–**	–
Net profit accounted for using the equity accounting method	**62,092**	75,094	**–**	–
Additional share of profit from preferred partnership capital [a]	**35,611**	35,323	**–**	–
	97,703	110,417	**–**	–
Additional depreciation/amortisation charge [b]	**(816)**	(814)	**–**	–
	96,887	109,603	**–**	–

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

[b] Relates to depreciation and amortization of the fair value on uplift of assets on acquisition.

(d) Movement in Carrying Amounts				
Carrying amount at beginning of the Financial Year	**1,197,371**	1,129,665	**–**	–
Share of profits after income tax	**96,887**	109,603	**–**	–
Preferred partnership distribution received	**(69,826)**	(69,635)	**–**	–
Dividends received – associates	**(1,957)**	–	**–**	–
Share of associates (expense)/income recognised directly in equity	**(148,793)**	27,824	–	–
Other movements	**–**	(86)	**–**	–
Carrying amount at the end of the Financial Year	**1,073,682**	1,197,371	**–**	–

(e) Capital Commitments and Contingent Liabilities

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

6. Other Financial Assets

Shares in controlled entities – at cost	**–**	–	**136,556**	136,556

7. Payables

Payables to related parties [a]	**73,194**	48,984	**5,795**	4,840

[a] Payables are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	CONSOLIDATED		COMPANY	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
8. Loans from Related Parties				
Loans (current) – non-interest bearing [a]	**183,422**	207,190	**–**	–
Loans – other	**–**	–	**68,323**	68,323
	184,422	184,422	**68,323**	68,323
Loans (non current) – interest bearing [b]	**749,673**	749,673	**–**	–

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

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

9. Issued Capital				
Balance at beginning and end of the Financial Year	**133,172**	133,172	**133,172**	133,172
Fully paid shares	**No.'000**	No.'000	**No.'000**	No.'000
Balance at beginning and end of the Financial Year	**1,008,651**	1,008,651	**1,008,651**	1,008,651

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

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

	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
10. Reserves				
Hedging Reserve				
Balance at beginning of the Financial Year	**16,143**	5,157	**–**	–
Share of associates (loss)/gain on hedges [a]	**(58,423)**	17,905	**–**	–
Related tax	**6,919**	(6,919)	**–**	–
Balance at end of the Financial Year	**(35,361)**	16,143	**–**	–

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

11. Retained Earnings				
Balance at beginning of the Financial Year	**66,048**	27,895	**(1,386)**	(526)
Net (Loss)/profit for the year	**(14,803)**	37,251	**(34,124)**	(860)
Share of associate's actuarial (loss)/gain recognised directly in Retained Earnings [a]	**(90,370)**	9,919	**–**	–
Related tax	**9,017**	(9,017)	**–**	–
Balance at end of the Financial Year	**(30,108)**	66,048	**(35,510)**	(1,386)

[a] Actuarial gains or losses on defined benefit superannuation plans operated by ETSA (the Associate) are recognised directly in Retained Earnings.

	CONSOLIDATED		COMPANY	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
12. Remuneration of External Auditor				
Audit or review of financial report	**80,912**	60,367	**80,912**	60,367
Tax advice	**60,465**	–	**–**	–
	141,377	60,367	**80,912**	60,367
The auditor of the Consolidated Entity and Company is Deloitte Touche Tohmatsu.				
13. Earnings per Share ("EPS")[a]				
Net (Loss)/Profit after tax used to calculate EPS	**(14,803)**	37,251	**–**	–
Weighted average number of shares ('000)	**1,008,651**	1,008,651	**–**	–
(Loss)/Earnings per share (cents)	**(1.47)**	3.69	**–**	–

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

	CONSOLIDATED		COMPANY	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
14. Commitments for Expenditure				
(a) Capital Expenditure commitments				
Share of associate's capital expenditure commitments				
— Not longer than 1 year	**2,095**	954	**–**	–
	2,095	954	**–**	–
(b) Other Expenditure Commitments				
Share of associate's other expenditure commitments				
— Not longer than 1 year	**126**	126	**–**	–
— Longer than 1 year and not longer than 5 years	**66**	66	**–**	–
— Longer than 5 years	**1**	1	**–**	–
	193	193	**–**	–
15. Contingent Liabilities				
Share of associate's contingent liabilities	**6,774**	5,642	**–**	–
	6,774	5,642	**–**	–

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

16. Segment Information

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. Related Party Disclosures

a) Directors

The persons listed below were Directors of the Company as at the date of this report:

Stephen Johns (Chairman)

Hing Lam Kam

Andrew Hunter

Timothy Keith (appointed 17 March 2008)

John Dorrian

Don Morley

Cheryl Bart

Anne McDonald (appointed 1 January 2009)

Dominic Chan (Alternate Director, appointed 11 December 2008)

In addition, Shaun Mays was a Director until his retirement on 17 March 2008 and Peter St George until his resignation on 31 December 2008.

