PROXY PAPER

SPARK INFRASTRUCTURE GROUP

CGI | GLASS LEWIS

Australian Securities Exchange: **SKI**

ISIN: **AU000000SKI7**

MEETING DATE: 23 MAY 2017

RECORD DATE: 21 MAY 2017

PUBLISH DATE: 09 MAY 2017

INDEX MEMBERSHIP: S&P/ASX ALL ORDINARIES; S&P/ASX 200; S&P/ASX 300; S&P/ASX 100

SECTOR: UTILITIES

INDUSTRY: ELECTRIC UTILITIES

COUNTRY OF TRADE: AUSTRALIA

COUNTRY OF INCORPORATION: AUSTRALIA

VOTING IMPEDIMENT: NONE

DISCLOSURES: REFER TO APPENDIX REGARDING BUYOUT OFFER

COMPANY DESCRIPTION

Spark Infrastructure Group invests in regulated electricity distribution and transmission businesses in Australia. The company operates in four segments: Victoria Power Networks, SA Power Networks, TransGrid, and Other.

2017 ANNUAL MEETING

PROPOSAL	ISSUE	BOARD	GLASS LEWIS	CONCERNS
1.00	Re-elect Anne McDonald	FOR	**FOR**	• **Excessive non-audit fees**
2.00	Elect Greg Martin	FOR	**FOR**	
3.00	Elect James Dunphy	AGAINST	**AGAINST**	• **External nominee not supported**
4.00	Equity Grant (MD/CEO Rick Francis)	FOR	**FOR**	• **Relative TSR and comparator group**
5.00	Remuneration Report	FOR	**FOR**	• **Relative TSR and comparator group** • **Disclosure of STI hurdles**
6.00	Board Spill Resolution	AGAINST	**AGAINST**	

COMPANY PROFILE

FINANCIALS

	1 YR TSR	3 YR TSR AVG	5 YR TSR AVG
SKI	*31.4%*	*20.0%*	*18.6%*
S&P/ASX ALL ORDINARIES INDEX	*11.6%*	*6.8%*	*11.6%*
MARKET CAPITALISATION (MM AUD)		4,003	
ENTERPRISE VALUE (MM AUD)		4,964	
REVENUES (MM AUD)		244	
MATERIAL TRANSACTION(S) IN PAST 12 MONTHS		*No*	

FIGURES AS OF 31-DEC-2016. ANNUALISED SHAREHOLDER RETURNS. SOURCE (EXCLUDING MATERIAL TRANSACTIONS): CAPITAL IQ

EXECUTIVE REMUNERATION

P4P 2016	*Fair*	**SAY ON PAY VOTE**	*Yes*
CGI GLASS LEWIS STRUCTURE RATING	*Fair*	**CLAWBACK PROVISION**	*Yes*
CGI GLASS LEWIS DISCLOSURE RATING	*Fair*	**STRIKE AT LAST YEAR'S AGM**	*Yes*
CGI GLASS LEWIS READABILITY RATING	*Good*	**VOTE METHOD**	*Poll*

BOARD & MANAGEMENT

ELECTION METHOD	*Majority*	**CEO START DATE**	*May 31, 2012*
STAGGERED BOARD	*Yes*	**CGI GLASS LEWIS INDEPENDENCE**	*86%*
COMBINED CHAIR/CEO	*No*	**AVERAGE NED TENURE**	*4 years*
% OF WOMEN ON BOARD	*43%*	**AVERAGE NED AGE**	*2 years*

AUDITORS

AUDITOR: DELOITTE TOUCHE TOHMATSU	**TENURE:** N/A
MATERIAL WEAKNESS(ES) IDENTIFIED IN PAST 12 MONTHS	*No*
RESTATEMENT(S) IN PAST 12 MONTHS	*No*

ESG RATINGS

	2016	2015	2014
OVERALL ESG	*Average Performer*	*Average Performer*	*Average Performer*
ENVIRONMENT	*Underperformer*	*Average Performer*	*Average Performer*
SOCIAL	*Average Performer*	*Average Performer*	*Average Performer*
GOVERNANCE	*Average Performer*	*Average Performer*	*Average Performer*

RATINGS FROM "INDUSTRY LEADER", FOLLOWED BY "OUTPERFORMER", "AVERAGE PERFORMER", "UNDERPERFORMER" AND "INDUSTRY LAGGARD".
SOURCE: CGI GLASS LEWIS E&S ADVISORY PAPER, PRODUCED IN CONJUCTION WITH SUSTAINALYTICS.
DATA IS FOR THE MOST RECENT FINANCIAL YEAR AVAILABLE.

CORPORATE ENGAGEMENT

ENGAGEMENT WITH CGI GLASS LEWIS IN PAST 12 MONTHS	*In person on March 20, 2017 on matters relating primarily to corporate governance and remuneration*

CURRENT AS OF MAY 09, 2017

ENVIRONMENTAL, SOCIAL & GOVERNANCE PROFILE

OVERALL ESG SCORE

Average Performer

Comparative Industry: **Utilities**

Board oversight for ESG Issues: **N/A**

All data and ratings provided by:

SUSTAINALYTICS

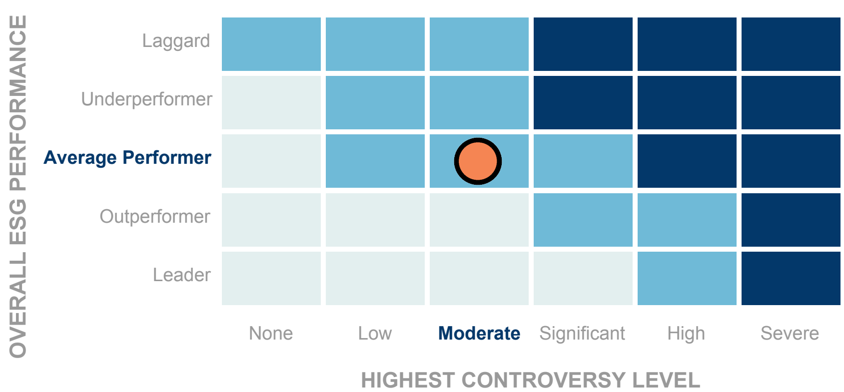
Last Update: **May 01, 2017**

ANALYST COMMENTARY

Spark Infrastructure Group (Spark) invests in regulated electricity distribution businesses, primarily in Australia. It owns 49% of Victoria Power Networks, comprising CitiPower and Powercor Australia, which operates electricity distribution networks, serving more than 1 million customers, as well as SA Power Networks, which operates the main electricity distribution network in South Australia, supplying energy to around 847,000 customers. Given the increased customer demand for efficiency-based services that have a lower environmental footprint, ensuring the sustainability of its product and service portfolio is essential for the company to drive business growth. Thus, Product Sustainability becomes a core area of exposure. Additionally, due to its operations with high voltage lines, employee Health and Safety management is another core ESG factor. Moreover, Spark's power distribution activities can have significant environmental and social impacts on the community in which it operates, exposing the company to Community Relations issues. Spark's companies have externally certified Health and Safety management systems in place. However, since there is inadequate disclosure regarding sustainability of its products and services, as well as stakeholder engagement, our overall view of the company regarding the management of its key ESG issues is neutral.

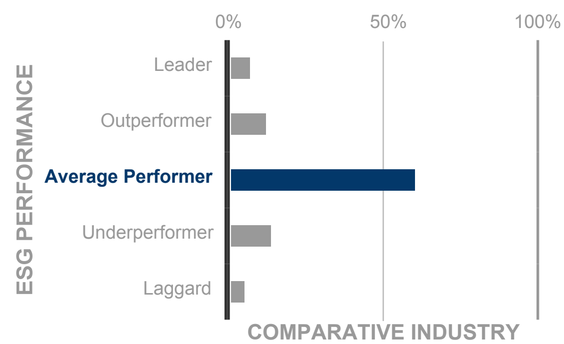
ESG RISK PROFILE

The graph below compares the Company's ESG performance to its involvement in controversies in order to provide an assessment of the Company's ESG risk profile.



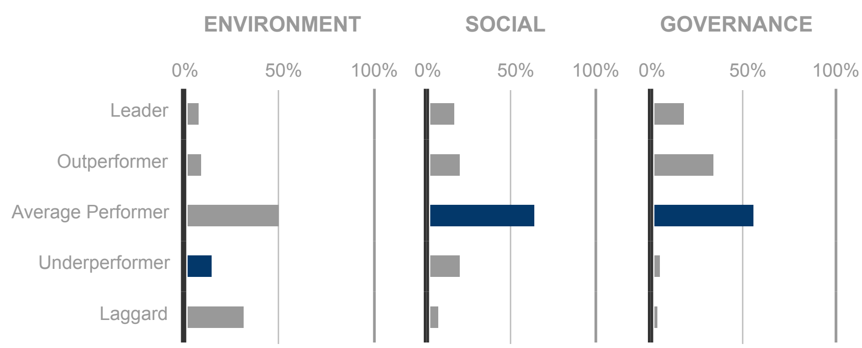
OVERALL ESG PERFORMANCE

The graph below indicates the percentage of companies in the comparative industry that fall within each ESG performance category.



