

MESSAGE FROM THE **CEO**



THE ASSET BUSINESSES IN WHICH SPARK INFRASTRUCTURE HOLDS A 49% INTEREST – ETSA UTILITIES, CITIPOWER AND POWERCOR – CONTINUE TO BE REGARDED AS AMONG THE MOST EFFICIENT AND RELIABLE IN AUSTRALIA. THEIR STRONG OPERATIONAL PERFORMANCE COMBINED WITH REGULATORY PROTECTIONS TRANSLATES INTO RELIABLE CASHFLOWS, WHICH IN TURN SUPPORT SPARK INFRASTRUCTURE'S DISTRIBUTIONS TO SECURITYHOLDERS.

LAURA REED, CHIEF EXECUTIVE OFFICER

DEAR SECURITYHOLDER,

In contrast to the turbulent equity markets, the asset businesses have performed strongly and consistently. Once again, they have outperformed against planned targets and this has enabled Spark Infrastructure to pay a distribution to Securityholders of 18.51 cents per stapled security for 2008, 2.5% higher than 2007.

The asset businesses in which Spark Infrastructure holds a 49% interest – ETSA Utilities, CitiPower and Powercor – continue to be regarded as among the most efficient and reliable in Australia. This has been confirmed on numerous occasions by the relevant regulatory bodies and by consumers through independent feedback mechanisms. Importantly for our investors, their strong operational performance combined with regulatory protections translates into reliable cashflows, which in turn support Spark Infrastructure's distributions to Securityholders.

The total aggregated asset company revenue for 2008 was \$1.64 billion, leading to EBITDA of \$1.13 billion. Over the course of the year, the asset companies invested a total of \$437.7 million in capital expenditure. \$236.6 million of this was growth capital expenditure to cater for growing customer demand in regulated business activities.

In 2008, 31.4% of aggregated asset company revenue was derived from non-prescribed business activity. This consists of semi-regulated and unregulated components of revenue in approximately equal portions.

Semi-regulated activities include such elements as public lighting, which is not subject to direct price setting by the regulator but which remains under the regulator's oversight. Unregulated activities include construction, maintenance and asset management of electrical infrastructure for external parties. Our comparative advantage in this field is a key distinguishing factor for our businesses.

The unregulated revenue consists, in approximately equal portions, of contracts with electricity transmission companies, government contracts including for the defence sector, and contracts carried out for mining

companies. Work carried out for transmission companies and for government provides a secure source of revenue. For example, ETSA Utilities performs construction and maintenance work for the electricity transmission business ElectraNet in South Australia on rolling five year contracts. Across the border in Victoria, Powercor performs similar work for SP AusNet on similar terms. While activity in the mining sector has lessened, there remains sufficient demand across the board to support revenues from these areas over 2009.

It is important in the current environment to spend some time explaining Spark Infrastructure's debt position.

In November 2008, Spark Infrastructure established a \$100 million revolving credit facility at an average margin of 102.5 basis points. In June, the Company refinanced \$200 million of debt at a margin of 105 basis points. In addition, in September CHEDHA Holdings Limited, the holding company for CitiPower and Powercor, refinanced \$250 million of debt on relatively favourable terms.

These outcomes are pleasing in the context of current credit markets. The majority of the financing was carried out with major Australian banks, adding another layer of security to the transactions.

Moreover, no major financing is required in the underlying businesses until early 2010. ETSA Utilities, CitiPower and Powercor possess a credit rating of A- from Standard & Poor's, and are well placed to refinance debt maturities and fund ongoing capital expenditure.

In addition, Spark Infrastructure and the asset companies in its current portfolio employ a conservative hedging program. This means Spark Infrastructure is able to minimise volatility over the regulatory pricing period. As at 31 December 2008, 89.2% of senior debt of Spark Infrastructure and the asset companies was hedged. Spark Infrastructure is substantially protected from interest rate risk.

The most significant upcoming event for the asset companies is the next regulatory reset which will be effective from 1 July 2010 for ETSA Utilities and from 1 January 2011 for CitiPower and Powercor. An important component of the upcoming reset is the determination of the Weighted Average Cost of Capital (WACC) parameters which will materially impact the financial returns on capital expenditure. The Australian Energy Regulator (AER) released its draft determination in December 2008 and a final determination is now expected by 1 May 2009, following a process of consultation with industry. Spark Infrastructure along with its asset companies have participated in this process.

We believe the proposals contained in the AER's draft decision on WACC parameters do not accord with current market conditions and will create a regulatory environment which is not conducive to new investment. In our view, if adopted, these proposals are likely to result in negative consequences for the future reliability of electricity infrastructure. The industry is unanimous in the view that significant changes need to be made in the final decision in order that returns reflect current market conditions and appropriate funding can be sourced for these projects.

In 2009, our investment strategy will primarily focus on investing in our existing assets. We continue to believe that this strategy is the prudent one that will reward long term investors.

The coming year will continue to bring challenges as did the last. At Spark Infrastructure, we will continue to direct our efforts towards growing Securityholder value through prudent investment and profitable growth.



LAURA REED
CHIEF EXECUTIVE OFFICER
SPARK INFRASTRUCTURE