

# DIRECTORS' REPORT

The Directors of Spark Infrastructure RE Limited ("Spark RE") as responsible entity of Spark Infrastructure Trust ("Trust") provide this financial report for the year ended 31 December 2008 ("Financial Year").

In order to comply with the requirements of the *Corporations Act 2001*, the Directors report as follows:

## Directors

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

Stephen Johns (Chairman)

Cheryl Bart, AO

John Dorrian

Andrew Hunter

Hing Lam Kam

Timothy Keith (appointed 17 March 2008)

Anne McDonald (appointed 1 January 2009)

Don Morley

Dominic Chan (Alternate Director, appointed 11 December 2008)

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

The Directors' qualifications, experience and special responsibilities are provided below:

### Stephen Johns BEc, FCA

#### Chairman and Independent Director (appointed 8 November 2005)

Mr Johns had a long executive career with Westfield where he held a number of positions including that of Finance Director from 1985 to 2002. He was appointed an executive Director of Westfield Holdings Limited and Westfield Trust in 1985 and Westfield America Trust upon its listing in 1996. He became a non-executive Director of the three Westfield boards in October 2003. He is currently a non-executive Director of the Westfield Group, which resulted from the merger of the three listed entities in July 2004.

Mr Johns was a non-executive Director of Brambles Industries Limited and Brambles Industries plc from August 2004 to December 2006, at which time he became a non-executive Director of Brambles Limited, the new holding company of the Brambles Group following a corporate reorganisation which became effective in December 2006. He is also a Director of Sydney Symphony Limited.

### Cheryl Bart AO, BCom, LLB

#### Independent Director (appointed 8 November 2005)

Ms Bart is a lawyer and has been a non-executive Director on the board of ETSA Utilities ("ETSA") since 1995.

She has significant utilities industry experience and is Chairman of the Audit Committee of ETSA and a member of its Compliance Committee.

Her other current directorship positions include ANZ Trustees Ltd, Economic Development Board (SA), Global Properties Limited, Shaw of Australia, and the Alcohol Education and Rehabilitation Foundation. She is Chairman of the Environment Protection Authority (EPA), South Australian Film Corporation, the Adelaide Film Festival and the Adelaide Film Festival Investment Fund.

Her previous directorships include Sydney Ports Corporation, the Australian Sports Foundation, Soccer Australia, and the Information Economy Advisory Board. Ms Bart is a member of the Audit and Risk Management Committee ("ARMC").

### John Dorrian BA, FCA, MAICD

#### RREEF Board Appointee and Non-executive Director (appointed 24 August 2007)

John Dorrian is a Managing Director of Deutsche Bank AG, Head of RREEF Alternative Investments Australia and Head of RREEF Infrastructure Investments, Asia Pacific. RREEF is the alternative investment management division of Deutsche Asset Management, a member of the Deutsche Bank Group.

He is an Executive Director of Deutsche Asset Management (Australia) Limited and a non-executive Director of a number of Australian companies including, Australia Pacific Airports Corporation Limited, CHEDHA Holdings Pty Limited ("CHEDHA"), the holding company of CitiPower and Powercor Australia ("Powercor"), CitiPower, Powercor and ETSA, Northern Gas Networks Holdings Limited (UK) and the Port of Geelong.

Mr Dorrian is a member of the ARMC.

### Andrew Hunter MA, MBA, MICAS, MHKICPA

#### CKI Board Appointee and Non-executive Director (appointed 1 December 2006)

Mr Hunter is currently an executive Director and Chief Operating Officer of CKI. In addition, he serves as Chief Financial Officer of Cheung Kong Holdings Limited and is an executive Director of Hong Kong Electric (Holdings) Limited.

Mr Hunter has more than 24 years experience in accounting and financial management and holds a range of directorships in CKI related companies. He is a Director of CHEDHA, CitiPower, Powercor and ETSA.

Mr Hunter was an alternate Director for Mr Kam during the year and up until 13 February 2009.

Mr Hunter is a member of the ARMC.

### Hing Lam Kam BSc, MBA

#### CKI Board Appointee and Non-executive Director (appointed 1 November 2005)

Mr Kam has been Managing Director of Cheung Kong Infrastructure ("CKI") since its incorporation in May 1996 and the Deputy Managing Director of Cheung Kong (Holdings) Limited since February 1993. He has played a leading role in developing the Cheung Kong Group's corporate and strategic direction.

Mr Kam is also the President and Chief Executive Officer of CK Life Sciences International (Holdings) Inc. and an executive Director of Hutchison Whampoa Limited and Hong Kong Electric Holdings Limited.