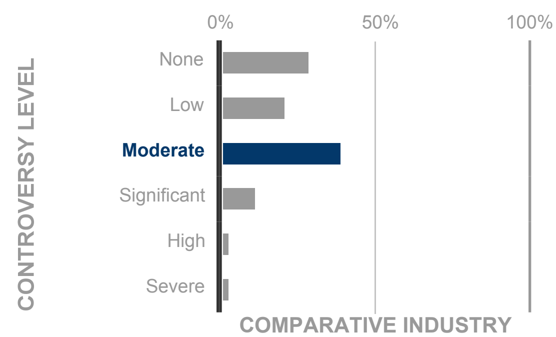
ESG PILLAR PERFORMANCE

For each pillar, the graph below indicates the percentage of companies in the comparative industry that fall within each ESG performance category. The governance pillar shown below is measured by Sustainalytics based on the Company's governance of sustainability issues.



HIGHEST CONTROVERSY LEVEL

The graph below indicates the percentage of companies in the comparative industry that fall within each controversy level.



Rows and categories shown in dark blue or bold represent the Company's category for the relevant assessment.

NOTEWORTHY CONTROVERSIES

SEVERE

Severe controversies are the most serious controversy level. They have the greatest negative impact on stakeholders and generate the greatest risk to a company's financial performance. Such controversies are highly exceptional. They indicate egregious practices and generally reflect a pattern of gross negligence, with the Company refusing to address the issue and/or concealing its involvement.

No severe controversies

HIGH

High-impact controversies are those that have major negative sustainability impacts and typically generate significant business risk to the Company. Such controversies are generally exceptions within an industry. They typically involve a pattern of negative events or impacts and indicate a lack of company preparedness to properly manage key sustainability issues.

No high controversies

SIGNIFICANT

Significant controversies have notable negative sustainability impacts and may generate business risk to the Company. Such controversies may be isolated or they may suggest a pattern, but they are generally not exceptional within an industry. However, they raise questions about whether a company's management systems are being implemented effectively and are able to address the issue in a satisfactory manner.

No significant controversies

NO PRODUCT INVOLVEMENT

DISCLAIMER

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Please refer to the FAQ for further details about this page.

All data and ratings provided by:

SUSTAINALYTICS

REMUNERATION DETAILS

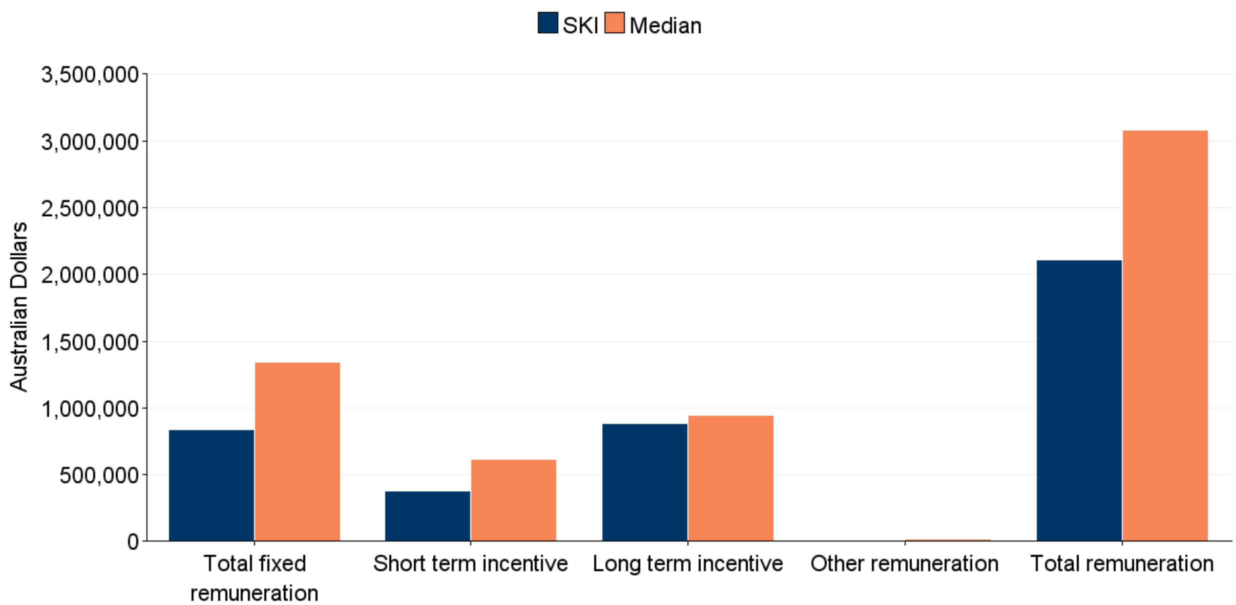
For Financial Year to December 31, 2016

NON-EXECUTIVE DIRECTORS

NEDs' fees + superannuation	Spark Infrastructure Group	Median for ASX 50-100
Chair	N/A	A$358,444
Median remuneration for NEDs serving full year	A$146,500	A$181,575
Aggregate remuneration for all NEDs	A$1,125,287	
Total remuneration cap approved by shareholders	A$2,000,000	
Notes: Chairman not in position for full year. NEDs are entitled to additional directors' fees as representatives of Spark Infrastructure on the boards of SA Power Networks, Victoria Power Networks and TransGrid ("Asset Companies") paid by the Asset Companies.		

CEO REMUNERATION

	Spark Infrastructure Group	Median for ASX 50-100
CEO - date of appointment	May 31, 2012	
Total fixed remuneration	A$840,160	A$1,343,879
Short-term incentives (cash)	A$382,615	A$614,756
Long-term incentives (amortised)	A$884,693	A$942,484
Other remuneration	A$0	A$20,752
Total remuneration	A$2,107,468	A$3,085,812
Notes: Long-term incentives include LTI transition expense of A$210,000. Short-term incentives represents STI expense for FY2016.		



PAY-FOR-PERFORMANCE

Spark Infrastructure Group's executive remuneration practice received a **FAIR** grade in our proprietary pay-for-performance model. The Company paid: less remuneration to its CEO than the median CEO remuneration for 26 similarly sized companies with an average enterprise value of A$6.6 billion and about the same as a sector group of 8 utilities companies. Overall, the Company paid moderately less than its peers and performed moderately worse than its peers.

FY 2016 REMUNERATION COMMITTEE GRADE

GOOD	FAIR	POOR
	▲	

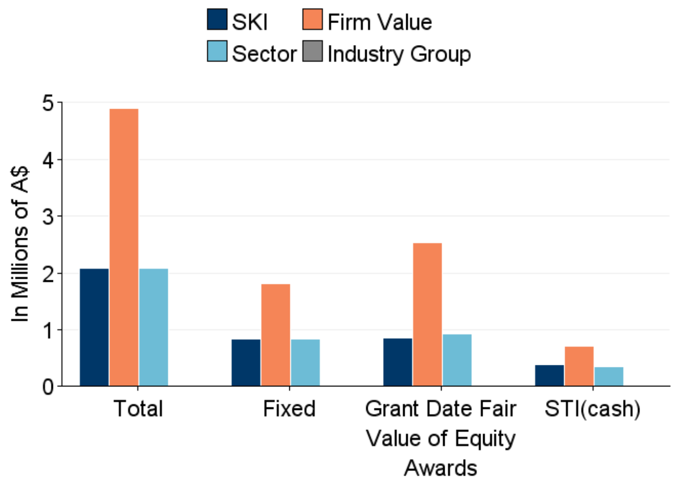
HISTORICAL REMUNERATION GRADE

2015	FAIR
2014	FAIR
2013	FAIR

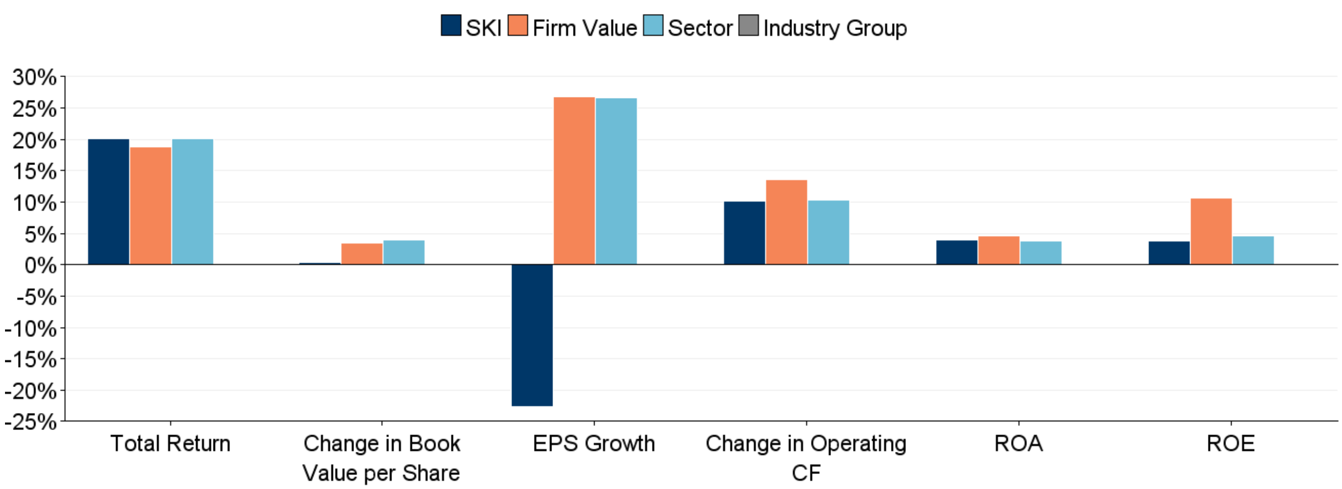
CEO REMUNERATION

Total fixed remuneration	A$840,160
Short-term incentive (cash)	A$382,615
Grant date fair value of equity awards	A$866,252
Other remuneration	A$ 0
Total remuneration	A$2,089,027
Notes:	

CEO COMPARED TO MEDIAN



SHAREHOLDER WEALTH AND BUSINESS PERFORMANCE



Note: Remuneration analysis for period ending 12/31/2016. Performance measures based on weighted average of annualized 1, 2 and 3 year data.

