Friday, 24 May 2019

The Manager
Company Announcements
Australian Stock Exchange Limited
20 Bridge Street
SYDNEY NSW 2000

Dear Sir / Madam

2019 ANNUAL GENERAL MEETING

I enclose the Chair's Address and Managing Director's Address to be delivered today at the 2019 AGM of Spark Infrastructure. Our AGM Presentation will also be provided to the ASX this morning.

Yours faithfully,

Alexandra Finley
Company Secretary

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Spark Infrastructure
Annual General Meeting 2019

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Chair's address – Dr Doug McTaggart

Fellow Securityholders,

Energy industry in transition and expanding role of networks

Tremendous change is occurring across the energy supply chain of generation, transmission and distribution as more renewable sources are added to the energy mix and coal-fired generation retire.

Energy networks are critical to ensuring low-cost, reliable and secure energy supply. The Australian Energy Market Operator's (AEMO's) Integrated System Plan (ISP) looked at the grid in light of the rise of new renewable energy and determined that the greatest benefit to consumers is through greater network interconnection between regions within our electricity grid. These trends reinforce the importance of networks in our energy future.

Spark Infrastructure is well placed to take advantage of the rise of renewables, from more interconnection and from new technologies to enhance the stability and performance of the grid.

Technology is also giving consumers and businesses the power to make choices about how they interact with their energy supply. Distribution networks are increasingly responsible for two-way energy flows as consumers generate, use, store and trade their own energy. Battery storage and electric vehicles will accelerate the pace of this change and its impact.

And again, Spark Infrastructure is well positioned to deal with both the risk and the opportunity that emerges from this change.

Our vision and priorities

Our vision is to create long-term value through capital growth and distributions for Securityholders from our portfolio of high-quality, long-life essential service infrastructure assets.

We continue to do this through our strong focus on efficient operations and investment – which we call **Value Enhance**, and through the disciplined pursuit of brownfield acquisition opportunities – which we call **Value Acquire**. This remains unchanged.

During 2018, the Board and management refreshed our strategy to position ourselves to take advantage of the accretive growth opportunities we're also seeing in building and developing into adjacent greenfield businesses. We refer to this as our **Value Build** strategy. We've seen the first

step in execution of this strategy with the acquisition of the Bomen Solar Farm development project last month. We continue to look at further opportunities as we seek to develop a business platform focused on new technologies and renewable energy.

Our assets in the energy supply chain

Today, we are a leading listed owner of essential service infrastructure in Australia. We have interests in some $17 billion of energy network assets in total, delivering energy to more than 5.6 million customers across Victoria, South Australia, New South Wales and the Australian Capital Territory, in addition to transporting electricity across the National Electricity Market (NEM) to other states.

From a customer affordability perspective, we are proud that our assets have again been ranked as among the most efficient networks in Australia. This efficiency allows us to pass on savings in the network component of electricity prices to millions of Australians, with real price reductions to customers during Spark Infrastructure's ownership. These benefits are also shared with our Securityholders through outperformance of financial incentives.

Sustainability and regulation

In 2018, once again, the financial results of our businesses reflected the benefits of efficiency and productivity gains, outperformance and growth in unregulated business. This supported a 4.9% increase in distributions to Securityholders to 16.0 cents per Security, up from 15.25 cents per Security in 2017.

In addition, our businesses continue to lead the industry and evolve their practices across key risk areas of safety, customer satisfaction, employee engagement and training, the environment, technology and innovation, and regulation.

Spark Infrastructure, and our investment partners, have robust processes and governance frameworks in place to identify and manage all risks and areas that are critical to the creation of long-term, sustainable value for our Securityholders and other stakeholders.

Our Annual Report this year has been expanded to cover these key areas, our approach to managing the risks and the outcomes for our businesses. I commend the report to you.

Our regulated electricity distribution businesses comprise around 80% of Spark Infrastructure's assets on a proportional basis. These businesses are currently the revenue engines of Spark Infrastructure and remain a key focus.

We have good cash flow visibility until 2020 with our distribution networks' current regulatory determinations ending around that time. In addition, TransGrid's revenue determination through to 30 June 2023 provides for the prudent growth and support of the transmission system in response to the significant transition in Australia's energy market.

