Voluntary Tax Transparency Disclosure

Taxes Paid Report

1. Introduction

As an investor in Australia's major regulated utility infrastructure networks, Spark Infrastructure recognises the impact it and the entities in its investment portfolio have on the Australian community and, in particular, the role they each play in supporting a fair and equitable tax system. We are committed to being a good corporate citizen by encouraging a robust tax system and acting openly and transparently in our disclosures to our Securityholders, stakeholders and the public. As part of our continuing efforts to ensure openness and transparency, Spark Infrastructure has adopted the Board of Taxation's Voluntary Tax Transparency Code. This statement provides background information on Spark Infrastructure, an overview of our group structure, our approach to tax, a reconciliation of our income tax expense and income tax paid and our total tax contributions.

To better understand our tax profile, it is important to note the following:

- Spark Infrastructure takes its tax obligations seriously and we are committed to acting with integrity and transparency in tax matters;
- Our investments and business activities are solely domestic, and as such, income generated by our investments is derived only in Australia;
- Spark Infrastructure Trust is a flow-through entity and tax on the taxable income of Spark Infrastructure Trust is ultimately borne by Securityholders; and
- No income taxes are currently being paid by the subsidiary companies of Spark Infrastructure Trust due to accumulated losses.

2. Background

The Spark Infrastructure Trust ("Spark Trust") is an Australian Securities Exchange listed specialist infrastructure fund, headquartered in Sydney. It invests in regulated utility infrastructure in Australia.

Spark Trust, and its wholly owned subsidiary companies, invest in electricity distribution and transmission businesses in Australia. The current portfolio of assets ultimately held by the Spark Trust includes:

- 49% interest in electricity distribution business Victoria Power Networks Pty Ltd ("VPN") in Victoria;
- 49% interest in electricity distribution business SA Power Networks Partnership ("SAPN") in South Australia; and
- 15.01% interest in electricity transmission business TransGrid in New South Wales, acquired in December 2015.

Collectively, these businesses support the economy by supplying electricity to millions of residential and business customers, including some of Australia's largest companies, public transport systems, and sporting venues.

Spark Infrastructure does not have any offshore or foreign investments, loans, or business activities.

3. Group Structure

The Spark Trust is a managed investment scheme regulated by the Australian Securities and Investments Commission and the *Corporations Act 2001.* Spark Infrastructure has a stapled structure, whereby each unit in the Spark Trust is stapled to one loan note issued by the Spark Trust ("Loan Note").

Spark Trust is the parent entity of a group of entities collectively known as the Spark Infrastructure Group ("Group"). The Group is comprised of five separate taxpayers described as follows:

- The Spark Trust, which is a public unit trust that is treated as a flow-through entity (i.e. tax transparent) under Division 6 of the *Income Tax Assessment Act 1936*. The Spark Trust is the parent entity of the group and also directly holds a portion of the TransGrid investment via a wholly owned subsidiary trust, Spark Infrastructure Electricity Assets Trust ("Asset Trust"), which is also a flow-through trust;
- Spark Infrastructure Holdings No 1 Pty Limited ("SIH No.1"), the head company of the SIH No.1 tax consolidated group ("SIH No.1 Group"), which ultimately holds Spark Infrastructure's interests in VPN;
- Spark Infrastructure Holdings No 2 Pty Limited ("SIH No. 2"), the head company of the SIH No.2 tax consolidated group ("SIH No.2 Group"), which ultimately holds Spark Infrastructure's interests in SAPN; and
- Spark Infrastructure Holdings No 3 Pty Limited ("SIH No.3"), the head company of the SIH No.3 tax consolidated group ("SIH No.3 Group"). SIH No.3 undertakes management and other administrative activities and holds the Group's trustee entities. SIH No. 3 also holds the remainder of the TransGrid investment via a wholly owned subsidiary trust, Spark Infrastructure Electricity Operations Trust ("Operations Trust").