VOTING RESULTS FROM LAST ANNUAL MEETING (MAY 20, 2016)

AS PERCENTAGE OF SHARES OUTSTANDING

NO.	PROPOSAL	FOR	AGAINST	ABSTAIN	DISCRETIONARY	TOTAL	CGI GLC RECOMMENDATION
1.00	Remuneration Report	46.84%	24.43%	1.28%	0.39%	72.94%	For
2.00	Re-elect Andrew J. Fay	54.80%	17.22%	0.53%	0.40%	72.95%	For
3.00	Elect Douglas McTaggart	60.90%	11.08%	0.56%	0.40%	72.94%	For
4.00	Elect James Dunphy	15.25%	56.92%	0.36%	0.41%	72.94%	Against
5.00	Elect Michael Rhodes	0.96%	71.25%	0.32%	0.41%	72.94%	Against
6.00	Equity Grant (MD/CEO Rick Francis)	46.87%	24.64%	1.05%	0.39%	72.95%	For

AS PERCENTAGE OF VOTES LODGED

NO.	PROPOSAL	FOR	AGAINST	ABSTAIN	DISCRETIONARY	CGI GLC RECOMMENDATION
1.00	Remuneration Report	64.21%	33.49%	1.76%	0.54%	For
2.00	Re-elect Andrew J. Fay	75.12%	23.61%	0.72%	0.55%	For
3.00	Elect Douglas McTaggart	83.48%	15.20%	0.77%	0.55%	For
4.00	Elect James Dunphy	20.91%	78.03%	0.49%	0.57%	Against
5.00	Elect Michael Rhodes	1.31%	97.68%	0.44%	0.57%	Against
6.00	Equity Grant (MD/CEO Rick Francis)	64.25%	33.78%	1.43%	0.53%	For

1.00: RE-ELECT ANNE MCDONALD

FOR

PROPOSAL REQUEST:	Election of three directors	**RECOMMENDATIONS & CONCERNS:**	
ELECTION METHOD:	Majority	**AGAINST-** **Dunphy J.**	External nominee not supported
		FOR- **Martin G.**	
		McDonald A.	Non-audit fees exceed audit fees
		NOT UP- **Fay A.**	
		Francis R.	
		McLoughlin C.	
		McTaggart D.	
		Penrose K.	Director serves on excessive audit committees

BOARD OF DIRECTORS

UP	NAME	GENDER	GLASS LEWIS CLASSIFICATION	COMPANY CLASSIFICATION	OWNERSHIP**	COMMITTEES AUDIT	REM	NOM	RISK	TERM START	YEARS ON BOARD
	Richard (Rick) Francis* ·CEO	M	Insider 1	Not Independent	Yes					2012	5
✔	James Dunphy	M	Outsider 2	Outsider	Yes					-	-
	Andrew J. Fay	M	Independent	Independent	Yes	✔			✔	2010	7
✔	Gregory (Greg) J.W. Martin	M	Independent	Independent	Yes					2017	0
✔	Anne M. McDonald	F	Independent	Independent	Yes	C	✔	✔	C	2009	8
	Christine F. McLoughlin	F	Independent	Independent	Yes		C	C		2014	3
	Douglas (Doug) F. McTaggart ·Chair	M	Independent 3	Independent	Yes		✔	✔		2015	2
	Karen L.C. Penrose	F	Independent 4	Independent	Yes	✔			✔	2014	3

C = Chair, * = Public Company Executive, = Withhold or Against Recommendation

1. MD/CEO.
2. Self-nominated candidate.
3. Chairman (from May 20, 2016).
4. Serves on a total of five public company boards. Serves on more than four public company audit committees.

***Percentages displayed for ownership above 5%, when available*

NAME	ATTENDED AT LEAST 75% OF MEETINGS	PUBLIC COMPANY EXECUTIVE	ADDITIONAL PUBLIC COMPANY DIRECTORSHIPS
Richard (Rick) Francis	Yes	Yes	None
James Dunphy	N/A	No	None
Andrew J. Fay	Yes	No	(2) BT Investment Management Limited; Gateway Lifestyle
Gregory (Greg) J.W. Martin	N/A	No	(2) Santos Limited; Iluka Resources Limited
Anne M. McDonald	Yes	No	(2) Specialty Fashion Group Limited; Link Administration Holdings Limited
Christine F. McLoughlin	Yes	No	(3) NIB Holdings Limited; Whitehaven Coal Limited; Suncorp Group Limited
Douglas (Doug) F. McTaggart	Yes	No	(1) Suncorp Group Limited
Karen L.C. Penrose	Yes	No	(4) AWE Limited; Bank of Queensland Limited; Vicinity Centres; Future Generation Global Investment Company Ltd

INDEPENDENCE AND COMPOSITION	SKI*	REQUIREMENT	BEST PRACTICE
Independent Chair	Yes	Yes[1]	Yes[7]
Board Independence**	86%	Majority[2]	Majority[8]
Audit Committee Independence	100% ; Independent Chair	Majority[3]	100%[9]
Remuneration Committee Independence	100% ; Independent Chair	Majority[4]	Majority[10]
Nominating Committee Independence	100% ; Independent Chair	Majority[5]	Majority[11]
Percentage of women on board**	43%	N/A[6]	N/A[12]
Directors' biographies	Details can be found on pages 1 to 3 of the Entity's 2016 Annual Report.		

** Based on Glass Lewis Classification*
*** Excludes Outsiders*

1. *ASXCGC Principles and Recommendations 2.2*
2. *ASXCGC Principles and Recommendations 2.1*
3. *ASXCGC Principles and Recommendations 4.2*
4. *ASXCGC Principles and Recommendations 8.1*
5. *ASXCGC Principles and Recommendations 2.4*
6. *ASXCGC Principle 3 requires a company to disclose a diversity policy (or otherwise explain why not)*
7. *ACSI Guideline 4.1; APRA Standard 17; FSC Guideline 11.6*
8. *ACSI Guideline 10; APRA Standard 16; FSC Guideline 11.4*
9. *ACSI Guideline 23.3(b); FSC Guideline 11.8.2*
10. *ACSI Guideline 10.2; APRA Standard 48; FSC Guideline 11.8.3*
11. *ACSI Guideline 10.2; FSC Guideline 11.8.1*
12. *N/A*

STRUCTURE

Spark Infrastructure ("Spark" or the "Entity") represents Spark Infrastructure Trust ("the Trust") and its consolidated entities. Spark Infrastructure RE Limited ("SIRE") is the responsible entity of the Trust.

Each unit in the Trust is stapled to one Loan Note issued by the Trust. The stapled securities trade on the ASX and may not be traded separately.

INTERNALISATION

On April 1, 2011, the Entity signed an 'Internalisation Agreement" with Cheung Kong Infrastructure ("CKI") and RREEF Infrastructure ("RREEF") to internalise its management function for a one-off upfront payment of A$49 million plus A$2 million for net working capital balances, which were predominately cash or cash-settled balances in the entities acquired at completion ("Internalisation"). The Internalisation of the 25 year management agreement, which was due to expire in late 2030, was negotiated by the independent directors of the Entity with CKI and RREEF. The internalisation was approved by securityholders at an EGM held on May 20, 2011. The transaction was subsequently completed on May 31, 2011, at which time the Entity acquired all shares in CKI RREEF JV Holdings Limited, which was the holding company of Spark Infrastructure Management Limited ("the Manager") and SIRE, from CKI and RREEF.

BOARD CHANGES

NAME	ROLE	APPOINTED	RETIRED/RESIGNED
Brian Scullin	Independent chairman	May 31, 2011	May 20, 2016
Greg Martin	Independent non-executive director ("NED")	January 1, 2017	--
Keith Turner	Outgoing independent NED	March 13, 2009	May 23, 2017

Note: Changes to the board structure since last year's AGM.

SUMMARY

Spark's 2017 annual general meeting involves a contested election of directors. Spark has nominated two candidates -- Greg Martin and Anne McDonald -- for consideration at the annual meeting (Proposals 1 and 2).

Separately, James Dunphy ("Mr. Dunphy" or the "Dissident") has nominated himself for consideration as an additional director on the Spark board (Proposal 3). Spark recommends shareholders vote against the election of Mr. Dunphy.