As you are aware, there were a significant number of reviews undertaken by energy institutions and key changes made by the Australian Energy Regulator (AER) in 2018 which will impact the business going forward. In particular, the finalisation of the binding Rate of Return Guideline and changes to the approach for estimating the tax allowance for regulatory revenue purposes in December 2018 are likely to result in a reduction in the regulated rate of return and regulatory tax allowances for the next regulatory periods commencing on 1 July 2020 for SA Power Networks and 1 January 2021 for Victoria Power Networks, all else being equal.

We have previously stated that this is likely to put pressure on revenues and cash flows post-2020 for our regulated businesses. As we stand here today, notwithstanding our best efforts and those of our businesses, this is likely to put downward pressure on distributions to Securityholders post-2020.

Ironically, these reductions in returns come at a time of increased risk in our sector and when more investment is needed than ever in our network infrastructure as we transition to a low emissions future.

We have been on the public record with our many concerns about the longer term impacts of these changes, however for now our focus is on managing our businesses for optimum performance and returns, to continue to seek out and evaluate opportunities to grow and diversify the portfolio through disciplined acquisitions and to seek opportunities to build on our newly acquired Bomen Solar Farm development project as a future business platform focused on renewable energy and new technology.

Distribution guidance

Following the Federal Court decision handed down in February 2019 clarifying the tax treatment for the long-standing industry issue of network capital contributions, the Board took the prudent step of adjusting our outlook for distributions for 2019 to account for the pro-forma tax impost to our businesses in 2019 assuming that these amounts are taxable in accordance with the decision. Our Victorian business has appealed the decision which is likely to be heard towards the end of the year.

We have been saying for some time now that Spark Infrastructure expects to become a taxpayer in the short term. The Federal Court decision as it stands has the impact of accelerating the timing and amount of tax payable consequently reducing the standalone cash flow at the Spark Infrastructure level available to fund distributions to Securityholders, albeit that franking credits would expect to be attached to distributions in due course.

Accordingly, the Board issued revised distribution guidance of at least 15.0 cents per Security for 2019, subject to business conditions.

Board succession

We believe that orderly succession and renewal is achieved through careful long-term planning. When considering the election or re-election of directors to the Board, we seek to ensure that we have an appropriate mix of diversity, skills, capabilities and experience, and monitor potential skills gaps and seek to fill them with new appointments.

At today's Annual General Meeting, both Andy Fay and I retire by rotation, and are standing for re-election. Andy and I will address the meeting on our candidacies later in the proceedings.

Anne McDonald, having served on the Spark Board as an independent director for 10 years, eight years as Chair of the Audit, Risk and Compliance Committee and more recently two years as Chair of the Remuneration Committee, has indicated her intention to retire from the Board before the end of the year. On behalf of my fellow Directors, I would like to acknowledge and thank Anne for her contribution, dedication and support over the last 10 years.

With Anne's upcoming retirement we will be seeking to identify new appointments to build on and enhance our knowledge, skills and experience to govern Spark Infrastructure into the future.

I would like to thank my fellow Directors, the management and staff of Spark Infrastructure, and our investment companies, for their commitment and hard work over the past year.

I will now invite Rick to the microphone to make his address.

Thank you.

Managing Director & CEO's address – Rick Francis

Ladies and gentlemen,

The Australian energy landscape is at an inflection point. As owners and leaders in essential service infrastructure, Spark Infrastructure is uniquely placed to make positive decisions today that will affect generations to come.

Despite an environment of uncertainty, with our solid performance track-record and strategic growth agenda, we are optimistic about the opportunities ahead.

With the re-election of the coalition government we are looking forward to greater clarity of climate policy and transition actions to provide stability and certainty for new investment. We also look forward to a more cooperative and aligned regulatory environment to support the delivery of projects by our businesses, such as Snowy 2.0 and the NSW interconnectors, in time to maximise benefits to customers.

But first, let me recap on the 2018 financial results.

Financial highlights

Our businesses continue to deliver solid operational and financial performance. In 2018, continued cost efficiencies, and growth in both the regulated business and unregulated opportunities led to adjusted proportional aggregated earnings before interest, tax, depreciation and amortisation (EBITDA) of $825.4 million, an increase of 4.8% on 2017.