In Australia, he is a Director of CHEDHA, CitiPower, Powercor, ETSA and Aqua Tower.

## DIRECTORS' REPORT CONTINUED

**Timothy B. Keith, BA****RREEF Infrastructure Board Appointee and Non-executive Director (appointed 17 March 2008)**

Mr Keith is a Managing Director of Deutsche Bank AG and the Chief Executive Officer of RREEF Infrastructure and Private Equity Investments, based in New York. He is responsible for managing the global operations of these businesses for RREEF Alternative Investments, which is the fiduciary investment operation within Deutsche Asset Management.

Prior to taking this position, he was the Global Chief Investment Officer of RREEF Infrastructure and Head of Business Development of RREEF Alternative Investments and the co-chair of the RREEF Alternative Assets Investment Committee. Formerly, Mr Keith was a partner of RREEF America LLC prior to its acquisition by Deutsche Bank; Chief Executive Officer of Cabot Industrial Trust after its privatisation and de-listing; and Regional Vice President of Meridian Industrial Trust.

Mr Keith has over 13 years' experience in the funds management industry and managing public companies and over 20 years' experience in investment markets. He has specialised in real estate markets for most of his career with substantial experience in direct investments, formation of long term operating partnerships, initial public offerings and privatisations of public companies. He has had executive management and investment roles in infrastructure for four years. Mr Keith is a non-executive Director of Maher Terminals LLC.

**Anne McDonald BEc, FCA****Independent Director (appointed 1 January 2009)**

Ms McDonald served as a partner of Ernst & Young for 15 years until 2005. She has broad based business and financial experience, gained through working with a wide cross section of international and local companies, assisting them with audit, transaction due diligence and regulatory and accounting requirements. She was a Board member of Ernst & Young Australia for 7 years.

In addition, Ms McDonald is a non-executive Director of listed entities, including the GPT Group and Speciality Fashion Group. She is also a non-executive director of Westpac Bank's Life and General Insurance businesses, St Vincent's Health Australia and Health Super. Ms McDonald is a Director of CHEDHA, CitiPower and Powercor.

Ms McDonald is a member of the ARMC and the Compliance Committee.

**Don Morley BSc, MBA, FAustIMM****Independent Director (appointed 8 November 2005)**

Mr Morley is the Chairman of Alumina Limited (since 2002) and an independent Director of Iluka Resources Limited (since 2002). He was previously a Director of Finance at WMC Limited with over 30 years of service.

Mr Morley is the Chairman of the ARMC.

**Dominic Loi Shun Chan FCPA, FCCA****Alternate Director to Mr. Hing Lam Kam (appointed 11 December 2008)**

Mr Chan currently is Chief Financial Officer of CKI and has over 20 years experience in the accounting profession.

In Australia, Mr Chan is a Director of Envestra Limited. He is an alternate Director of CHEDHA, CitiPower, Powercor and ETSA.

In the UK, Mr Chan is a Director of Cambridge Water plc.

**Peter St George CA (SA), MBA****Independent Director (appointed 8 November 2005, resigned 31 December 2008)**

Mr St George was a Director of CHEDHA, CitiPower and Powercor. He is also a Director of First Quantum Minerals Limited, a mining group listed in Toronto and London, and Boart Longyear Limited, an international mining services group, and is Chairman of Walter Turnbull, an Australian accounting and financial services group. He was also a Director of SFE Corporation Limited from 2000 until it merged with ASX Limited in July 2006.

He was Chief Executive Officer of NatWest Markets Australia from 1995 until its acquisition by Salomon Smith Barney Australia Limited in 1998 and then Co-Chief Executive Officer of Salomon Smith Barney Australia Limited from 1998 to 2001.

Prior to that, Mr St George had more than 20 years experience in senior corporate advisory roles with NatWest Markets and Hill Samuel & Co Limited in London.

Mr St George was a member of the ARMC.

**Shaun Mays BSc (Hons), MSc, MBA****RREEF Board Appointee and Non-executive Director (appointed 1 November 2005, resigned 17 March 2008)**

Mr Mays was a Managing Director of Deutsche Bank AG and the Global Head of RREEF Infrastructure, based in New York. He was responsible for managing the global RREEF business which is the fiduciary infrastructure investment operation within Deutsche Asset Management.

Prior to joining Deutsche Asset Management, Mr Mays was the Managing Director of Westpac Financial Services Group. He was Chief Investment Officer of Commonwealth Financial Services after holding the position of Managing Director and Chief Investment Officer at Mercury Asset Management, where he also served on the board of Mercury Asset Management UK plc.