DISSIDENT ARGUMENT

Mr. Dunphy believes several poor decisions by the board have directly caused Spark's securities to trade at more than a 20% discount to fair value and fundamental, addressable issues have been poorly dealt with. Mr. Dunphy believes shareholders deserve better and change in several areas is essential. In citing specific concerns in relation to his own nomination, Mr. Dunphy highlights, among other factors, the following:

- Shareholders do not need investment companies like Spark to diversify their assets because most can do it better and more efficiently;
- In relation to the potential acquisition of Endeavour Energy ("Endeavour"), investors are staring down the same barrel they did in 2015, when the Entity out-bid a Macquarie-advised client by A$700 million to A$800 million to "win" TransGrid;
- Private market internal rates of return are well below Spark's cost of capital, which means the only question is how much value Spark would destroy through an investment in Endeavor;
- The TransGrid transaction failed to meet the board's key acquisition criteria and was an over-priced debacle from day one, resulting in value destruction for investors;
- Spark's current low distribution is explained by an excessively conservative policy and the inappropriate depletion of cash to buy TransGrid;
- Spark's distributions have been at or toward the lower end of the distribution policy minimum of 80%, while peer firm DUET distributes nearly 100% of operating cash flow and 100% of DUET-level cash flow;
- Despite achieving targeted net debt-to-regulated asset base ratios during 2015, both SA Power Networks ("SAPN") and Victoria Power Networks ("VPN") retained cash sufficient to further lower such ratios in 2016, leading to uncertainty around Spark's rights to cash held by SAPN and VPN;
- Holding company or Spark-level debt adds materially and generally inappropriately to financial risk, is a negative for investors and requires repayment, causing a diversion of cash flow from distributions to shareholders;
- While the board will likely point to share price performance as an endorsement, the performance should be considered in light of the three aces Spark has held since its IPO in 2005, which account for about 90% of Spark's value;
- The CEO received A$4.3 million in compensation over the last three years and spent A$10,231 buying shares directly, while the remainder of the current management teams appear to have never purchased Spark shares;
- As with the old key performance indicators ("KPIs"), the new KPIs miss the most important aspects and include metrics which management can minimally impact while not including at all the most obvious areas where both influence and management impact is the largest;
- Directors' fees and cash management compensation significantly exceeds the value of the stock such directors have acquired;
- Spark uses the ASX 200 as the benchmark for long-term incentives, which is flawed because Spark's performance is negatively correlated with the weight of financial and cyclical companies in the index;
- Spark's skills matrix is poorly suited to an investment trust, especially one asserting a mandate to make very large investments;
- Writing privately to Spark and seeking meetings with the directors failed in 2016 and has continued to fail in 2017; and
- That management were expressing opinions to large shareholders predicting the dysfunctionality which would ensue if Michael Rhodes and Mr. Dunphy were elected in 2016 points to a failure in governance.

Mr. Dunphy states Spark's three years of poor decisions -- including new borrowings, misguided investment in DUET derivatives, overpriced acquisitions and a problematic distribution policy -- cannot be reconciled with the board's self assessment of its skill sets and performance. As a result, change is needed.

STATED PLAN

Mr. Dunphy states that he is a financial and corporate finance conservative, with key skills in finance, large acquisitions and investments. He believes the task of a Spark director is to stay true to the core investment proposition, which requires no acquisitions at all. Mr. Dunphy is confident better financial discipline and closer alignment with Spark's core proposition will eliminate the stock price discount over time. If elected, Mr. Dunphy intends to stay the course and remain significantly invested.

The principal changes advocated by Mr. Dunphy include the following: (i) revert to conservative financial policies; (ii) change the distribution policy from 80% to an expected 100% of net free cash flow; (iii) disclose more about the unregulated businesses to promote more accurate valuation; (iv) avoid acquisitions other than those that exceed every key financial criterion; (v) increase materially stock ownership by board and management; and (vi) link management key performance indicators to factors and outcomes they can meaningfully influence.

BOARD RESPONSE

The board states that Spark has a robust succession planning process in place to identify and nominate potential directors. This process considers the skills needed by the board and is guided by the board skills matrix and the skills and expertise of existing directors. As part of the continual board succession planning process, Greg Martin was appointed to the Board on January 1, 2017.

Together, the directors contribute senior executive experience, experience in the financial services industry and in-depth knowledge of the legislative and regulatory framework governing this industry, financial accounting and reporting and corporate finance experience, experience in the infrastructure industry and in developing an asset or investment over the long term, and an understanding of the health, safety and environmental challenges that Spark faces.

The board, supported by the nomination and remuneration committee, appointed an independent external specialist advisory firm to assist in undertaking a formal assessment of Mr. Dunphy's nomination. The board carefully considered his nomination for election as a director in the context of the board skills matrix adopted by the board as part of its succession planning process. The board is of the view that the skills brought by Mr. Dunphy are already reflected in the board's current composition and considers that Mr Dunphy would not add to the effectiveness of the board.

CGI GLASS LEWIS ANALYSIS

CONTESTED ELECTION

In Glass Lewis' evaluation of proxy contests, we begin with the premise that a well-functioning, informed and independent board of directors should receive reasonable deference from shareholders on strategic matters. Such a board is often in the best position -- with more information and experts at its disposal -- to assess a company's strategic alternatives. Having said this, as a general rule, we are reticent to recommend the removal of incumbent directors, or the election of dissident nominees, unless certain critical issues are evident.

In general, our analyses of contested meetings focus on the issues and concerns raised by a dissident. However, in determining whether to support such a solicitation, we may also take into consideration, among other things, the shareholder's history at the company, from both an investment and activism standpoint, in order to better gauge its perspective. We are more apt to seriously consider actions undertaken by long-term shareholders of the company or by investors who have made a substantial economic commitment to the company.

In this case, we note Mr. Dunphy -- the leader of a comparable 2016 campaign which ultimately failed to garner sufficient investor support -- has maintained vocal, year-round opposition to the investment strategies employed by management and the board. Indeed, if investors are willing to accept a swap of Spark's scrutinized 2015 TransGrid acquisition for the firm's possible purchase of a stake in Endeavour, there exists a reasonable argument to suggest the central arguments underpinning Mr. Dunphy's year-over-year campaigns are substantially similar: Spark, led by a poorly incentivized board lacking sufficient understanding of the firm's passive investment interests, has established an unnecessarily conservative distribution policy, which -- when paired with questionable debt arrangements and discounted equity financings -- has facilitated high-priced, dilutive acquisition strategies that have fundamentally destroyed value. Mr. Dunphy intends that his election would be a catalyst for change, including by expanding Spark's distribution policy, improving structural transparency, promoting efficient capital allocation and improving Spark's incentive programs to more closely align the interests of management and the board with Spark's ordinary investors. On balance, while we consider both the depth and sophistication of Mr. Dunphy's materials remains readily apparent, we are ultimately inclined, based on certain salient factors, to again recommend shareholders refrain from supporting his candidacy at this time.

As a starting point, we note many of Mr. Dunphy's core arguments, though comprehensive, incorporate an material degree of speculative commentary and allegation -- i.e. actions the board "probably" undertook, or policies Spark "should" have adopted -- that effectively asks investors to substitute the Dissident's judgement and/or characterization of central events in place of the board's historical disclosure and stated strategy. These positions are heavily leveraged to argue in favor of a 100% distribution policy in relation to Spark's cash flows -- which runs counter to the board's stated policy since 2014 -- and against the pursuit of purportedly value damaging investment alternatives, such as TransGrid. Afforded a full review, we do not believe the frequent conjecture underlying these issues (e.g. adjusted return measures and distribution financing, among others) provides a particularly compelling, independently verifiable foundation for many of the Dissident's core arguments, irrespective of their quantitative refinement.

In determining to set aside hypothetical narratives around otherwise unsubstantiated actions taken or not taken by the board behind closed doors -- as well as Mr. Dunphy's rather expansive effort to re-litigate a transaction that already proved insufficiently contentious for purposes of the Company's 2016 AGM -- we consider the central consideration here relates to whether the board's aggregated actions have, as Mr. Dunphy strongly argues, clearly destroyed shareholder value in recent years. In this respect, we consider the Dissident's adopted position -- i.e. that the "assessed impact on shareholder value" in relation to substantially every key metric and board decision from 2014 to 2016 is "negative" (Source: Slide 2, *Spark's Downhill Slide*. April 19, 2017) -- marries rather poorly with available data. In particular, we note the following with respect to the dividend adjusted returns posted by Spark over several periods, in each case relative to a market-weighted composite comprised of AusNet Services Ltd, APA Group and DUET Group (together, the "Peer Composite") and the S&P/ASX 100 Index:

	2011 - 2016[1]	2014 - 2016[1]	TransGrid[1]
Spark	186.4%	59.6%	12.7%
Peer Composite	90.6%	21.8%	-0.9%
Spark Deviation	*95.8%*	*37.8%*	*13.6%*
S&P/ASX 100 Index	17.3%	1.2%	3.9%
Spark Deviation	*169.1%*	*58.4%*	*8.9%*

[1] End date of December 2, 2016, the last trading date prior to announcement of DUET/CKI transaction

Here, we would note Spark's returns seemingly fail to show any long-term ill effect from, among other things, the Entity's existing distribution policy or announcement and completion of the TransGrid transaction. In short, we do not consider the extant value creation data -- which indicates Spark has outperformed its peers over all review periods -- particularly supports Mr. Dunphy's value destruction narrative (Source: *Capital IQ*).

The Dissident appears to show some awareness of this circumstance in a recent announcement, noting, "the Company and board will likely point to the share price performance as they often do as endorsement for the current strategies and approach." Mr. Dunphy quickly asserts this outperformance is a function of, among other things, a decrease in bond rates, the independent performance of SAPN and VPN and the stock's historical undervaluation "at the start of last year". Mr. Dunphy concludes by noting a review of the returns posted by AusNet and APA over the last three years "might" lead an investor to decide Spark has underperformed.