The above structure, along with stapling of securities, is not uncommon for infrastructure investments. These structures provide investors with the same benefits and efficiencies as if they owned the investments directly but through a managed investment scheme.

4. Taxation of the Group

For financial reporting purposes, Spark Trust and its subsidiaries prepare consolidated financial statements in accordance with Australian Accounting Standards. However, for Australian tax purposes, the Spark Trust and its subsidiary entities are treated as separate tax payers and therefore and are required to lodge separate tax returns.

Spark Infrastructure Trust

As noted above, Spark Trust, along with the wholly owned subsidiary trust (i.e. Asset Trust), are treated as flow-through entities for Australian income tax purposes. As such, the Spark Trust does not pay income tax and its Securityholders are subject to Australian income tax on their share of trust income. In addition to trust distributions (both income and capital), Securityholders receive interest income on the Loan Notes.

Securityholders are liable for tax on the trust distributions and interest income at their applicable tax rates. The Spark Trust is a Managed Investment Trust and where income distributions are made to non-residents of Australia, withholding tax of up to 30% (15% for residents of Exchange of Information countries) is deducted and remitted to the Australian Taxation Office ("ATO"). Domestic Securityholders are subject to tax at rates of up to 49% for individuals, 30% for corporates, and 15% for super funds.

Currently, more than 50% of the Spark Trust's Securityholder base is Australian and consists of superannuation funds, pension funds and professional investment managers, as well as individual private investors.

Tax Consolidated Groups

As previously stated, the subsidiary companies of the Group are formed into three separate tax consolidated groups. This means that the entities within each group are taxed as a single entity at the applicable corporate tax rate of 30%. As a result, each tax consolidated group will incur a tax liability on the taxable income of the respective tax group. Transactions between the tax consolidated groups and the Spark Trust are not eliminated in determining each tax consolidated group's taxable income, although they are eliminated for financial reporting purposes.

The SIH No.1 Group and SIH No.2 Group are currently in carried forward tax loss positions largely due to tax deductions relating to interest bearing debt and administrative costs having historically exceeded taxable income from underlying investments. For the SIH No. 2 Group, the carried forward tax losses also reflect carried forward losses transferred at the time of acquiring the partnership companies. We expect that the SIH No.1 Group and the SIH No.2 Group will commence paying tax once their respective historic losses are recouped. The SIH No.3 Group is also in a carried forward tax loss position due to administrative costs exceeding its income from its trustee entity holdings. We expect SIH No.3 Group will commence paying tax once its losses have been recouped and upon receipt of taxable distributions from Operations Trust.

5. Approach to Tax

Spark Infrastructure takes the management of its tax affairs and compliance with relevant tax obligations seriously, and its governance, risk management and oversight processes reflect this. Our comprehensive Tax Governance Policy sets out that we will:

- To comply with tax compliance obligations in a timely manner;
- To ensure that tax risks are considered as part of the overall commercial assessment of any transaction;
- To take a conservative approach to the assessment and management of tax risk with a view to being considered by revenue authorities as low risk;
- To maintain open and constructive relationships with relevant revenue authorities;
- Not to participate in tax evasion or to facilitate the evasion of tax by a third party in any way;
- To encourage the businesses in Spark Infrastructure's investment portfolio, currently SA Power Networks, Victoria Power Networks and TransGrid to adopt a consistent approach to tax governance as set out in this Tax Governance Policy;
- To protect the reputation of Spark Infrastructure in relation to tax matters;
- To proactively engage and communicate regularly with the Audit, Risk and Compliance Committee and the Board, so as to adopt a 'no surprises' approach to the management of tax risk.

Overall, Spark Infrastructure's approach to tax is guided by our vision and values, and we strive to conduct our business with honesty and fairness by respecting interests of the communities where Spark Infrastructure's investment portfolio companies operate.