He has held a wide range of directorships on the boards of listed and unlisted companies in Australia, the USA, the UK and Japan including non-executive Chairman of the Board of Maher Terminals LLC.

Mr Mays was a member of the ARMC.

## Company Secretary

### Alexandra Finley Dip Law, MLM

Ms Finley is an experienced corporate governance professional with over 15 years legal and commercial experience gained in private practice and in-house. Prior to joining Spark, she spent almost 10 years with National Australia Bank/MLC in various senior legal and commercial roles, most recently as Company Secretary of the MLC Group of Companies.

Ms Finley has extensive experience in the financial services sector including mergers and acquisitions, risk management and regulatory compliance and has held strategic, operational and management roles. As a senior lawyer and senior associate in private practice, her experience includes property and construction, banking and finance, workplace relations and corporate advisory.

## Principal Activity

The principal activity of the Trust during the Financial Year was providing loans to related parties.

## Stapled Securities

Spark Infrastructure is a stapled structure, wherein:

- one share in Spark Infrastructure Holdings (No. 1) Limited ("SIH No. 1");
- one share in Spark Infrastructure Holdings (No. 2) Limited ("SIH No. 2");
- one Unit in the Trust;
- one CHESS Depository Interest representing one share in Spark Infrastructure Holdings International Limited (Spark International); and
- one loan note issued by the responsible entity of the Trust

are "stapled" and are quoted on the Australian Securities Exchange as if they were a single Security.

## Review of Operations

The Trust made a profit after tax of \$7.397 million (2007: \$7.398 million ) during the Financial Year.

## Distributions

An interim cash distribution of 9.25 cents per security ('cps') was paid on 15 September 2008 relating to the first half of the Financial Year.

The Directors have declared a final distribution of 9.26 cps, which will be paid on 13 March 2009 taking the aggregate distribution for the Financial Year to 18.51 cps, an increase of 0.45 cps or 2.5% over the previous year's distribution of 18.06 cps. The final distribution for the full year is in line with previous market guidance.

The final distribution comprises of 6.85 cps in interest on loan notes and 2.41 cps in capital distribution. In aggregate for the full year the distribution comprises of 13.62 cps interest on loan notes and 4.89 cps capital distribution.

The following table summarises distributions in respect of the Financial Year:

Distribution Period	Distribution Date	Cents per Security			Cash Distribution (\$'000)		
		Interest on Loan Notes	Capital Distribution	Total	Interest on Loan Notes	Capital Distribution	Total
Interim distribution for the year ended 31 December 2008	15 September 2008	6.77	2.48	9.25	68,286	25,015	93,301
Final distribution for the year ended 31 December 2008	13 March 2009	6.85	2.41	9.26	69,093	24,308	93,401
<b>Total</b>		13.62	4.89	18.51	137,379	49,323	186,702

All distributions were unfranked.

## Information Applicable to Registered Schemes

The fees paid to Spark RE, the responsible entity of the Trust, and its associates (including Directors) are disclosed in Note 15 to the Financial Statements.

Spark RE does not hold any Stapled Securities. The number of Stapled Securities at the beginning and end of the Financial Year are disclosed in Note 9 to the Financial Statements.

## Changes in State of Affairs

There has been no change in the activities of the Trust during the Financial Year.

## Future Developments

Disclosure of information regarding likely developments in the operations of the Trust not otherwise disclosed elsewhere in this report is likely to result in unreasonable prejudice. Accordingly, such information has not been disclosed in this report.

## DIRECTORS' REPORT CONTINUED

**Events Occurring after Reporting Date**

The Directors of Spark RE are not aware of any other matter or circumstance not otherwise dealt with in this report that has significantly affected or may significantly affect the operations or the state of affairs in the period since 31 December 2008.

**Non-Audit Services**

Details of amounts paid or payable to the external auditor for non-audit services provided during the Financial Year are outlined in Note 11 to the Financial Statements.

The Directors are satisfied that the non-audit services, provided by the auditor are compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are of the opinion that the services as disclosed in Note 11 to the Financial Statements do not compromise the external auditor's independence, based on advice received from the ARMC, for the following reasons:

- non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor and comply with Spark Infrastructure's policy on auditor independence; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110, Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, which includes reviewing or auditing the auditor's own work, acting in a management or decision-making capacity, acting as an advocate or jointly sharing economic risks and rewards of the Trust.

