

MARKET RELEASE

CIF 1H10 QUALITY GROWTH ASSETS WITH STRONG CAPITAL POSITION

Key Highlights

- Solid underlying asset performance: Inexus EBITDA £21 million (up 21% pcp); LBC EBITDA US\$50.2 million (up 15% pcp).
- \$230 million cash¹ available for ongoing capital management initiatives
- Sale of remaining Southern Water stake for \$304 million plus \$12.4 million for temporary loan
- Completed the successful refinance of Inexus' £461million debt facility
- CIF Group statutory net loss after tax of \$196 million, reflecting the impacts of realised FX losses on Southern Water and unfavourable asymmetric AIFRS accounting outcomes from both mark to market valuations on derivatives and goodwill impairment in respect of LBC's European business
- NAV of \$2.50 per security, representing a 13% fall over the six month period, predominately due to changes in foreign exchange rates
- LBC utilisation rate of 93%, exhibiting resilience in a difficult market conditions
- Repayment of redeemable preference securities resulting in a simpler fund structure
- Proportional net debt reduced to 58%
- Interim distribution of 7 cents per stapled security for 1H10, payable 25 February 2010
- Confirmation of distribution guidance in FY10 of 14 cps

18 February 2010, Sydney - Challenger Infrastructure Fund (ASX: CIF) today announced growth in earnings before interest, tax, depreciation and amortisation (EBITDA) for Inexus and LBC. Inexus EBITDA grew by 21% on the prior corresponding period (pcp) to £21 million and LBC was up by 15% pcp to US\$50.2 million. On a consolidated basis the CIF Group EBITDA decreased to \$74.6 million, primarily due to the fact Southern Water did not pay a distribution in the period.

CIF incurred a statutory net loss after tax of \$196 million. Included within the statutory result are realised FX losses on the sale of Southern Water (\$40 million) due to appreciation of the AUD relative to GBP and \$62 million unrealised mark to market losses on derivatives predominantly resulting from the increased margins on Inexus' interest swaps which are required by AIFRS to be recognised in CIF's profit and loss. Whilst the value of LBC remained constant for the period, the European operations under-performed our expectations and under the asymmetric goodwill impairment rules required by AIFRS, CIF was required to recognise a \$60 million goodwill impairment in respect of the European business. All of these items are included in CIF's Net Asset Value.

CIF has \$230 million in available cash¹ to be used for capital management initiatives and potential growth opportunities within Inexus and LBC.

¹ Post payment of Interim distribution of 7 cents per stapled security on 25 February 2010.



CIF has confirmed a distribution for 1H10 of 7 cents per stapled security to be paid on 25 February 2010. CIF's distribution guidance for FY10 remains at 14 cents per stapled security.

Chief Executive Steve Bickerton said: "Inexus and LBC's performance was strong in difficult market conditions. Inexus continues to deliver strong underlying cashflows from the connections business and LBC continues to see solid demand for bulk liquid storage. We anticipate this performance will continue throughout the second half of the year."

Two major capital initiatives during the period further strengthened CIF's balance sheet. In November 2009, CIF sold its 15.6% interest in Southern Water, demonstrating the demand for infrastructure globally and realising the embedded value in the portfolio. The \$316 million sale proceeds² enabled CIF to initiate a number of capital management initiatives including the repayment of the redeemable preference securities on issue. In December 2009, Inexus successfully refinanced its £461 million debt facilities and extended terms to 31 August 2012.

"CIF has continued to optimise its portfolio and maximise securityholder value. The refinance of Inexus, sale of Southern Water and repayment of the redeemable preference securities has placed CIF in a strong financial position where it has no near term debt refinancing, no fund level debt and \$230 million of cash. Looking forward, management are focused on ensuring that LBC and Inexus have appropriate long term capital structures to fund future growth opportunities."

Asset Update

Inexus

Inexus' EBITDA margin increased from 58% to 72% pcp. The growth in EBITDA and EBITDA margin is a direct result of a £4.4m (35%) reduction in opex and the realisation of the operational benefits from the implementation of Inexus' multi-utility marketing strategy and business restructure initiatives which were completed in FY09.

Inexus' connections and sales figures were solid during the period. Inexus exceeded management expectations by connecting 20,585 utilities in the period, a positive result in light of the UK housing market. Additionally, 21,084 multi-utility sales were also secured.

In December, Inexus secured London's Kings Cross Central redevelopment mandate. The London Kings Cross Central development comprises 67 acres of brownfield site with outline permission to create eight million square feet of mixed use property including 2,500 new homes. Inexus will provide electricity, water, wastewater, fibre, gas and distribution heating networks on the development. The Kings Cross Central redevelopment represents approximately one-third of total sales in the period and the total use-of-system revenue across the project is equivalent to 44,000 traditional gas connections, validating the potential of the multi utility strategy.

² Includes receipt of Southern Water temporary loan of \$12.4 million.

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In December 2009 Inexus successfully refinanced its £461 million debt facilities. In a clear demonstration of the strength of the Inexus business model the existing bank group has extended the terms of the debt facilities to 31 August 2012. Included within the statutory result are \$64 million of unrealised mark to market losses due to the increased margins on Inexus' long term interest swaps which are required by AIFRS to be recognised in CIF's profit and loss. These impacts have been included in CIF's NAV.

LBC

LBC continued to deliver strong cashflows during the period and its EBITDA increased 15% to US\$50.2 million. LBC's capacity increased to 2.7 million cubic metres over the period, and importantly the utilisation rate was 93% across the portfolio reflecting the strong underlying global demand that exists for bulk liquid storage, particularly refined petroleum products.

During the half LBC's US terminals performed strongly. Houston experienced a utilisation of 98% for the period and continues to assess expansion opportunities in order to maximise securityholder value. Whilst the value of LBC remained constant for the period, the European operations under-performed our expectations and under the asymmetric goodwill impairment rules required by AIFRS, CIF was required to recognise a \$60m goodwill impairment in respect of the European business.

Net Asset Value (NAV)

The NAV per CIF stapled security as at 31 December 2009 was A\$2.50 compared with A\$2.89 at 30 June 2009. Whilst the asset valuations have remained steady over the period, foreign exchange movements from the continued rise in the Australian Dollar have impacted the Fund's NAV.

Capital Management and Growth

CIF is financially flexible and management will continue to ensure that LBC and Inexus have appropriate long term capital structures to fund future growth opportunities.

During the period, CIF used \$2 million to purchase 1% of ordinary securities at an average price of \$1.65 in an on-market buyback. Post-balance sheet date, CIF also utilised \$127.1 million to repay its redeemable preference securities on issue. CIF will continue its on-market buy-back of up to 10% of its ordinary securities. Management will continue its focus on maximising securityholder value in the second half of FY10.

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About Challenger Infrastructure Fund (CIF):

CIF is an Australian publicly listed global diversified infrastructure fund that invests in regulated and contracted monopoly-like assets. CIF has a portfolio of assets which are diversified by sector and also geographical location and focuses on countries with relatively stable political and regulatory environments. CIF takes a disciplined approach to the types of assets in which it invests in order to provide security holders with exposure to assets with long term predictable cash flows. CIF owns majority stakes in two growth orientated assets: Inexus and LBC. For further information please visit our website: www.challenger.com.au/cif

Important notice:

Any forward looking statements included in this document are by nature subject to significant uncertainties, risks and contingencies, many of which are outside the control of, and are unknown to, Challenger and/or CIF, so that actual results or events may vary from those forward looking statements, and the assumptions on which they are based.

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