ATO Engagement

In line with our Tax Governance Policy, Spark Infrastructure strives to be open, transparent and forthcoming in our dealings with the ATO and other revenue authorities. We engage proactively to discuss the potential taxation implications of our significant transactions where appropriate. Such interactions have involved obtaining a private binding ruling from the ATO and class rulings for our Securityholders and entering into Tax Deeds relevant to our investment portfolio companies.

6. Income Tax Analysis and Reconciliations

6.1 ATO Tax Transparency Reporting Reconciliations

In early December 2016, the ATO published entity tax information for the 2014-15 Income Tax Year (for Spark this is the income year ended 31 December 2014 or the 2014 Calendar Year) which included information about certain corporate tax entities whose total income (per their income tax return) is $100 million or more for that income tax year. The same information should be published in December 2017 for the 2015-16 Income Tax Year (for Spark this is the income year ended 31 December 2015 or the 2015 Calendar Year).

The December 2016 reporting included the SIH No.2 Group because its total income (per its 2014-15 Income Tax Return as lodged) exceeded $100 million but not the SIH No.1 Group as its total income (per its 2014-15 Income Tax Return as lodged) did not exceed $100 million. It is expected that the December 2017 reporting will include the SIH No. 1 Group and the SIH No.2 Group as they both had total income (per their 2015-16 Income Tax Returns as lodged) exceeding $100 million. The information that was reported for the 2014-2015 Income Tax Year and what we expect will be reported for the 2015-2016 Income Tax Year is as follows:

2014-15 Income Tax Year

	SIH No.1 Group $ ('000)	SIH No.2 Group $ ('000)
Total Income	93,233	175,697
Taxable Income	0	0
Income Tax Payable	0	0

2015-16 Income Tax Year

	SIH No.1 Group $ ('000)	SIH No.2 Group $ ('000)
Total Income	104,055	145,378
Taxable Income	0	0
Income Tax Payable	0	0

To assist in interpreting these numbers, the table below provides a reconciliation of total income to taxable income to taxes payable:

- The entities reported by the ATO do not include the Spark Trust (and Asset Trust) and SIH No. 3 Group which are included in the accounting group because the ATO report only includes companies or entities that are taxed like companies (the Spark Trust is flow-through and its taxable income is reported by, and taxed in, the hands of the respective Securityholders) or they fall below the reporting threshold;
- The total income figure represents revenue derived by the relevant tax consolidated group and does not include expenses included in determining Net Profit Before Tax ("NPBT"); and
- Total income includes income from investments accounted for under the equity method. To the extent that investments are flow-through entities, like partnerships, then we pick up our share of taxable income from the partnership. To the extent that our investments relate to companies, then those companies are taxpayers in their own right and tax is payable at the company level. Tax is not payable on distributions from investments in companies until the distribution is actually made.

Table 1: Reconciliation of 2014-15 Income Tax Year - Total Income, Taxable Income and Income Tax Payable

	SIH No.1 Group $ ('000)	SIH No.2 Group $ ('000)	SIH No.3 Group $ ('000)
Total Income	93,233	175,697	5,733
Total Expenses	(75,081)	(40,331)	(5,852)
Total Accounting Profit/Loss per the tax return for the year ended 31 December 2014	18,152	135,366	(119)
Permanent Differences	283	438	1,143
Timing Differences	(19)	(18)	(10)
Investments In/Transactions with Associates	(5,566)	(98,932)	0
Tax Losses Applied	(12,850)	(36,854)	(1,014)
Taxable Income/Loss	0	0	0
Income Tax Payable	0	0	0

Table 2: Reconciliation of 2015-16 Income Tax Year - Total Income, Taxable Income and Income Tax Payable

	SIH No.1 Group $ ('000)	SIH No.2 Group $ ('000)	SIH No.3 Group $ ('000)
Total Income	104,055	145,378	4,433
Total Expenses	(75,046)	(42,001)	(4,813)
Total accounting Profit/Loss per the tax return for the year ended 31 December 2015	29,009	103,377	(380)
Permanent Differences	2,231	840	2,224
Timing Differences	(2,565)	(26)	(1,651)
Investments In/Transactions with Associates	(16,195)	(106,284)	0
Tax Losses Applied	(12,480)	0	(193)
Taxable Income/Loss	0	(2,093)	0
Income Tax Payable	0	0	0

C – Note that the Total Income and Total Profit per the Income Tax Return is different to NPBT per the Financial Accounts. This is primarily due to subsequent minor adjustments made to investment income accounted for under the equity method.