**Indemnification of Officers and Auditors**

The directors and former directors of Spark RE and the officers of Spark RE are indemnified under Spark RE's constitution against all liabilities to another person that may arise from their position as

directors or officers of Spark RE subject to the limitations imposed by the *Corporations Act 2001*.

During the Financial Year, the Trust paid a premium in respect of a contract of insurance indemnifying the Directors against a liability incurred as such a Director to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The entities have not otherwise, during or since the Financial Year, indemnified or agreed to indemnify an officer or auditor or of any related body corporate against a liability incurred as such an officer or auditor, except to the extent permitted by law.

**Options over Securities**

No options have been granted over the unissued Units of the Trust or Stapled Securities of Spark Infrastructure.

**Environmental Regulations**

The Trust is not subject to any environmental regulations.

**Directors' Meetings**

The business of the Trust is carried out by the responsible entity, Spark RE.

The following table sets out the number of meetings of Directors' of Spark RE held during the Financial Year and the number of meetings attended by each Director for which they were eligible to attend (i.e. in the case of Directors, while they were appointed and where they were not disqualified from attending due to observation of processes to guard against any perceived conflict of interests, and in the case of Alternate Directors, while they were appointed and meetings for which they were nominated to attend as alternate).

During the Financial Year, 7 Board meetings, 5 ARMC meetings and 4 Compliance Committee meetings of the Company were held:

Directors	Board of Directors		Audit and Risk Management Committee		Compliance Committee <sup>e</sup>	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Stephen Johns	7	7	–	–	–	–
Hing Lam Kam	7	2	–	–	–	–
Andrew Hunter (as Director)	7	5	5	4	–	–
Timothy Keith <sup>a</sup>	6	6	–	–	–	–
John Dorrian	7	7	5	5	–	–
Don Morley	7	7	5	5	–	–
Cheryl Bart	7	6	5	4	–	–
Andrew Hunter <sup>b</sup> (as Alternate Director)	7	2	–	–	–	–
Dominic Chan <sup>c</sup> (as Alternate Director)	1	1	–	–	–	–
Peter St George <sup>d</sup>	7	6	5	5	–	–
Shaun Mays <sup>a</sup>	1	1	–	–	–	–

<sup>a</sup> Mr Keith was appointed on 17 March 2008. Mr Mays resigned on the same date.

<sup>b</sup> Alternate Director for Mr HL Kam.

<sup>c</sup> Alternate Director for Mr HL Kam.

<sup>d</sup> Mr St George resigned on 31 December 2008.

<sup>e</sup> For the Financial Year, there were no Directors who were members of the Compliance Committee (a sub-committee of the Board). Therefore no attendance details have been provided.

## Directors' Stapled 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 (No.)	Net Movement Acquired/(Disposed) (No.)	Closing Balance (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 <sup>a</sup>	71,400	–	71,400
Shaun Mays <sup>b</sup>	–	–	–

<sup>a</sup> Resigned on 31 December 2008.

<sup>b</sup> Resigned on 17 March 2008.

## Remuneration Report

### Remuneration of Directors

The Directors' fees are reviewed by the Board and are subject to an aggregate fees pool limit of \$2,000,000 per annum (inclusive of superannuation). Any increase to this limit will be submitted to the Stapled Security Holders at an annual general meeting for approval.

The Trust's share of remuneration (including superannuation) of each Director paid or accrued in respect of the Financial Year is set out below:

Directors		Short term	Post	Total
		Employment Benefits	Employment Benefits	
		Director's Fees	Superannuation	
		\$	\$	\$
<b>Chairman</b>				
Stephen Johns	2008	70,521	4,479	75,000
	2007	70,624	4,376	75,000
<b>Non Executive Directors</b>				
Hing Lam Kam <sup>a</sup>	2008	33,333	–	33,333
	2007	33,333	–	33,333
Andrew Hunter <sup>a</sup>	2008	35,500	–	35,500
	2007	35,500	–	35,500
Timothy Keith <sup>a</sup>	2008	26,374	–	26,374
	2007	–	–	–
John Dorrian <sup>a</sup>	2008	35,500	–	35,500
	2007	11,738	–	11,738
Don Morley	2008	34,556	3,111	37,667
	2007	34,277	3,390	37,667
Cheryl Bart	2008	32,569	2,931	35,500
	2007	32,305	3,195	35,500
Peter St George <sup>d</sup>	2008	35,500	–	35,500
	2007	35,500	–	35,500
Shaun Mays <sup>a, b</sup>	2008	6,960	–	6,960
	2007	35,500	–	35,500
Brian Scullin <sup>c</sup>	2008	–	–	–
	2007	23,754	–	23,754
<b>Total</b>	<b>2008</b>	<b>310,813</b>	<b>10,521</b>	<b>321,334</b>
	2007	312,531	10,961	323,492

<sup>a</sup> The Directors' fees for Mr Kam and Mr Hunter were paid to CKI, while the fees for Mr Keith, Mr Dorrian and Mr Mays were paid to RREEF Infrastructure.

