

MARKET RELEASE

CIF FULL YEAR RESULTS

20 August 2009, Sydney - Challenger Infrastructure Fund (ASX: CIF) today announced its financial results for the year ended 30 June 2009. Key highlights for the year include:

- Strong financial result for all assets, double digit EBITDA growth across all assets
- Underlying proportionate EBITDA \$329.6 million, up 25% on pcp¹
- Statutory consolidated revenue of \$481.6 million, up 20% on pcp
- Sale of 1/3 of Southern Water at net asset value (NAV) for £100m, providing significant financial flexibility
- \$107 million cash available for ongoing capital management initiatives
- Reduction in proportionate net debt by \$560 million since June 2008²
- Repayment of 50% of redeemable preference securities (RPS) and extended term to April 2011 on remaining securities
- Repayment and cancellation of Fund level acquisition facility in December 2008
- Net Asset Value (NAV) of \$2.89 cents per security, a decrease of 14% on 31 December 2008 NAV, predominately due to changes in foreign exchange rates and long term capital assumptions
- Payment of a full year distribution for the period ending 30 June 2009 of 20 cents per security, with a final distribution on 27 August of 8 cents per security
- Distribution guidance in FY10 of 14 cps

Steve Bickerton, Chief Executive of CIF said “CIF’s assets have continued to deliver strong financial results, reflecting the stability of their high quality income streams, with revenue increasing by 20% over the prior corresponding period and underlying proportionate EBITDA increasing by 25% over the same period. In light of the wider economic conditions this is a pleasing result demonstrating the robust nature of our assets.”

“In addition to delivering a strong financial result, the year has seen CIF strengthen its balance sheet, primarily through the sale of 1/3 of its interest in Southern Water. This divestment provided CIF with financial flexibility as well as the ability to actively pursue wider capital management initiatives. Proceeds were used to fund a \$26.2 million temporary loan to Southern Water due to a RPI timing issue³ and \$20.9 million to fund an ongoing, highly accretive buyback. CIF also repaid 50% of its RPS and post year- end closed out its foreign exchange hedging position, delivering a cash profit of \$63m. This has resulted in CIF increasing its

¹ Underlying Proportionate EBITDA has been normalised to exclude disposed assets and include the full period impact of Southern Water and removes asset specific one off items.

² Reduction relates to sale of one third of Southern Water.

³ \$15.7 million including interest was repaid on 25 June 2009. \$11.1 million remains outstanding.



cash position to \$107 million, ensuring we are able to maintain flexibility in changing financial markets,” said Mr Bickerton.

Asset Review

Inexus

Inexus’ revenue grew to £48.5 million, an increase of 11% for the year, and the business produced an underlying EBITDA of £30.5 million, representing growth of 25% for the year. The significant growth in both these metrics was a direct result of the build out in the order book and implementation of Inexus’ multi-utility strategy focused on major large-scale projects.

Inexus’ sales and connections figures in the first half of the year were extremely pleasing, with a record number of sales completed. While the second half of the year saw a softening of both sales and connections, a total of 47,500 connections and 72,064 sales were made during the full year period, which was overall a very solid result given the challenging conditions in the UK housing market.

Importantly Inexus now has approx 550,000 utility connections, delivering a revenue compound annual growth rate of 15% since acquisition.

In direct response to changing market conditions, and with the aim to maximise securityholder value, Inexus has refined its marketing strategy to focus on strategic large-scale multi-utility projects. The change in strategic direction has seen Inexus’ underlying EBITDA margin expand from 56% in 2008 to 63% in 2009.

Importantly Inexus is budgeting for significantly improved EBITDA over FY10 due to reduced overheads and highly accretive growth capex. All budgeted capex will be funded from the businesses cash flow and existing debt facilities.

The process of refinancing Inexus’ debt facilities, which mature in August 2010, is underway. Significant progress has been made with the existing banking syndicate to extend the existing facilities to August 2012, with a financial close timetable of fourth quarter calendar year 2009.

LBC

LBC has delivered a solid result reflecting the robust nature of its cash flows, the vast majority of which are contracted. LBC’s revenue grew to US\$244.1 million, an increase of 13% for the year and the company delivered an underlying EBITDA of US\$96.4 million, representing growth of 14% for the year.

LBC’s capacity increased by 10% during the year. Overall demand for LBC’s terminals remained strong, with an average utilisation rate of 94%. The US terminals derived underlying EBITDA margins over 60% and delivered over 55% of the companies EBITDA. Of particular note was the activity level in Houston which processed a record level of throughput in June 2009.