6.2 Tax Accounting Reconciliations

The following tables set out a reconciliation of the Group's income tax expense calculated at 30% of accounting net profit before tax to current year income tax expense and income taxes payable as per our 2014 and 2015 annual financial statements and income tax returns. In interpreting these tables, it is important to note the following:

- Income tax expense in the annual financial statements is prepared on the basis of the Spark Infrastructure consolidated financial reporting group and in accordance with Australian Accounting Standards;
- Spark Infrastructure has a 31 December financial year and therefore tax returns for 30 June are lodged in respect of the preceding financial year (e.g. the income tax year ended 30 June 2016 is in respect of 2015 Calendar Year financial results);
- Taxable income and liability are defined under income tax law and calculated separately for each of the tax consolidated groups within the structure, the Spark Trust and its subsidiary trust entities;
- Differences in income tax expense calculated in the returns and the annual financial statements may arise due to the timing of revenue and expense recognition, non-deductibility of certain expenses, and investment income accounted for under the equity method; and
- The Effective Tax Rate ("ETR") is calculated as the income tax expense divided by accounting NPBT
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Table 3: Reconciliation of Income Tax Expense to NPBT and Income Tax Payable and ETR for the 2014 Calendar Year

	SIH No.1 Group $ ('000)	SI H No.2 Group $ ('000)	SIH No.3 Group $ ('000)	Spark Trust $ ('000)	Total Group $ ('000)
NPBT	18,152	135,367	(119)	15,314	168,714
Income Tax Expense @ 30%	5,446	40,610	(36)	4,594	50,614
Effect of Expenses Not Deductible in Determining Taxable Profit	5	44	36	0	85
Effect of Prior Year Adjustments in Associates' Tax Base	0	(5,521)	0	0	(5,521)
Adjustments Recognised in Relation to Current Tax in Prior Years	0	0	(3)	0	(3)
Tax Effect on Operating Results of the Trust [A]	0	0	0	(4,594)	(4,594)
Income Tax Expense	5,451	35,133	(3)	0	40,581
Less: Deferred Tax Expense					
Timing Differences	414	0	3	0	417
Investments in Associates	(1,326)	(12,387)	0	0	(13,713)
Unused Tax Losses	(4,208)	(19,394)	0	0	(23,602)
Income Tax Recognised in Equity	(331)	(3,352)	0	0	(3,683)
Income Tax Payable	0	0	0	0	0
ETR	30.02%	25.95%	(2.52%)	0.00%	24.05%

Table 4: Reconciliation of Income Tax Expense to NPBT and Income Tax Payable and ETR for the 2015 Calendar Year

	SIH No.1 Group $ ('000)	SIH No.2 Group $ ('000)	SIH No.3 Group $ ('000)	Spark Trust and subsidiary trusts $ ('000)	Total Group $ ('000)
NPBT	27,664	104,953	(374)	9,543	141,786
Income Tax Expense @ 30%	8,299	31,486	(112)	2,863	42,536
Effect of Expenses Not Deductible in Determining Taxable Profit	8	47	112	0	167
Losses Written Off on ATO Settlement of SAPN and VPN	0	24,655	0	0	24,655
Effect of Prior Year Adjustments in Associates' Tax Base	0	(10,733)	0	0	(10,733)
Tax Effect on Operating Results of the Trusts [A]	0	0	0	(2,863)	(2,863)
Income Tax Expense	8,307	45,455	0	0	53,762
Less: Deferred Tax Expense					
Timing Differences	(272)	0	2	0	(270)
Investments in Associates	(15,359)	(26,073)	0	0	(41,432)
Unused Tax Losses	(3,188)	(25,445)	(2)	0	(28,635)
Income Tax Recognised in Equity	10,512	6,063	0	0	16,575
Income Tax Payable	0	0	0	0	0
ETR[B]	30.03%	43.31%	0.00%	0.00%	37.92%