<sup>b</sup> Mr Keith was appointed on 17 March 2008. Mr Mays resigned on the same date.

<sup>c</sup> Mr Scullin retired on 24 August 2007.

<sup>d</sup> Mr St George resigned on 31 December 2008.

The Directors do not receive Securities, options or other performance related incentives. Alternate Directors are not paid any fees.

## DIRECTORS' REPORT CONTINUED

### Board Remuneration Policy

The remuneration of Spark Infrastructure's Directors is benchmarked to the remuneration of Directors of comparable enterprises periodically using an independent external consulting firm. A broad cross section of parameters are used by the external firms in determining comparable entities. In the last review undertaken in the year ended 31 December 2007, the following criteria were used:

- Market capitalisation;
- Revenue;
- Total assets; and
- A combination of all the above parameters.

Based on the report from the firm, the Board approved annual remuneration, including post-employment benefits payable to Directors with effect from 1 January 2007, as follows which applies to the Financial Year as well:

Role	\$
Chairman	225,000
Non-Executive Director	100,000
Additional fee for enhanced responsibility:	
— Chairman of ARMC	13,000
— ARMC member	6,500
— Chairman of Compliance Committee	10,000
— Compliance Committee member	5,000

Further the following other policies apply to Directors' remuneration:

- Fee levels for all non-executive Directors to be positioned between the median and the 75th percentile of the general market comprising comparable board roles in listed companies within the range of half to twice the market capitalisation, revenue and total assets of Spark Infrastructure;
- The Chairman's fee to be in the range of 2.0 and 2.5 times that of non-executive Directors;
- The Chairman of board committees (other than the Chairman of the Board) shall be eligible to receive a committee chair fee in addition to the base non-executive Director fee;
- Members of board committees shall be eligible to receive a committee membership fee in addition to the base non-executive Director fee, set at half the fee of the committee chair; and
- In setting the fees applicable to committee chairs and committee members, the Board is to consider the relative workloads of committees.

In December 2008, the Board reviewed the remuneration of Directors who are appointed to committees of the Board against remuneration of similar enterprises. Based on the review the following adjustments were made to the remuneration of Directors holding enhanced responsibility as members of various committees:

— Chairman of ARMC	\$20,000
— ARMC member	\$10,000
— Compliance Committee member	\$10,000

The above changes are effective from 1 January 2009.

The Directors are paid a fixed remuneration as disclosed above. None of the remuneration is linked to the financial performance of Spark Infrastructure or its security price.

### Remuneration of Executives

The Trust does not have any employees. Spark Infrastructure Management Limited (the "Manager"), as the manager of Spark Infrastructure, makes employees (including senior executives) available under the Management Agreement. The Trust is not liable for expenses referable to the executives. Accordingly, executive remuneration details are not provided in this report.

### Performance of the Trust

The following table provides details of the Trust's performance for the last three years:

	Financial Period Ended 31 December		
	2008 \$'000	2007 \$'000	2006 <sup>a</sup> \$'000
Profit before Income tax and Loan Note Interest	<b>144,787</b>	144,412	148,730
Profit after tax attributable to Securityholders	<b>7,397</b>	7,398	7,586
Security Price <sup>b</sup> (\$)	<b>1.30</b>	1.98	1.74
Distribution per Security	<b>18.51</b>	18.06	15.61

<sup>a</sup> The figures for 2006 cover the period from 8 November 2005 (date of registration) to 31 December 2006, as it was the first year of operation.

<sup>b</sup> Security price is based on last business day of each year and 2006 price includes 54 cps in instalment receipt.

The Directors are paid a fixed remuneration as disclosed in the Board Remuneration Policy section above.

### Management Fees

Spark RE was paid a management fee of \$100,000 (2007: \$100,000).

### Auditor's Independence Declaration

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 53.

### Rounding of Amounts

As permitted by ASIC Class Order 98/0100 dated 10 July 1998, amounts in the Directors' Report and the financial report have been rounded to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of the Directors made pursuant to section 298(2) of the *Corporations Act 2001*.

On behalf of the Directors:



**S Johns**  
Chairman  
Sydney  
24 February 2009



**D Morley**  
Director