Further enquiry: Jenny Warat, Investor Relations, Challenger Financial Services Group, 02 9994 7663
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Post year-end LBC appointed a new Chief Executive Officer and Chief Financial Officer. Mr Brett Simpson was appointed CEO and will bring extensive experience in engineering, operational, commercial and management roles from his time at The Dow Chemical Company. Mr Kelvin Williams has been interim CFO since January 2009 and has now been permanently appointed to the position. Mr Williams has attained a wealth of international experience in Finance Director and CFO roles at a variety of multinational companies over the past 15 years.

LBC's management team will be focused on improving the operational performance of our European terminals, together with looking at highly accretive capex opportunities in our strategically located sites. LBC has budgeted for all growth capex opportunities to be funded from the businesses cash flow and existing debt facilities.

Southern Water

As expected, Southern Water delivered a solid result. The company remains on track to deliver its current AMP4 capital programme of £1.8 billion. Southern Water completed £312.3 million of growth capex during the year ending 31 March 2009 and outperformed its output target of 29 by 6 outputs.

During 2009 cost savings continued to be made throughout the business, with the company winning the award for Innovation for its outsourcing of the capital works programme in the Procurement Leaders Awards. Southern Water achieved the lowest leakage level per property of all UK water and wastewater companies, beating its Ofwat target by ~6 megalitres per day. It also reduced the number and severity of pollution incidents and reduced flooding from blocked or collapsed sewers by more than one quarter.

In a clear demonstration of the strength of regulated utility businesses, Southern Water issued £300 million of bonds in March of this year at the height of the global financial crisis. The 10 year fixed rate bonds were 3 times oversubscribed and mature on 31 March 2019. The bond proceeds will be used to fund current and future capital expenditure requirements.

Ofwat released the Southern Water Draft Determination in July 2009, with a draft capex program of £1.6 billion and initial proposed post tax real weighted average cost of capital (WACC) of 4.5%. The Final Determination will be released in November 2009, following a consultation period with all Water companies.

Net Asset Value (NAV)

The NAV per CIF stapled security as at 30 June 2009 was A\$2.89. During the period the NAV was impacted by foreign exchange movements, primarily the continued rise in the Australian Dollar, and the amendment of our long term capital assumptions to reflect current market conditions. The NAV also includes the potential value implications of the Draft Determination from OFWAT.

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Capital Management

In December 2008, CIF sold £100m (representing one-third of CIF's stake) of Southern Water at the 31 December 2008 Net Asset Value (NAV). The proceeds from the sale created financial flexibility for CIF at an optimal time in the current economic environment.

The sale resulted in CIF being able to:

- Repay 50% or £50.7 million of its RPS;
- Refinance the remaining 50% of its RPS in AUD (\$118.5 million) for an extended term to April 2011;
- Reduce CIF's proportional net debt by \$560 million;
- Initiate on-market buy-back, with 14.3 million securities purchased to date, at an average discount of 50% to CIF's 30 June 2009 NAV; and
- Repay and cancel its acquisition facility.

In March 2009 Southern Water shareholders elected to fund a temporary loan in respect of a timing difference in the indexation of Southern Water's debt and its Regulated Capital Value (RCV) ensuring the company remained fully compliant with all of its financial covenants (as at 31 March 2009). CIF's contribution was A\$26.2 million, of which A\$15.7 million including interest has been repaid. CIF's remaining share of the loan, A\$11.1 million, is anticipated to be repaid in FY10.

Post year-end, CIF closed out its foreign currency hedging contracts, delivering a cash profit of \$63 million. This profit increased the cash position of the Fund which currently stands at \$107 million further enhancing the Fund's financial flexibility. CIF will continue to assess its foreign currency hedging policy against prevailing market conditions.

Outlook

"The Fund's portfolio continues to deliver strong revenue and EBITDA growth despite difficult market conditions. Importantly, the Fund now has significantly strengthened its balance sheet compared to this time last year, providing it financial flexibility to continue to maximise value for its securityholders."

"CIF and the asset level executive teams will continue their focus on activities that ensures the delivery of both revenue and EBITDA growth during the coming year. Inexus' goal in the near term is to complete the refinance process and take advantage of its unique competitive position as the only independent multi utility developer in the UK. LBC's new executive team will be focused on maximising the operating performance of our strategically located European terminal assets. The continued investment of LBC's cash flow in strategic growth capex opportunities will form a core part of its future strategy to deliver ongoing revenue growth and improved EBITDA margins. Southern Water will be committed to maximising its outcome from the AMP5 draft determination and completing the delivery of the AMP4 capex program."

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“CIF is pleased to announce FY2010 distribution guidance of 14 cent distribution per security. CIF’s focus in the coming year will continue to be on identifying and implementing strategies at the Asset and Fund level to add value for our securityholders,” concluded Mr Bickerton.

ENDS

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’s portfolio is diversified across 3 key assets: Inexus, LBC and Southern Water. 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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