A – as the trusts are 'flow-through' entities for income tax purposes they do not pay income tax, have nil income tax expense and nil ETR. The income of the trusts is ultimately taxed in the hands of the Securityholders at their applicable tax rates.

B – the ETR exceeds 30% due to adjustments made in relation to prior income tax years during the 2015 Calendar Year.

7. Contributions to the Australian Tax System

As previously noted, Spark Trust Securityholders are liable for income tax on distributions of trust income and interest income on Loan Notes.

The following distributions were paid to Securityholders in relation to the years ended 31 December 2014 and 31 December 2015:

	2014 Calendar Year		2015 Calendar Year	
	Cents per Security	Total $('000)	Cents per Security	Total $('000)
Interim Distribution:				
Loan Note interest	3.50	51,323	3.50	51,323
Return of capital	2.25	32,993	2.50	36,659
	5.75	84,316	6.00	87,982
Final Distribution:				
Loan Note interest	3.55	52,055	3.55	59,712
Return of capital	2.20	32,260	2.45	41,209
	5.75	84,315	6.00	100,921
Total	11.50	168,631	12.00	188,903

The distributions comprised:

- Loan Note interest – Securityholders will pay income tax on this amount at their applicable tax rates; and
- Returns of capital – for tax purposes this will be typically treated as a tax deferred distribution in the Securityholder's hands. That is, the income tax liability will be deferred until the Securityholder disposes of the security.

No income distribution was paid to Securityholders for the either of the years ended 31 December 2014 or 31 December 2015 as the Spark Trust was in a tax loss position. This is largely due to interest expenses on the Loan Notes payable to Securityholders exceeding the income of the trust.

As a business that operates in the Australian infrastructure industry, and has employees and contractors in Australia, Spark Infrastructure is also subject to various other taxes and levies at the federal, state and local government levels.

These taxes and levies are either borne by the Group at a cost to our business or are remitted by the Group to various revenue authorities on behalf of our employees and Securityholders. The table below details our total tax contribution.

Table 5: Total Australian Tax Contribution

	2014-15 Income Tax Year $('000)	2015-16 Income Tax Year $('000)
Taxes Borne by the Group		
Income Tax Paid by Entities in the Group	0	0
Fringe Benefits Tax*	42	46
Payroll Tax**	243	266
Total Taxes Borne by the Group	285	312
Net GST Remitted • GST Collected, less • GST Claimed	0	0
PAYG Withholding	1,983	2,152
Taxes Withheld from Investors***	272	264
Total Taxes Remitted by the Group	2,255	2,416
Total Tax Contribution	2,540	2,728

Additionally, the entities in which Spark Infrastructure holds an investment (SAPN, VPN and TransGrid) are also subject to various other Australian taxes and levies at the federal, state and local government levels.

* The FBT year is from 1 April to 31 March. The numbers included are for the FBT year ended 31 March 2015 and the FBT year ended 31 March 2016.

** Spark's payroll tax year is from 1 July to 30 June. The numbers included are for the payroll tax years ended 30 June 2015 and 30 June 2016

*** These numbers reflect amounts withheld on the interim and final distributions paid in respect of the 2014 and 2015 Calendar Years. The 2014 final distribution was paid (and the tax withheld) during the 2015-16 Income Tax Year and the 2015 final distribution was paid (and the tax withheld) during the 2016-17 Income Tax Year.

Appendix A: Summary Group Structure Diagram