Remuneration

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

	CONSOLIDATED		COMPANY	
	2008 $	2007 $	**2008 $**	2007 $
Directors' fees – Short term benefits	**310,813**	312,531	**310,813**	312,531
Directors' fees – Post-employment benefits	**10,521**	10,961	**10,521**	10,961
	321,334	323,492	**321,334**	323,492

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

Security Holdings

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

Directors	**Opening Balance at 1/1/2008 (No.)**	**Net Movement Acquired (Disposed) (No.)**	**Closing Balance 31/12/2008 (No.)**
Stephen Johns	**355,000**	–	**355,000**
Hing Lam Kam	–	–	–
Andrew Hunter	–	–	–
Timothy Keith	–	–	–
John Dorrian	**162,150**	**(25,722)**	**136,428**
Don Morley	**225,000**	–	**225,000**
Cheryl Bart	**125,000**	–	**125,000**
Anne McDonald	–	–	–
Dominic Chan	–	–	–
Peter St. George [a]	**71,400**	–	**71,400**
Shaun Mays [b]	–	–	–

[a] Resigned on 31 December 2008.
[b] Resigned on 17 March 2008.

17. Related Party Disclosures (continued)

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

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

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

b) Manager

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

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

The Manager is entitled to a base fee and a performance fee. The base fee is calculated at 0.5% of enterprise value of Spark Infrastructure up to $2.443 billion plus 1.0% of any amount over $2.443 billion.

During the Financial Year, an amount of $9.795 million (2007: $12.019 million) was payable to the Manager in base fees.

Performance Fee

The performance fee is equal to 20% of the amount (if any) by which the accumulated return from Spark Infrastructure exceeds the benchmark return calculated by reference to the Standard and Poors/ASX 200 Industrials Accumulation Index and is calculated each half-year. Any deficit arising from the calculation of the performance fee during a year will be carried forward and deducted from the performance fee calculated in the next year.

During the half year ended 30 June 2008, the Spark Infrastructure accumulation index outperformed the benchmark index by 15.2% reflecting a surplus of $298.863 million. After adjusting for a carry forward deficit of $216.146 million covering the period from the Initial Public Offering ("IPO") in December 2005 to 31 December 2007, this resulted in a performance fee payable of $16.544 million, which was paid in July 2008 from cash reserves derived from distributions received from the Asset Companies.

However, during the half year ended 31 December 2008, the Spark Infrastructure accumulation index underperformed the benchmark index by 2.0%, reflecting a deficit of $34.819 million. This deficit will be carried forward to future periods.

The Manager is jointly owned by CKI and DB RREEF.

The Consolidated Entity's share of the base fee and performance fee were $4.897 million (2007: $6.009 million), and $8.272 million (2007: nil), respectively.

c) Key Management Personnel ("KMP")

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

d) Other Related Parties

The other related parties include:

— Associates;

— Subsidiaries; and

— Entities within Spark Infrastructure.

17. Related Party Disclosures (continued)

Associates

The details of ownership interests in the Associate entity is provided in Note 5(a). An amount of $11.637 million was outstanding in respect of accumulated distributions on preferred partnership capital (2007: $11.705 million).

Subsidiaries

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

Entities within Spark Infrastructure

As at the end of the Financial Year, an amount of $1,030.059 million was outstanding to Spark Infrastructure (Victoria) Limited, a wholly owned subsidiary of SIH(No. 1). This comprised of $956.864 million in loans (2007: $956.864 million) and $73.195 million in other payables (2007: $48.984 million).

During the Financial Year, an amount of $81.562 million was payable in interest on the loans (2007: $81.340 million) and $14.194 million for other payables ($8.272 million in performance fees, $4.897 million in management fees and $1.025 million in other expenditure) (2007: $6.948 million).

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

18. Subsequent Events

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

19. Controlled Entities

Entity	Country of Incorporation	Equity Holdings (%)
Controlled Entities – SIH (No. 2) [a]		
— Spark Infrastructure (SA) Pty Limited [b]	Australia	100
— Spark Infrastructure SA (No1) Pty Limited [b]	Australia	100
— Spark Infrastructure SA (No2) Pty Limited [b]	Australia	100
— Spark Infrastructure SA (No3) Pty Limited [b]	Australia	100

[a] Head entity of a tax consolidated group.
[b] An entity within the tax consolidated group.

There has been no change in the controlled entities during the year.