We find this seemingly terse approach to shareholder returns considerably undermines the Dissident's agenda, both because Mr. Dunphy largely eschews a clear opportunity to substantively back up a core tenet of his campaign and because his modestly structured rebuke appears readily disprovable: Spark's dividend adjusted return between January 2, 2014 and the recent market close on May 8, 2017, which would seem to cover both Mr. Dunphy's loosely defined three-year underperformance window and any alleged value destruction associated with Spark's widely acknowledged interest in Endeavour, was approximately 91.1%; by contrast, a composite comprised of only AusNet and APA returned just 47.8% over the same period. We are hard pressed to accept bond rates and Spark's passive exposure to SAPN and VPN were sufficient to generate nearly twice the peer return, purportedly in spite of overwhelmingly value damaging actions by management (Source: *Capital IQ*).

Separate from the foregoing factors, we are concerned the broader tone and tenor of Mr. Dunphy's filings, which are generally steeped in seemingly unilateral persepctives and a bevy of rhetorical inquiries that strongly suggest the current board is either incompetent or disingenuous, generally works against the notion that the Dissident is particularly prepared to work constructively with other board members in order to find compromise. Taken together with our other concerns, and despite what we would otherwise consider to be suitable experience and credentials, we do not believe the election of Mr. Dunphy to the board would represent a clearly favorable outcome for Spark and its investors at this time.

ENDEAVOUR ENERGY

In December 2016, the NSW government announced the terms of its sale of Endeavour, its third and last "poles and wires" asset, inviting prospective bidders to submit expressions of interest for the asset by January 2017 (Sarah Thompson and Angela MacDonald-Smith, "NSW launches Endeavour Energy sale process". *The Australian Financial Review*. December 2, 2016). Endeavour owns, maintains and operates the electrical distribution network to supply 2.2 million people across Sydney's greater west, Blue Mountains, Southern Highlands, the Illawarra and the South Coast. The NSW government is selling 50.4% of Endeavour, which has a regulatory asset base worth about A$6 billion and posted earnings before interest, tax, depreciation and amortisation ("EBITDA") of A$687 million in 2015-2016 on revenues of A$1.48 billion.

Prospective bidders were informed of the rules around overseas participation, with no single overseas bidder able to own more than half the 50.4% stake being offered under a 99-year lease. Other rules stipulate that at least 20% of Endeavour will need to be held by an Australian entity, and at least three senior managers need to be Australian citizens with requisite security clearance, according to sources. Local board representation will also be closely scrutinised and the chair needs to be independent.

It was later on reported that the Entity, together with Hastings Funds Management, are revisiting attempts to gain control of Endeavour, mandating JPMorgan and Royal Bank of Canada ("RBC") for a buy side advisory role (Bridget Carter, "Energy endeavour looms for Hasings and Spark"'. *The Australian*. December 7, 2016). The two were part of the successful consortium that secured the NSW electricity transmission network, Transgrid, in 2015, paying A$10.65 billion, or 1.6 times the regulated asset base, for the operation. Also part of the winning consortium was Caisse de depot et placement du Quebec and the Kuwait Investment Authority.

In February 2017, it was speculated that three of the four consortiums bidding for Endeavour are falling away in the contest (Bridget Carter and Scott Murdoch, "Spark may win Endeavour bid as Macquarie tipped to exit". *The Australian*. March 2, 2017). This was following reports that Macquarie Group and its Canadian backers could be withdrawing from the competition after complaining that *"it was highly competitive"*. In addition, a group comprising QIC and AMP Capital (advised by Credit Suisse, Morgan Stanley and HSBC), was already said to be out. Further, DataRoom revealed that Berkshire Hathaway's MidAmerican Energy had also fallen away. According to the article, *"it is understood that the parties have argued that the process was becoming too competitive, leaving [the Entity's] bidding party as the likely winner."*

More recently, it has been reported Macquarie remains in a pitched bidding battle with Spark, with Macquarie purportedly incentivized to secure Endeavour given prior misses on TransGrid and Ausgrid. Observers speculate there is some possibility a winner will be announced as early as May 10, 2017. We will monitor the circumstances and update our report as necessary.

INTEREST IN DUET GROUP

On May 30, 2016, the Entity announced its decision to exit its economic interest in DUET Group ("DUET"), having divested 8% of its economic interest in DUET. On June 30, 2016, the Entity announced that it had successfully completed the unwind of its residual economic interest in DUET and had exited all of its derivative positions held under contracts with Deutsche Bank. The Entity states that *"[t]he financial outcome in terms of a surplus of net proceeds above the cost of the investment is not material to the results of [the Entity]."*

DIVERSITY

% OF WOMEN	**FY2014**	**FY2015**	**FY2016**
Board*	50%	43%	43%
Executive KMP	33%	33%	33%
Total employees	30%	45%	46%

*Note**. Following the AGM after respective years.

Member of the 30% Club?*	**Yes**	Represented by: Doug McTaggart
Initiatives to increase the number of female executives?	**Yes**	• The Entity aims to have 25% representation of senior management who are women ('senior management' being defined as the MD/CEO and direct reports to the MD/CEO); and • The Entity aims to have 50% representation of NEDs who are women.

BOARD SKILLS

From July 1, 2015, ASXCGC Principles include a recommendation for the boards of listed entities to have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership. The Entity provides disclosure of its board skills matrix on pages 1 to 3 of the 2016 Corporate Governance Statement. Specifically, the Company lists the following skills and expertise it currently has on the board:

- Executive leadership;
- Financial analysis, risk management and reporting;
- Strategy and corporate activity;
- Corporate governance and regulatory;
- Health, safety and environment;
- Remuneration and people;
- Infrastructure, industry and sector experience; and
- Financial services industry.

The Entity further states that *"[e]ach director brings skills relevant to the successful conduct of the Spark Infrastructure business including effective oversight of [the Entity's] investment in regulated electricity distribution and transmission businesses in Australia (comprised of Victoria Power Networks (i.e., CitiPower and Powercor), SA Power Networks and TransGrid). These include, on a combined basis, experience in infrastructure, financial analysis and reporting skills, knowledge of the investment businesses, experience in corporate activity such as mergers, acquisitions and structuring of transactions, experience in corporate governance and disclosure matters, and experience in financial services and licence obligations."*

We have reviewed the current mix of skills and experience represented by the NEDs currently on the board, as follows:

NAME	M&A AND/OR CAPITAL MARKETS	AUDIT AND/OR CORPORATE FINANCE	INFRASTRUCTURE/ TECHNICAL/ ENGINEERING	PUBLIC POLICY	ENVIRONMENTAL	SOCIAL/ HEALTH & SAFETY	COMMUNICATIONS/ MARKETING/ CUSTOMER SERVICE
Andrew Fay	√			√			
Greg Martin			√	√			
Anne McDonald	√	√					
Christine McLoughlin	√			√		√	√
Doug McTaggart	√	√		√			
Karen Penrose	√	√		√	√		

We believe that majority of skills and expertise relevant to the Entity and its business strategy are currently represented on the board.

We note that the Entity has not disclosed the age of each director. However, the Entity states that 37.5% of the directors are 55 years old or younger.

ELECTION OF DIRECTORS

Excessive non-audit fees

Nominee Anne McDonald chaired the audit and risk committee in FY2016.

During that period there was an imbalance between the audit/audit-related fees ("audit fees") and the non-audit/audit related fees ("non-audit fees") that the Entity paid to its independent auditor. Specifically, in FY2016, audit fees were A$268,500 and non-audit fees (for tax advice) were A$306,500, representing a 47%/53% split, respectively.

CGI Glass Lewis takes the view that, except in special/one-off circumstances prominently disclosed and cogently explained to securityholders in the annual report or governance section of the company website, the non-audit fees should not exceed the audit fees. We believe it is important to limit not just the types of non-audit work but also the quantum of non-audit fees to avoid actual or perceived risk to the independence of the auditor through possible over-importance of or undue reliance on non-audit fees.

The 2016 Annual Report states that all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure that they do not adversely affect the integrity and objectivity of the auditor and that the nature of the services provided does not undermine the general principles relating to auditor independence as defined by the Australian Professional & Ethical Standards Board. As indicated above, however, we believe that not just the types of non-audit work but also the quantum of non-audit fees need to be limited and that, in this case, the audit committee should not have permitted the imbalance that has occurred and that the chairman of the committee has a special responsibility for allowing that to occur.

However, in light of the business audits of SA Power Networks and Victoria Power Networks by the ATO in FY2016, we suspect that a large portion of the non-audit fees relate to these ongoing ATO matters. As such, at this stage we are satisfied that this is a special circumstance and excluding these fees, the proportion of audit fees compared to non-audit fees falls into a more reasonable range. We nevertheless strongly urge the Company to improve its disclosure of the nature of the non-audit fees, going forward.

Overcommitment

Independent NED Karen Penrose served as a member of the audit and risk committee in FY2016.

This director also chairs two other public company audit committees and is a member of two more public company audit committees. We believe that the time and other commitments required by that many audit committee roles may preclude this director from dedicating the attention, priority and time required to this key role for this Entity's shareholders.