This supported a 7.3% increase in investment distributions to Spark Infrastructure to $305.1 million, an 8.5% increase in standalone operating cash flows to $290.2 million and ultimately a 4.9% increase in distributions to Securityholders.

The statutory result in 2018 was impacted by a non-cash, pre-tax impairment charge of our investment in SA Power Networks of $270 million. This reflects, in part, the negative impacts from the rate of return guideline and regulatory tax changes announced by the AER, which will affect all network service providers, and the recent Federal Court tax decision which is currently under appeal. As a result, we reported a statutory Net Loss after Tax of $96.7 million for the year ended 31 December 2018.

However, this is not a reflection of the strong underlying performance of our businesses, which I will briefly turn to now.

Victoria Power Networks performed well with EBITDA up $49.3 million (or 6.3%) compared with 2017, assisted by strong operating cost reductions of $38.9 million and a distribution revenue increase of $17.3 million, while Energy Solutions (Beon) continues to pursue large-scale renewable energy construction contracts.

Regulated Asset Base (RAB) grew 3.6% to $6,109 million and the number of customers connected grew by 15,000 (or 1.4%) compared with 2017. Distributions from VPN to Spark Infrastructure in 2018 were up $2.5 million to $156.9 million.

You may be aware that Powercor pleaded guilty for powerline clearance breaches and three fires that occurred in January 2018 and was fined $374,000. While these charges were disappointing, it was noted that Powercor had pleaded guilty at the earliest opportunity and had cooperated with authorities throughout investigations. We and Powercor take our health and safety responsibilities extremely seriously, and significant efforts have been made to revisit systems and procedures in relation to the 475,000 spans that are inspected annually.

SA Power Networks performed well in 2018, with EBITDA up $3.0 million (or 0.5%) compared with 2017, assisted by a $23.4 million increase in distribution revenue. This was partially offset by an $8.4 million decline in Enerven's margin and a $6.7 million reduction in semi-regulated revenues due to a number of one-off project activities completed in 2017, and expansion into other lines of business, which incurred some establishment costs.

RAB grew 3.8% to $4,207 million in 2018, and the number of customers connected grew by 12,000 (or 1.4%) compared with 2017. Distributions to Spark Infrastructure continued at a strong level of $115.2 million, but were down $3.9 million on the previous year.

TransGrid continued to improve its operational performance. EBITDA was up $75.6 million (or 12.7%) compared with 2017, assisted by regulated revenue growth of $22.1 million, strong regulated operating cost reductions of $14.8 million and an increase in unregulated margins of $38.7 million. TransGrid's unregulated business, including new connections and line modifications, continued to grow strongly, with EBITDA excluding overheads increasing by 95% to $80.9 million in 2018.

With the establishment of TransGrid Services (the funding vehicle for the unregulated connections business) in June 2018, we benefited from stronger cash distributions from TransGrid in the second half of 2018. Distributions from TransGrid to Spark Infrastructure were $33.0 million, up $22.1 million, and the Regulated and Contracted Asset Base (RCAB) grew 1.9% to $6,823 million.

Innovation and growth from renewables

We continue to invest in the growth of TransGrid's unregulated new connections business. A further $78.4 million was invested in 2018, taking the total Contracted Asset Base to $431 million at year end with some 1.8GW of solar and wind connections currently under construction which will become revenue producing in future periods.

In addition to these new connections, our businesses continue to pursue growth opportunities in the renewable energy space.

SA Power Networks has recently been successful in gaining $1.0 million of ARENA funding for a joint project with Tesla and CSIRO to undertake an "Advanced Virtual Power Plant (VPP) grid integration project". The VPP will start with 1,000 homes (5MW solar, 5MW batteries) and is planned to expand to the largest VPP in the world with 50,000 homes (250MW solar, 250MW batteries) with strong support from the SA Government.

SA Power Networks' role will provide significant value to the project and it will allow the capacity to export up to twice as much electricity to the grid during high price periods.

SA Power Networks' unregulated business, Enerven, has also won a major contract with SA Water to roll-out roof and ground mounted solar panels and battery storage at many of their sites across SA. Total revenues for this contract could be approximately $300 million over 2019/2020.