	CONSOLIDATED		COMPANY	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
20. Notes to the Cash Flow Statement				
(a) Reconciliation of Cash and Cash Equivalents				
For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents as at the end of the period as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:				
Cash on hand and at bank	**8**	70	**8**	70
Cash and cash equivalents	**8**	70	**8**	70
(b) Reconciliation of profit/(loss) for the year to Net Cashflow related to operating activities				
Net (loss)/profit after tax for the year	**(14,803)**	37,251	**(34,124)**	(860)
Share of losses of Associates (less dividends/distributions)	**(25,104)**	(39,968)	**–**	–
Income tax benefit/(expense)	**15,936**	(15,936)	**33,180**	–
Changes in net assets and liabilities:				
Increase in liabilities:				
Current payables	**9,469**	11,705	**(73)**	–
Net cash outflow related to operating activities	**(14,502)**	(6,948)	**(1,017)**	(860)

21. Financial Instruments

(a) Financial Risk Management Objectives

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

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

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

(b) Capital Management Objectives

The capital structure of the Consolidated Entity comprises of debt and equity. The Consolidated Entity manages its capital through the use of a combination of debt and equity to ensure that it will be able to operate as a going concern, and provide appropriate returns to shareholders. There has been no change in the capital management strategy during the Financial Year.

(c) Significant Accounting Policies

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

(d) Financial Market Risk

The Consolidated Entity and the Company do not have any financial market risk as interest rates are fixed. The revenue of the Asset Companies are in part reliant on regulatory determinants of the Australian Energy Regulator. This could in turn impact on distributions by Spark Infrastructure.

(e) Interest Rate Risk Management

As the Consolidated Entity has only fixed rate interest bearing liabilities, the change in interest rates would have no impact on its profit or loss and equity position. The following table details the Consolidated Entity's exposure to interest rate risk as at 31 December 2008 and 2007 respectively:

Consolidated Entity	Weighted Average Effective Interest Rate	Variable Interest Rate	Fixed Maturity Dates: Less than 1 Year	1– 5 Years	5 Years +	Non-Interest Bearing	Total
2008	**% pa**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	3.75	8	–	–	–	–	8
Loans – other	–	–	–	–	–	–	–
		8	–	–	–	–	8
Payables	–	–	–	–	–	73,194	73,194
Loans from related parties – non interest bearing	–	–	–	–	–	183,422	183,422
Loans from related parties – interest bearing	10.85	–	–	–	749,673	–	749,673
		–	–	–	749,673	256,616	1,006,289

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21. Financial Instruments (continued)

(e) Interest Rate Risk Management (continued)

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

Company	**Weighted Average Effective Interest Rate**	**Variable Interest Rate**	**Fixed Maturity Dates Less than 1 Year**	**1– 5 Years**	**5 Years +**	**Non-Interest Bearing**	**Total**
2008	**% pa**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	**3.75**	**8**	**–**	**–**	**–**	**–**	**8**
		8	**–**	**–**	**–**	**–**	**8**
Payables	**–**	**–**	**–**	**–**	**–**	**5,795**	**5,795**
		–	**–**	**–**	**–**	**5,795**	**5,795**

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

(f) Credit risk exposures

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

(g) Liquidity risk

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

21. Financial Instruments (continued)

(g) Liquidity risk (continued)

The undiscounted cashflow of financial liabilities are as disclosed in the balance sheet with the exception of Loans from Related Parties. The details of interest and principal cashflows in respect of those loans are disclosed below:

	Weighted Average Effective Interest Rate	Variable Interest Rate	Fixed Maturity Dates Less than 1 Year	1– 5 Years	5 Years +	Non-Interest Bearing	Total
2008	**% pa**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Loans to related parties – non interest bearing	**–**	**–**	**183,422**	**–**	**–**	**–**	**183,422**
Loans to related parties – interest bearing	**–**	**–**	**81,562**	**406,697**	**7,483,236**	**–**	**7,971,272**
			264,761	**406,697**	**7,483,236**	**–**	**8,154,694**

	Weighted Average Effective Interest Rate	Variable Interest Rate	Fixed Maturity Dates Less than 1 Year	1– 5 Years	5 Years +	Non-Interest Bearing	Total
2007	% pa	$'000	$'000	$'000	$'000	$'000	$'000
Loans to related parties – non interest bearing	–	–	207,190	–	–	–	207,190
Loans to related parties – interest bearing	–	–	81,340	406,697	7,564,575	–	8,052,612
			288,530	406,697	7,564,575	–	8,259,802

(h) Fair Value of Financial Instruments

The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values. The fair values of financial assets and financial liabilities are determined as follows:

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

22. Additional Company Information

SIH (No. 2) is registered in Australia.

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

Level 6, 255 George Street
Sydney NSW 2000
Australia.