We will normally hold a NED accountable for undertaking roles on more than three public company audit committees and recommend against the re-election of that individual. Since, however, Ms. Penrose is not up for election at this year's AGM, we will monitor her level of commitments going forward.

Combined remuneration and nomination committee

The Entity maintains a joint remuneration & nomination committee. CGI Glass Lewis expects all S&P/ASX100 listed companies to establish separate nomination and remuneration committees. We consider that matters relating to the nomination and remuneration of large capitalisation ASX-listed companies are different and significant enough to require separate committees to address in detail those different matters.

RECOMMENDATIONS

We recommend voting against the following nominee up for election this year based on the following issue:

Nominee **DUNPHY** has nominated himself for election at this year's AGM pursuant to the Entity's Governance Deed. Mr. Dunphy is not a member of the current board. The chairman intends to vote undirected proxies in favour of nominees McDonald and Martin and against the election of nominee.

CGI Glass Lewis generally supports the recommendation of the board regarding the election of directors. We do not recommend voting for individuals who offer themselves for election to the board, without the support of the board, unless we consider that the board has failed to plan appropriately for board composition, renewal or succession and that the appointment of the external nominee/s would provide for a more independent and effective board or otherwise be in the best interests of securityholders.

In this case, we do not find evidence of any such failure by the board and we do not consider that electing nominee Dunphy would provide for a more independent and effective board. Further, CGI Glass Lewis does not support the election of any person as a director of an ASX-listed company whose agenda is restricted to a single (or even several) issues. In our view, directors are there on behalf of securityholders to deal with all issues expected of a public company director.

Subject to the foregoing, we do not believe there are substantial issues for shareholder concern as to the other nominees.

We recommend that securityholders vote:

AGAINST: Dunphy

FOR: Martin; McDonald

4.00: EQUITY GRANT (MD/CEO RICK FRANCIS)

FOR

PROPOSAL REQUEST:	Approval of the grant of 234,978 performance rights to the Entity's MD/CEO	**RECOMMENDATIONS & CONCERNS:**
PRIOR YEAR VOTE RESULT (FOR):	64.2%	**FOR-** Relative TSR and comparator group
BINDING/ADVISORY:	Binding	
REQUIRED TO APPROVE:	Majority	
POTENTIAL DILUTION:	0.01%	

PROPOSAL SUMMARY

Proposed grant	
Name	Rick Francis
Position	MD/CEO
Number and type of awards to be granted	234,978 performance rights
Potential dilution*	0.01%
Incentive plan	Long-Term Incentive Plan ("LTIP")
Value of awards to be granted	A$531,050 or 65% of fixed remuneration (face value)
Legal Requirement	Chapter 10 of the Listing Rules of the Australian Securities Exchange ("ASX") requires that the Company seek shareholder approval of any issue of securities to the Entity's directors.

*Note**. Calculated on a fully diluted basis.

FY2016 MD/CEO remuneration			
	Statutory	**Realised**	**P4P model***
Fixed	A$840,160	A$840,160	A$840,160
STI	A$382,615	A$479,092	A$382,615
LTI	A$884,693	A$173,253	A$866,252
Other	A$0	A$0	A$0
Total	**A$2,107,468**	**A$1,492,505**	**A$2,089,027**

*Note**. The equity value is determined in reference to the market value of the Entity's securities on the date equity grants were made to the MD/CEO.

CGI GLASS LEWIS ANALYSIS

In general, CGI Glass Lewis believes that equity-based remuneration is an effective way to attract, retain and motivate key employees. When used appropriately, it can provide a vehicle for linking executive pay to a company's performance, thereby aligning the interests of executives with those of shareholders. Tying a portion of an executive's remuneration to the performance of the Company provides an incentive to maximise share value by those in the best position to realise that value.

As discussed in Proposal 5, we have the following concern regarding the structure of the LTIP:

Relative risk-adjusted TSR hurdle and comparator group

Half of FY2017 LTI grant will be subject to risk-adjusted relative TSR against entities in S&P/ASX200. In the 2016 Annual Report, the Entity provides the following rationale for the use of this metric and the chosen peer group under its LTI plan:

"Relative TSR allows us to measure whether we have achieved our key long-term strategic goals of delivering sustainable growth in distributions and creating [s]ecurityholder value. The relative (rather than absolute) measurement of TSR provides [the Entity] with a measure of how we are performing in comparison to the market. Where an absolute security price target is used, [e]xecutives could be rewarded by a rising market even if [the Entity] performs relatively poorly.

Constituent companies of the S&P / ASX 200 form the most appropriate comparator group as there are too few *companies with equivalent risk and return expectations to [the Entity]."*

While we acknowledge the rationale provided by the Entity, we are of the view that a relative TSR (including risk-adjusted) measure may also allow for vesting of awards when shareholder value was lost, provided that the Entity outperformed its peers. While we note that the board has discretion to adjust performance hurdles and criteria, we would prefer more explicit disclosure around its use and/or use of positive absolute TSR or another similar mechanism as a gateway measure to prevent excessive awards for executives in years of poor shareholder experience.

Furthermore, the TSR comparator group under the LTIP is the S&P/ASX 200 Index which includes companies outside this Entity's industry. Given the unique nature of the Entity's operations and lack of comparable peers on the Australian market, we accept the Company's rationale for the chosen peer group. We nevertheless question the appropriateness of any relative measure used under incentive plans in the absence of a sufficient number of comparable entities.

We are, however, encouraged by the Company's decision to include two additional performance metrics under the LTIP for FY2017 and going forward.

CONCLUSION

Notwithstanding the above concern, we believe that the Entity's remuneration policy is adequately disclosed and that the structures of its incentive plans are, on balance, supportable. Further, as indicated by CGI Glass Lewis' pay-for-performance model, we believe that the Entity has adequately aligned executive remuneration and company performance in the past year.

As such, we are prepared to support the proposed grant.

We recommend that securityholders vote **FOR** this proposal.

5.00: REMUNERATION REPORT

FOR

PROPOSAL REQUEST:	Approval to adopt the remuneration report for the financial year ended December 31, 2016	**RECOMMENDATION:**	FOR
PRIOR YEAR VOTE RESULT (FOR):	64.2%		
PRIOR AGM STRIKE:	Yes		
BINDING/ADVISORY:	Advisory		
STRUCTURE:	Fair	**P4P GRADES:**	**FY 2016** Fair
DISCLOSURE:	Fair		**FY 2015** Fair
READABILITY:	Good		**FY 2014** Fair

REMUNERATION FEATURES [1]

POSITIVE

- Alignment between executive remuneration and performance
- LTI performance period longer than 3 years [2]
- Clawback policy
- STI deferral
- Executive share ownership guidelines [3]
- Alignment with strategy discussed
- Change of control provisions - Discretion
- Face value equity awards

NEGATIVE

- Large focus on short-term performance
- Relative risk-adjusted TSR measure and comparator group

1 Both positive and negative compensation features are ranked according to CGI Glass Lewis' view of their importance or severity

2 Risk adjusted relative TSR

3 The MD/CEO and other executive key management personnel ("KMP") are required to hold the equivalent of 100% and 50% of fixed remuneration, respectively, in the Entity's securities within a three-year period. The MD/CEO has met this requirement.

SUMMARY REMUNERATION TABLE

KEY MANAGEMENT PERSONNEL	FIXED	SHORT-TERM INCENTIVES (CASH)	EQUITY-BASED INCENTIVES (AMORTISED)	OTHER	TOTAL
Rick Francis *MD/CEO*	A$840,160	A$382,615	A$884,693	-	A$2,107,468
Greg Botham *Former CFO*	A$546,500	A$206,170	A$427,503	-	A$1,180,173
Alexandra Finley *General Counsel & Company Secretary*	A$420,647	A$124,679	A$244,468	-	A$789,794

CEO to Avg KMP Pay: 2.14: 1

Note:Equity-based incentives include deferred STI for FY2016. On February 21, 2017, Greg Botham resigned from his position as CFO but will continue to serve in his current capacity during his three-month notice period.

SIGNIFICANT RECENT/UPCOMING CHANGES

At the 2016 AGM, the Entity received received its 'first strike' with over 34% of votes cast against the remuneration report. The board states that *"[it] has taken the first strike extremely seriously and has undertaken a further review of the [r]emuneration [f]ramework and consulted a wide group of stakeholders"*, and as a result, *"further changes to the [r]emuneration Framework in 2016 [were made], which will affect [e]xecutive remuneration from 2017 onwards."* These changes are summarised as follows:

- In FY2016, the long-term incentive ("LTI") opportunity was increased as a percentage of fixed remuneration from 50% to 65% for the MD/CEO;
- In FY2016, the STI measures were re-weighted to 60% financial and 40% non-financial key performance indicators ("KPIs") for MD/CEO and CFO;
- The remuneration mix for the CFO was rebalanced such that the short-term incentive ("STI") was reduced from

90% to 80% of fixed remuneration and LTI was increased from 35% to 50% of fixed remuneration;

- For FY2017, a new executive share ownership policy was introduced, whereby the MD/CEO and other executives will be required to hold the equivalent of 100% and 50% of fixed remuneration, respectively, in the Entity's securities within a three-year period. NEDs will be required to hold securities worth one year's director's base fees within a period of three years, with effect from January 1, 2017;
- Under the Short-Term Incentive Plan ("STIP"), 'unregulated revenue' will be introduced as a financial KPI, with a corresponding adjustment in the weighting of the existing financial KPIs with effect from FY2017;
- Under the Long-Term Incentive Plan ("LTIP"), 'standalone operating cash flow ("OCF")' and 'look-through OCF' will be introduced as performance measures (weighted at 25% each), in addition to the current risk adjusted relative total shareholder return ("TSR") measure (weighted at 50%) for the FY2017 grant; and
- There will be no increases to executive total remuneration opportunity in FY2017.