In Victoria, Beon, owned by Victoria Power Networks, is extending its unregulated renewables expertise having recently completed construction of the 112MW Karadoc Solar Farm in Mildura. This is in addition to its current construction of the 106MW Yatpool Solar Farm also in Mildura. I will add to these exciting developments shortly.

Integrated System Plan

AEMO's Integrated System Plan (ISP) outlines the significant role that transmission, and in particular TransGrid, will play in delivering greater regional interconnectivity and renewable energy zones to better balance the energy system.

The inaugural ISP was released in July 2018 and has gained the support of the Energy Security Board (ESB), State and Federal governments and the Australian Energy Market Commission (AEMC), among others.

The priority projects it identifies are additional to TransGrid's 2018-23 capex allowance of $1.25 billion and $1.0 to $2.5 billion of other contingent projects that were included in their regulatory determination. All of these opportunities could lead to TransGrid making significant capital investments over the next decade.

This includes the proposed 330kV interconnector project known as 'EnergyConnect' which would be delivered by TransGrid in partnership with ElectraNet between Robertstown in SA and Wagga Wagga in NSW. If approved, the project is expected to deliver net market benefits of approximately $900m over 21 years (in present value terms).

Turning to our strategic priorities.

Executing our strategy

With our refreshed strategy of Value Enhance, Value Acquire and Value Build, we are executing on our plan.

We maintain a strong focus on delivering further operating improvements in our businesses and investing efficiently to capitalise on organic growth opportunities together with growth in unregulated activities.

We are also seeking to take opportunities in the evolving landscape for accretive growth by acquiring and building businesses and platforms in adjacent asset classes.

Bomen Solar Farm

Our recent acquisition of the Bomen Solar Farm project is a prime example of this. The 120MW project is strategically located in a strong part of the grid in close proximity to TransGrid's high-voltage network and access to the skilled workforce in the town of Wagga Wagga. The project has in place a highly contracted future revenue profile and long-term power purchase agreements (PPAs) with high-quality counterparties providing stable and predictable cash flows once the project has achieved commercial operations in Q2 2020.

While the project is small in size relative to our existing assets, it is expected to be yield and value accretive once completed.

We are pleased to be working with our group companies on this project and have appointed Beon as Engineering, Procurement and Construction (EPC) contractor for the project. We will benefit from their proven and recent experience as I mentioned earlier and TransGrid will be undertaking the negotiated connection services for the project. Construction on-site is due to commence shortly, with early works having already begun.

The project has been initially funded from cash on hand and will in time be funded with a mix of equity and debt. A prudent capital structure will be maintained post-construction, with our investment grade credit ratings expected to be maintained, and we currently expect to reactivate our Distribution Reinvestment Plan in August 2019.

Having achieved financial close last month, our efforts are now focused on the build out of our capability and resources to manage construction and the long-term operational requirements of the solar farm.

Update on the regulatory landscape

We continue to be strong advocates of our industry and the role that energy and network infrastructure plays in delivering a low cost, low emission, secure and reliable energy system for the future.

In 2018, our efforts were focused on providing thought leadership to the numerous reviews to bring about regulatory outcomes that maintain and underpin the investability of the sector.

This year, we will continue building on our leadership role to bring the voice of energy infrastructure investors to the fore.

Importantly, the AEMC's impending review of economic regulatory frameworks will consider reforms to how customers access and are charged for use of networks. They will also review opportunities to strengthen incentives for efficiency and innovation and look to remove constraints on network businesses adopting new technologies, including storage.

We continue to encourage all these reviews to progress pricing reforms to ensure that all customers can benefit from more efficient decisions about how and when to use electricity and invest in infrastructure.

We are also working closely with our businesses to support their upcoming regulatory determination processes and the new interconnector between NSW and South Australia. These will be an important driver of future returns from our regulated businesses for the period 2021 and beyond.

In the meantime, with pressure on the regulatory revenues and operating cash flows of our businesses post-2020, we expect that distributions to Securityholders and their profile are likely to align more closely with the five-year regulatory periods of our businesses.

In addition, cash flows will also need to fund our increasing tax profile. When we do pay tax however, we expect to be able to distribute franking credits to Securityholders, to the extent possible.

I would like to thank you for your support over the last 12 months, and I look forward to keeping in touch with you on our progress and market developments in the year ahead.

Thank you.