REMUNERATION STRUCTURE

FIXED

Fixed remuneration for the MD/CEO did not increase significantly during the past financial year (FY2015: A$819,151). The Entity states that fixed remuneration increased by 2% for the MD/CEO and 12% for the CFO in FY2016.

SHORT-TERM INCENTIVES

	SHORT-TERM INCENTIVE PLAN ("STIP")
PARTICIPANTS	Key executives
AWARDS TYPE(S)	Cash (50%) and deferred performance rights (50%)
LIMITS	MD/CEO - 100% of fixed remuneration Other executives - between 70% and 80% of fixed remuneration
PERFORMANCE METRICS, CONDITIONS & FY2016 ACHIEVEMENTS	(see below)

METRICS	WEIGHTING	RESULT
Financial KPIs	MD/CEO - 60% CFO - 60% GC&CS - 40%	74% out of 100%
Distribution guidance of 14.5 cps (gateway hurdle)	Gateway	14.5 cps - achieved
Total distribution financial measures from the Entity's investments (including TransGrid)	25%	82%
Total look-through OCF / earnings before interest, tax, depreciation and amortisation ("EBITDA") financial measures	20%	58%
Total TransGrid other financial measures (capex and credit rating)	10%	85%
Total Entity controllable costs	5%	77%
Non-financial KPIs	MD/CEO - 40% CFO - 40% GC&CS - 40%	Between 70% and 80% out of 100%
Strategic	•Successful transition to private ownership of TransGrid with implementation of appropriate supporting governance frameworks • Appointment of new TransGrid CEO and Independent Chair • Achievement of Baa2 credit rating from Moody’s for TransGrid • Creation of a solid and growing pipeline of infrastructure connection opportunities with TransGrid • TransGrid regulatory submission development • Good progress on transformation of TransGrid into a commercially customer focused innovative business	
Stakeholder management		
Optimising regulatory outcomes		

	Operations	• Victoria Power Network's World CLASS efficiency program achieving $167,000,000 p.a. in savings • Continued active management of investment portfolio
	People development	• Continued constructive engagement with investment partners • Active and credible thought leadership within the industry • Enhanced program of engagement with investors and other stakeholders
	Special projects	• Orderly divestment of the economic interest in DUET Group during the year • Repayment of all corporate debt facilities by June 30, 2016

PAYMENT OUTCOMES

	FY2016	FY2015	FY2014
MD/CEO	74.4% of maximum = A$607,848	85.5% of maximum = A$670,400	79.5% of maximum = A$556,500
Other executives	Between 71.6% and 76.4% of maximum	Between 82.9% and 87% of maximum	Between 78.3% and 80.8% of maximum

DEFERRAL

Yes - 50% awards will be deferred into performance rights, of which:

- 50% vests 12 months after the end of the STI performance period; and
- 50% vests 24 months after the end of the STI performance period.

CLAWBACK

Yes - Awards may be forfeited if an executive:

- Has personally acted fraudulently or dishonestly;
- Has breached his or her material obligations to the Entity; or
- Receives remuneration as a result of the fraud, dishonesty or breach of obligation of another person.

NOTES

The distribution gateway does not apply to non-financial component of the STIP.

LONG-TERM INCENTIVES

	LONG-TERM INCENTIVE PLAN ("LTIP")
PARTICIPANTS	Key executives
AWARDS TYPE(S)	Performance shares
LIMITS	MD/CEO - 65% of fixed remuneration (FY2015: 50% of fixed remuneration) Other executives - between 30% and 50% of fixed remuneration
ALLOCATION METHODOLOGY	Face value

PERFORMANCE METRICS

FY2017	FY2016	FY2015	FY2014
Risk-adjusted relative TSR ("RTSR") - 50%	RTSR - 100%	RTSR - 100%	RTSR - 100%
Standalone OCF before tax ("SOCF") - 25%			
Look-through OCF ("LOCF") - 25%			

PERFORMANCE PERIOD	RTSR - 4 years SOCF and LOCF - 3 years
VESTING PERIOD	4 years
RE-TESTING	Not permitted

VESTING SCHEDULES

Relative risk-adjusted TSR component: No portion of an award will vest for performance below the 51st percentile of the comparator group. For performance at the 51st percentile, 30% of an award will vest. For each additional percentile above the median, awards will vest on a pro-rata basis. For performance in the upper quartile, 100% of an award will vest.

Peer group: S&P/ASX 200 Index

Standalone OCF before tax component: No portion of an award will vest for performance below 97.5% of three-year aggregate "budget". For performance at 97.5% of three-year budget, 25% of an award will vest. For performance at three-year aggregate "budget", 50% of an award will vest. For performance at 105% or more of three-year aggregate "budget", 100% of an award will vest. For performance in between these targets, awards will vest on a pro-rata basis.

Look-through OCF component: No portion of an award will vest for performance below 97.5% of three-year aggregate "budget". For performance at 97.5% of three-year budget, 25% of an award will vest. For performance at three-year aggregate "budget", 50% of an award will vest. For performance at 105% or more of three-year aggregate "budget", 100% of an award

	will vest. For performance in between these targets, awards will vest on a pro-rata basis.
TREATMENT OF DISTRIBUTIONS ON UNVESTED AWARDS	Distributions are held in trust until vesting
CLAWBACK	Yes - Awards may be forfeited if an executive: • Has personally acted fraudulently or dishonestly; • Has breached his or her material obligations to the Entity; or • Receives remuneration as a result of the fraud, dishonesty or breach of obligation of another person.
ADJUSTMENTS	None
VESTING IN FY2016	In FY2016, no LTI awards were due to vest due to the move from a performance period of three years to four years in 2014. As a result, a one-off LTI transition payments (the "Transition Payment") was offered to executives to address the gap in LTI awards for FY2016. The Transition Payment was not a guaranteed award and payment has been subject to assessment by the board using a risk adjusted TSR performance hurdle over the period January 1, 2014 to December 31, 2016 (consistent with the current LTIP). The potential maximum Transition Payments were as follows: • MD/CEO - A$455,000; • CFO - A$234,000; and • General counsel/Company Secretary - A$128,765. In relation to the outcomes of the Transition Payments, the Entity states that *"[t]he results of the independent assessment using the risk adjusted TSR methodology showed [the Entity] in the 83rd percentile against the constituent companies in the S&P/ASX200 (as at [January 1, 2014]) as the relevant peer group. The LTI vesting schedule provides for 100% vesting at or above the 75th percentile. Applying the LTI vesting schedule, this indicated vesting in full and therefore 100% achievement of the [Transition Payment]."* The Transition Payments were paid in March 2017 and were cash-settled.

TERMINATION ARRANGEMENTS

LEGAL REQUIREMENTS	The Corporations Act stipulates that director and executive termination benefits be limited to 12 months' fixed pay, unless shareholders approve a higher amount.

CONTRACT TERMS

MD/CEO:	**RICK FRANCIS**
Appointed:	May 31, 2012
Contract type:	Ongoing
Notice periods (Executive/Entity):	6 months/6 months
Treatment of STI:	Vesting on a pro-rata basis (unless employment is terminated for cause), subject to the original performance conditions
Treatment of LTI:	In the event of termination other than for cause, the MD/CEO will be entitled to retain vested and unvested performance rights. Unvested performance rights will be subject to the same performance hurdles and performance periods. On termination with cause, all unvested performance rights will lapse. The board retains its discretion to vest or lapse unvested performance rights. The board also has the discretion to vest some or all of the performance rights if there is likely to be a change of control.
Other:	The Entity may make a payment in lieu of notice.

REFERENCE	Please see page 32 of the 2016 Annual Report for further details of the MD/CEO's contract, as well as the agreements between the Entity and other senior executives.

CGI GLASS LEWIS ANALYSIS

CGI Glass Lewis believes ASX-listed entities should fully disclose and explain all aspects of their executives' remuneration in such a way that shareholders can comprehend and analyse the company's policies and procedures. In completing our assessment, we consider, among other factors, the appropriateness of performance targets and metrics, how such goals and metrics are used to improve company performance and whether incentive schemes encourage prudent risk management and the board's adherence to market best practices. In addition to overall structure and disclosure, we encourage companies to improve the readability of the report to facilitate investor comprehension. We also emphasise and evaluate the extent to which the company links executive pay with performance and remuneration structures with strategy.

STRUCTURE: FAIR

Focus on short-term performance

The Entity's remuneration policies and practices have a larger focus on STI than LTI. In particular, the maximum STI opportunity for FY2016 is 100% of fixed remuneration, compared to an effective maximum LTI grant of 65% of fixed remuneration (2015: 50%). Whilst part of the STI is deferred into equity for a period of one and two years, that may be too short a period to impact the share price prior to vesting. In any event, vesting subject only to continued satisfactory service and board discretion to adjust is not the same as having to continue to perform per an appropriate LTI performance hurdle.

We do, however, acknowledge that the Company increased the MD/CEO's LTI opportunity from 50% to 65% of his fixed remuneration in FY2016 and 43% of his total remuneration will be in the form of equity. We also note that the LTI performance period is four years, which is longer than the current market practice of three years for LTI plans. As such, we will continue to monitor this issue going forward.

Relative risk-adjusted TSR hurdle and comparator group

Half of FY2017 LTI grant (previously 100%) will be subject to risk-adjusted relative TSR against entities in S&P/ASX200. In the 2016 Annual Report, the Entity provides the following rationale for the use of this metric and the chosen peer group under its LTI plan:

"Relative TSR allows us to measure whether we have achieved our key long-term strategic goals of delivering sustainable growth in distributions and creating [s]ecurityholder value. The relative (rather than absolute) measurement of TSR provides [the Entity] with a measure of how we are performing in comparison to the market. Where an absolute security price target is used, [e]xecutives could be rewarded by a rising market even if [the Entity] performs relatively poorly.

Constituent companies of the S&P / ASX 200 form the most appropriate comparator group as there are too few companies with equivalent risk and return expectations to [the Entity]."

While we acknowledge the rationale provided by the Entity, we are of the view that a relative TSR (including risk-adjusted) measure may also allow for vesting of awards when shareholder value was lost, provided that the Entity outperformed its peers. While we note that the board has discretion to adjust performance hurdles and criteria, we would prefer more explicit disclosure around its use and/or use of positive absolute TSR or another similar mechanism as a gateway measure to prevent excessive awards for executives in years of poor shareholder experience.

Furthermore, the TSR comparator group under the LTIP is the S&P/ASX 200 Index which includes companies outside this Entity's industry. Given the unique nature of the Entity's operations and lack of comparable peers on the Australian market, we accept the Company's rationale for the chosen peer group. We nevertheless question the appropriateness of any relative measure used under incentive plans in the absence of a sufficient number of comparable entities.

We are, however, encouraged by the Company's decision to include two additional performance metrics under the LTIP for FY2017 and going forward.

DISCLOSURE: FAIR

STIP performance hurdles

In our past Proxy Papers, we took issue with the Entity's failure to provide specific disclosure regarding individual STI performance hurdles, such as actual targets, relative weightings and outcomes against those targets. We note that since 2014, the Entity's annual reports contain more granular disclosure on the mechanics and outcomes surrounding the STIP, with disclosure on relative weightings and percentage outcomes against those weightings across each disclosed KPI.

However, we believe that there is still a degree of opaqueness surrounding the actual targets and individual KPIs. We strongly urge the Entity to bolster its disclosure around the STI performance conditions and direct links between the actual achievements and bonuses paid during the year.

READABILITY: GOOD

Readability describes the ease in which the remuneration report can be read and understood. In our view, the remuneration report successfully facilitates investor comprehension of the Entity's remuneration practices by disclosing key information in a logical and plain English manner, with clearly distinguished and concise sections that are straightforward to follow. We also note that the Company has disclosed the actual levels of remuneration received by individuals named in the remuneration report on page 21.

2016 PAY FOR PERFORMANCE: FAIR

As indicated by CGI Glass Lewis' pay-for-performance model, the Entity has adequately aligned executive remuneration and company performance in the past year. At this point in time, CGI Glass Lewis has not identified pay-for-performance issues with this Entity that should be of substantial concern to shareholders.

CONCLUSION

Pursuant to the executive remuneration legislation under the Corporations Act 2001, the Entity received a first strike vote against its remuneration report at its last AGM when approximately 33.49% of total eligible votes cast by shareholders were against the Entity's remuneration report and a further 1.76% abstained. The Entity states that*"[it] has taken the first strike extremely seriously and has undertaken a further review of the [r]emuneration [f]ramework and consulted a wide group of stakeholders."*

In our 2016 Proxy Paper, we have noted our concerns with the high increases in the MD/CEO's fixed remuneration and a single performance metric under the LTIP. We believe that the Entity has addressed these issues in FY2016 - there were no substantial increases in the MD/CEO's fixed remuneration in FY2016 and the Company introduced two new performance metrics for the LTI awards from FY2017 onward. Overall, the Entity has taken positive steps during the year towards better alignment between the interests of the Entity, executives and those of shareholders. Giving consideration to feedback from securityholders and in response to market conditions, the board determined that it was appropriate that there be no increases to executive total remuneration and NED fees in 2017. We also note that the Entity introduced a minimum shareholding requirement for executives and NEDs.

In our view, the remuneration report provides clear and adequate disclosure of the Entity's remuneration policy and structures, of which we believe to be supportable by shareholders. We believe the Entity's remuneration framework also incorporates many areas of market best practice such as STI deferral, clawback mechanisms, face value equity awards and a four-year vesting period under the LTIP. We also appreciate additional disclosure with regard to the calculation of risk-adjusted relative TSR on the Entity's website. We further note that the Entity has managed to adequately align executive remuneration and entity performance in the past four years, as evidenced by our pay-for-performance model.

Nevertheless, we continue to urge the Entity to further improve the quality of disclosure in respect of the STIP, particularly with regard to the individual performance hurdles, targets and outcomes against these hurdles, going forward.

We will monitor the above issues going forward.

We recommend that securityholders vote **FOR** this proposal.

6.00: BOARD SPILL RESOLUTION

AGAINST

PROPOSAL REQUEST:	Approve board spill resolution	**RECOMMENDATIONS & CONCERNS:**	
PRIOR YEAR VOTE RESULT (FOR):	N/A	**AGAINST-**	No material concerns
BINDING/ADVISORY:	Binding		
REQUIRED TO APPROVE:	Majority		

PROPOSAL SUMMARY

This proposal seeks shareholder approval to spill the Entity's existing board of directors (the "spill resolution"), with the exception of the Entity's MD/CEO. Securityholders should note that key management personnel (i.e. executives and directors of the Entity) and their related parties are prohibited from voting on this resolution.

The Corporations Act 2001 requires each listed company to put to a vote at its AGM a non-binding resolution to shareholders to adopt the remuneration report (see Proposal 5). Under the legislation, this vote is advisory only and does not bind the directors or the Entity. However, if a company's remuneration report receives an "against" vote of 25% or more of eligible votes cast at the AGM, the Entity will record what is known as a "first strike" under the executive remuneration provisions of the Corporations Act 2001.

This spill resolution will only be put to the Entity's AGM if the Entity's remuneration report, which is the subject of Proposal 5, receives at least 25% of the votes cast on Proposal 5 "against" it (i.e. a "second" strike).

In the event that this spill resolution is passed by 50% or more of eligible votes cast, another meeting of the Entity's shareholders must take place within 90 days of this year's AGM (the "spill meeting").

Those directors in office when the directors' report for the financial year ended 2016 was approved, with the exception of the MD/CEO, will cease to hold office immediately before the spill meeting, and will be required to stand for re-election at the spill meeting or vacate their position on the board. In the event of a spill meeting, the following directors will have the opportunity to stand for re-election:

- Doug McTaggart;
- Andrew Fay;
- Anne McDonald;
- Christine McLoughlin;
- Greg Martin; and
- Karen Penrose.

CGI GLASS LEWIS ANALYSIS

In our view, spilling the board of a company is an option of last resort.

As such, we will not consider recommending in favour of a spill resolution unless we have made three consecutive recommendations ("three strikes") against a company's remuneration report over three financial years, in which all directors (other than the MD) have stood for election or re-election over the normal course of a board's three-year rotation. In the event of three strikes and the lack of material improvements to the board, remuneration committee or remuneration practices, we will then consider spilling the board at the next available opportunity.

If such an opportunity arises following three strikes, CGI Glass Lewis will not consider recommending in favour of a spill resolution for reasons other than the above. In the meantime, we will continue to utilise the three-year rotation of the board to recommend against the chairman of the remuneration committee, where we believe there has not been a material response by the Entity to shareholder concerns.

In this case, we note that we have recommended in favour of the Entity's remuneration report for FY2016. As noted in Proposal 5, we believe that the Entity's remuneration policies are adequately explained and that its incentive plans are supportable.

Furthermore, we note that the Entity has also adequately aligned executive remuneration and company performance in the past year, as evidenced by our pay-for-performance model.

Given the above, we do not believe we can support this spill resolution, at this time.

We recommend that securityholders vote **AGAINST** this proposal.

APPENDIX

Questions or comments about this report, GL policies, methodologies or data? Contact your client service representative or go to www.glasslewis.com/issuer/ for information and contact directions.

NOTE

SKI purchased a copy of this Proxy Paper from CGI Glass Lewis Pty Ltd for distribution after publication to institutional investor clients.

DISCLOSURES

This report is intended to provide research, data and analysis of proxy voting issues and, therefore, should not be relied upon as investment advice. Glass Lewis analyzes the issues presented for shareholder vote and makes recommendations as to how Glass Lewis believes institutional shareholders should vote their proxies, without commenting on the investment merits of the securities issued by the subject companies. Therefore, none of Glass Lewis’ proxy vote recommendations should be construed as a recommendation to invest in, purchase, or sell any securities or other property. Moreover, Glass Lewis’ proxy vote recommendations must be construed solely as statements of opinion, and not as statements of fact, and may be revised based on additional information or any other reason at any time.

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LEAD ANALYSTS

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